

September 23, 2013

Ms. G. Cheryl Blundon
Director of Corporate Services and Board Secretary
Board of Commissioners of Public Utilities
120 Torbay Road
P.O. Box 21040
St. John's, NL A1A 5B2

Dear Ms. Blundon:

Re: Newfoundland and Labrador Hydro's Rate Stabilization Plan Rules and Components of the Rates to be Charged to Industrial Customers Application

Newfoundland and Labrador Hydro ("Hydro") has recently filed two Applications: 1) The Rate Stabilization Plan ("RSP") rules and components of the rates to be charged to Industrial Customers ("ICs"); and 2) The 2013 General Rate Application ("GRA") for rates to be charged for the supply of power and energy to Newfoundland Power, Rural Customers and Industrial Customers. This document represents the Consumer Advocate's position relating to the first of these Applications, the RSP rules and components of the rates charged the IC class ("the IC RSP Application").

With regard to the IC RSP Application, the Board has issued Order No. P.U. 26 (2013) dated August 30, 2013. Further, Hydro has indicated that aspects of the IC RSP Application such as the allocation of the load variation component of the RSP can be deferred to the GRA (CA-NLH-11, page 2 of 4, lines 18 to 22). As a result, the number of remaining aspects of the IC RSP Application for which Hydro is seeking approval is reduced to three as documented in Hydro's response to CA-NLH-11. The three remaining aspects for which Hydro is seeking Board approval, and the Consumer Advocate's position relating to each is as follows.

- 1) **Application – Paragraph 9(b)** - "Setting the Teck Resources RSP Surplus adjustment rate to 1.111 cents per kWh". Hydro states that the rate of 1.111 cents per kWh is proposed to be effective September 1, 2013 as a means of carrying out the policy directive (OC2013-089, as amended). Hydro indicates that an Order by the Board is required prior to October 1 so that compliance with the Directive is achieved and bills for September consumption can be issued (CA-NLH-11, page 1 of 4, lines 22 to 26, and page 2 of 4, lines 1 to 9).

Consumer Advocate's Position: The Consumer Advocate recommends that the Board approve a Teck Resources RSP Surplus adjustment rate of 1.111 cents/kWh effective September 1, 2013 as proposed by Hydro.

- 2) **Application - Paragraph 11** – “[T]he Island Industrial Customer interim rates, from January 1, 2008 to August 31, 2013 be made final”. Hydro believes that, based upon the policy direction contained in the Orders in Council, the Board has complete information on this matter. Hydro states that it is seeking that these rates be made final following submissions to be filed later this month (CA-NLH-11, page 2 of 4, lines 24 to 27 and page 3 of 4, lines 1 to 4).

Consumer Advocate’s Position: The Consumer Advocate notes that the IC rates were made interim, as opposed to final, to allow for adjustment in the future to properly reflect the cost of service. The IC class is currently paying only about 65% of the cost of power determined in the 2013 cost of service study (see CA-NLH-12, Attachment 1). By making these rates final, the huge subsidy granted the IC class since 2008 is crystalized. As stated by Hydro in CA-NLH-12, the subsidy to the IC class through the Government OCs is \$37.6 million. To put the subsidy into perspective, \$37.6 million is more than double the average annual revenues received from the entire IC class during the period from 2008 to 2012 (see CA-NLH-7). Based on the revenues that should have been collected from the IC class during the period 2008 through 2012 (i.e., if rates had not been frozen and the load variation component of the RSP had been allocated on the basis of energy ratios as proposed by Hydro in this Application, and the 2006 GRA), the \$37.6 million subsidy received by the IC class is equivalent to more than 1 ½ years of free power (based on IC class average annual consumption during 2008 to 2012 period – see CA-NLH-7). No such subsidy has been offered Newfoundland Power’s customers, but if it had, it would exceed \$550 million (based on average annual revenues received from NP during the 2008 to 2012 period – see CA-NLH-7).

Having said this, the Consumer Advocate agrees with Hydro’s response to CA-NLH-20 (lines 7 to 10) that “... additional evidence is not needed for the Board to make this decision as there is already considerable evidence on these issues before the Board. In addition, the Board can consider the policy guidance on this issue that is inherent in OC2013-089, as amended”. As a result, the Consumer Advocate recommends that the IC rates for the period January 1, 2008 to August 31, 2013 be made final.

- 3) **Application – Paragraph 12** – “...Hydro is applying for approval of a new RSP section related to the disposition of the load variation, including financing, which has accumulated since January 1, 2007”. Hydro states that approval of the new section of the RSP (“related to the disposition of the load variation, including financing, which has accumulated since January 1, 2007”) will be required prior to Hydro issuing interim or final rates from its GRA (CA-NLH-11, page 3 of 4, lines 25 to 26 and page 4 of 4, lines 1 to 4).

Consumer Advocate’s Position: The Consumer Advocate recommends that approval be granted for the new section of the RSP related to disposition of the load variation, including financing, which has accumulated since January 1, 2007 consistent with the final form of the RSP ordered by the Board following the GRA.


The Consumer Advocate emphasizes that the Board should limit its Order to resolution of these three issues. These are the only aspects in this IC RSP Application for which Hydro is seeking Board approval (as documented in CA-NLH-11). If the Board decides not to approve these three aspects of the IC RSP Application as proposed by Hydro, additional time should be allotted for a complete review of the issues, either through a subsequent round of RFIs and potentially, expert evidence, or during the GRA.

Please contact the undersigned if you have any questions.



Yours very truly,

O'DEA, EARLE


for THOMAS JOHNSON
TJ/cel
encl.

cc: **Newfoundland and Labrador Hydro**
Mr. Geoffrey Young
Mr. Colin Feltham

Newfoundland Power Inc.

Mr. Gerard Hayes
Mr. Liam O'Brien
Mr. Peter Alteen

Industrial Customers

Mr. Paul Coxworthy
Dean Porter

Vale Newfoundland and Labrador Limited

Mr. Tom O'Reilly
Mr. Denis Fleming
Mr. Darryl Drover
Mr. Mark Sheppard
Mr. Richard White

Praxair Canada Inc.

Mr. David Meade
Ms. Sheryl Niesbaum