newfoundland labrador hydro
a nalcor energy company

Hydro Place. 500 Columbus Drive.
P.O. Box 12400. St. John's. NL
Canada A1B 4K7
t. 709.737.1400 f. 709.737.1800
www.nlh.nl.ca

September 23, 2013

The Board of Commissioners of Public Utilities
Prince Charles Building
120 Torbay Road, P.O. Box 21040
St. John's, Newfoundland & Labrador
A1A 5B2

Attention: Ms. Cheryl Blundon
Director Corporate Services & Board Secretary

Dear Ms. Blundon:

Re: An Application by Newfoundland and Labrador Hydro for the approval of the Rate Stabilization Plan rules and components of the rates to be charged to Industrial Customers

Enclosed please find an original plus nine copies of Hydro's Written Submission with regard to the above-noted application.

Hydro notes that all parties are filing submissions simultaneously in this instance. Due to the time constraints, Hydro did not object to this format though it differs from the normal process where the Applicant files a reply submission. In the event that issues or points are raised by the intervenors that Hydro believes ought to be the subject of a response in order for the Board to receive a complete set of submissions on the subject matter, Hydro will seek leave to file an additional submission focused strictly upon those issues.

Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO

Geoffrey P. Young
Senior Legal Counsel

GPY/jc

cc: Gerard Hayes – Newfoundland Power
Paul Coxworthy – Stewart McKelvey Stirling Scales
Greg Moores – Stewart McKelvey Stirling Scales
Sheryl Nisenbaum – Praxair Canada Inc.
Thomas Johnson – Consumer Advocate
Dean Porter – Poole Althouse
Mark Sheppard – Vale NL Limited

IN THE MATTER OF the *Electrical Power* Control Act, RSNL 1994, Chapter E-5.1 (the *EPCA)* and the *Public Utilities Act,* RSNL 1990, Chapter P-47 (the *Act),* and regulations thereunder;

IN THE MATTER OF an Application by Newfoundland and Labrador Hydro for the approval, pursuant to Sections 70 (1) and 76 of the Act, of the Rate Stabilization Plan rules and components of the rates to be charged to Industrial Customers.

TO: The Board of Commissioners of Public Utilities (the Board)

SUBMISSION OF NEWFOUNDLAND AND LABRADOR HYDRO

Introduction

On July 30, 2013 Hydro applied to the Board seeking an Order carrying out the policy found in an Order in Council to the Board (OC2013-089, as amended). The Board issued an Order on August 30, 2013 (Order No. P.U. 26(2013) bringing into effect certain aspects of that Order in Council and of Hydro's Application. The Board and the Intervenors in this matter filed Requests for Information and Hydro's responses to those Requests for Information have been filed with the Board. Hydro files this Submission in support of its Application.

Jurisdiction of the Board

The Board and parties have received considerable judicial direction in the present matter from the decision of the Newfoundland and Labrador Court of Appeal: *Newfoundland and Labrador Hydro v. Newfoundland and Labrador (Board of Commissioners of Public Utilities)*, 2012 NLCA 38. The central question before the Court in that case was the Board's jurisdiction to make a disposition of balances in the Rate Stabilization Plan (RSP) in a manner which differed from the RSP that had been in place in accordance with the RSP rules.

The finding of the court on that issue was that, due to the fact that the RSP is a deferral account and that the Board had issued interim orders on the Industrial Customer (IC) rates,

the Board had the jurisdiction to make a disposition of the RSP balance in a different manner than the RSP rules in place at the time would suggest. That is, the RSP rules being a part of the RSP rate, the Board retained jurisdiction to make changes to the rates, and thus the rules, which set out the means of disposing of amounts in the deferral account. This matter, therefore, was one upon which the Board could exercise its jurisdiction in accordance with applicable and appropriate rate setting principles.

Orders in Council

Section 5.1 of the *Electrical Power Control Act, 1994* ("EPCA") gives a power to the Lieutenant Governor in Council to issue an Order that directs the rates policies to apply to a matter. An Order in Council issued under this authority can override the rates policy set out in section 3 of the EPCA. The effects of such a directive can be two-fold:

- it can override the existing power policy sections of the EPCA so that the Board can make an Order on a power policy basis that it otherwise would not be empowered to make; and
- it can direct the Board to make an Order that it otherwise might not choose to make—that is, it can restrict the exercise of the Board's discretion on a matter.

Direction to board

5.1 Notwithstanding sections 3 and 4 of the Act and the provisions of the *Public Utilities Act,* the Lieutenant-Governor in Council may direct the public utilities board with respect to the policies and procedures to be implemented by the board with respect to the determination of rate structures of public utilities under the *Public Utilities Act* and, without limiting the generality of the foregoing, including direction on the setting and subsidization of rural rates, the setting of industrial rates in Labrador, the fixing of a debt-equity ratio for Hydro, and the phase in, over a period of years from the date of coming into force of this section, of a rate of return determination for Hydro, and the board shall implement those policies and procedures.

The Order in Council which applies in the present matter (OC2013-089, as amended, hereinafter the "OC" or the "directive") requires that the Board institute the policies and procedures and the rate structures which are set out in it. This may be in substitution for those that would have applied under the EPCA power policy and it may differ from what the Board would have otherwise ordered in the Board's discretion, that is, if it were not guided by the OC.

Order Sought at this Stage

In Hydro's response to CA-NLH-11, an update was provided as to the status of the elements of the Application, setting out the parts that had been subject to a Board Order, the elements for which Hydro is seeking a Board Order at this time, and the elements which Hydro believes can be properly dealt with at a later time and will be addressed in its General Rate Application ("GRA").

Some elements of the OC have been carried out already. Order No. P.U.26(2013) ordered Hydro to:

i) credit $49 million to the Island Industrial customers' Rate Stabilization Plan; and

ii) transfer the remaining balance in the January 1, 2007 to August 31, 2013 accumulated Load Variation component of the Rate Stabilization Plan to the credit of the Newfoundland Power Inc. Rate Stabilization Plan.

In that Order the Board further ordered that "The rates to be charged to all Island Industrial customers, as set out in Schedule "A" to this Order, to be effective for electrical consumption on and after September 1, 2013, are approved on an interim basis."

The issues for which an Order is sought at this stage are:

- (per paragraph 11 of Hydro's Application) making a final order as to the Industrial Customer Interim Rates from January 1, 2008 to August 31, 2013;

- (per paragraph 9(b) of Hydro's Application) setting the Teck resources Surplus Adjustment rate to 1.111 cents per kWh;
- (per paragraph 12 of Hydro's Application) approval of a new RSP section related to the disposition of the RSP Surplus; and
- approval of holding separate from the IC and NP RSP plans, the load variation that occurs from September 1, 2013 until disposed of through Hydro's application to modify the load variation allocation.

These issues are addressed in more detail below.

The remaining issue, which Hydro believes can be properly dealt with at a later time and will be addressed in its GRA, is:

- (per paragraph 10 of Hydro's Application) modifying the RSP Rules related to the allocation of the load variation such that year-to-date net load variation for both Newfoundland Power and the Industrial Customers are allocated among the customer groups based upon energy ratios.

<u>Final Order as to Industrial Rates</u>

The Board has sufficient direction and information from the OC and from the evidence before the Board to make a final order as to the IC rates that have been the subject of an interim order since January 1, 2008.

The policy issues that pertain to these rates have, in effect, all been resolved through the directive. Hydro submits that the Board's interpretation of the directive should be made in a full and purposive manner, made with due respect for the context in which it was issued. Moreover, the finalization of these rates is required to bring into effect the central thrust of the OC. The amount of the forecast IC RSP deficit of $39 million was integral to the rates policy direction given in the OC in that it was the outcome of removing the RSP Surplus from the IC RSP. Further, the $39 million forecast amount is a component of the $49 million IC allocation and should not be altered by otherwise adjusting the interim rates charged to the

IC over the period from January 1, 2008 to August 31, 2013. The identification in the OC of the Rate Stabilization Plan Surplus amounts to be allocated between the customer classes is determinative of the rate finalization issue.

An analysis of the OC points in one direction only. The relevant portions of the OC (as amended) are set out here for easy reference:

> 1) Effective September 1, 2013, Island industrial customer rates will no longer be frozen. Effective on this date rate increases for island industrial customers will be phased in over a three year period, with funding for this phase-in to be drawn from the January 1, 2007 to August 31, 2013 accumulated Load Variation (the Rate Stabilization Plan Surplus) component of the Rate Stabilization Plan and credited to the Island industrial customer Rate Stabilization Plan effective August 31, 2013;
>
> 2) On August 31, 2013 the Island industrial customers' Rate Stabilization Plan will be credited with $49 million, the estimated Rate Stabilization Plan amount required to phase-in industrial customer rates, based on Newfoundland and Labrador Hydro's General Rate Application. The remaining balance in the Rate Stabilization Plan Surplus on August 31, 2013, will be transferred to the credit of Newfoundland Power's Rate Stabilization Plan. No future adjustments will be made to these amounts credited. Effective September 1, 2013 all Island industrial customers, with the exception of Teck Resources, will be subject to the same standard industrial rate, equivalent to the existing base rate but excluding the Rate Stabilization Plan adjustment currently in place;

One other point should be made in this context. The RSP is an account on Hydro's balance sheet that deals with commodity prices, hydrology and customer loads, matters which are outside the control of Hydro. It is a self-contained, closed system. Changes in allocation cannot be made in the RSP that favour one customer, or customer class, without a negative impact on another.

The OC does not explicitly restrict the Board from making changes to the RSP that are aside from the changes required to implement the policies and rate structures to carry out the spirit and intent of the OC. However, due to the fact that the RSP is a closed system and that making additional changes will give rise to impacts upon customer classes that differ from those that flow from the OC, Hydro submits that the Board should be very reluctant to make

those other changes. That is, it should be concluded that transfers of funds explicitly required to be made through the directive are exhaustive of the issue.

The OC requires that the Board make certain dispositions of funds in the RSP. The RSP is a means of stabilizing the amounts from rates that Hydro uses to pay for its No. 6 fuel to be consumed at Hydro's Holyrood Thermal Generating Station. In the first instance, the amounts to be collected for fuel are set based upon test year forecast values. In subsequent periods, those amounts are adjusted in accordance to two main variables: the unit price of fuel and the amount of fuel consumed. The amount of fuel consumed, in turn, is affected by Hydro's customers' loads (in this case, the amount of energy consumed) and by hydrology.

Section 1 of the OC focuses on one of these variables: the customers' loads from January 1, 2007 to August 31, 2013 (referred to in the OC as the "accumulated Load Variation (the Rate Stabilization Plan Surplus)". Section 2 of the OC directs the Board to distribute a specific portion of the Rate Stabilization Plan Surplus, $49 million, to the Island Industrial Customers, with the balance to the credit of Newfoundland Power's Rate Stabilization Plan. This directive is clear and cannot sensibly be the subject of a range of interpretations.

A number of RFIs filed in this matter pose different approaches which might be suggestive of different outcomes. The central thesis of these RFIs is to explore various alternative scenarios and changes to the way the RSP Rules are applied so as to change the manner by which the RSP balance might be allocated. The suggestion might be made that the Board has the discretion to favour one of these alternative approaches in distributing the funds in the RSP balance. Hydro submits that the Board has received a directive on the manner by which this should be done, and on the outcome, and the Board should interpret that directive in accordance with a purposive and plain meaning approach.

Changing any elements of the RSP rates (inclusive of the RSP Rules) will cause changes in the calculation of the RSP and, obviously, will give a different outcome to the disposition of the Rate Stabilization Plan Surplus. Hydro submits that the directive brings about a resolution to this matter which is clear and apparent and is brought into effect through making only those changes to the RSP as are required by a plain reading of the directive. To suggest that, in

carrying out the directive, the Board should make changes to other elements of the RSP methodology is to suggest that the outcome of the directive as determined by its plain meaning should not be carried out. To reiterate, making a discretionary change to some other aspect of the RSP Rules to give rise to an RSP Surplus balance disposition result which differs from that which is directed on a more constrained interpretation of the directive, would do violence to the spirit and intent of the directive.

In particular:

- IC-NLH-10 suggests the redefining of the period used to determine the load variation surplus by excluding 2007. This would result in a lower amount of RSP Surplus. Since the total amount of the accumulated Load Variation component of the RSP for the period January 1, 2007 to August 31, 2013 is prescribed by the rates policy direction given, Hydro submits that it cannot be altered.
- IC-NLH-11, IC-NLH-13, IC-NLH-18 and IC-NLH-21 all raise issues as to the derivation and disposition of the $49 million as applied in the OC and imply different approaches and outcomes from the calculation shown in PUB-NLH-7. Hydro submits that the treatment of the forecast $39 million and the $49 million amounts are integral to the rates policy direction given in the OC. In order to adhere to that policy, the values used should not be altered by means such as adjusting the interim rates charged to Industrial Customers over the period from January 1, 2008 to August 31, 2013.
- IC-NLH 23 raises questions about the inclusion of historical RSP components in the IC rates and appears to seek redress for that specific element. Hydro submits that the directive ought to be applied in accordance with its plain meaning. The perspective inherent in this RFI invites the Board to consider all of the various factors and positions of the parties that could be brought to bear on the issue, as if the intended outcome from the directive is indeterminable. In Hydro's view, there are many issues that could be raised including those about which the Board has already

received evidence in the previous RSP proceeding which was not concluded. Engaging in such a process would negate the existence and purpose of the directive.

- IC-NLH-24 invites the redefinition of the Rate Stabilization Plan Surplus. That term is defined in the directive and redefining the term for the purpose of carrying out the directive in the way proposed in the question has the effect of amending the directive.

Carrying out the plain and direct meaning of the OC provides a full and complete answer to the question as to the disposition of the RSP balance and, with regard to the finalization of the interim rates, the disposition of these amounts completely resolves the issue; there are no other amounts left to be considered. Making a final order confirming the interim rates is a necessary step in bringing about the outcome required by the directive. Reaching a different conclusion on the issue of the interim rates would give a different rates outcome from that contemplated in the OC and, therefore, cannot be reconciled with the policy implicit in the directive to the Board.

<u>Changes to RSP Rules re Disposition of Load Variation since January 1, 2007</u>

This issue is related to making Industrial Rates final, discussed above. Once Industrial rates for the period January 1, 2008 to August 31, 2013 are made final, thereby determining the amounts owing to the RSP by the IC, the issue remains as to how to give effect to section 1 of the directive. The answer can be largely derived from the directive itself which, at section 2, requires that $49 million be credited to the IC RSP ". . . the estimated Rate Stabilization Plan amount required to phase-in industrial customer rates, based on Newfoundland and Labrador Hydro's General Rate Application. As is shown in PUB-NLH-7, there was forecast to be a $39 million RSP balance amount owing from the IC. To resolve that IC "payable" to the RSP and to bring about the three-year phasing in of rate changes, approximately $10 million in additional funding is required. Hydro submits this is the manner in which the $49 million amount from the directive should be treated. Bringing about this outcome requires an amendment to the RSP Rules.

Hydro proposed RSP rules which would implement this directive. The proposed rules[1] are attached to this submission as Appendix A. Hydro submits that in order for the Board to comply with the direction in the Orders in Council, the proposed rules regarding segregation of the RSP Surplus, calculation of the phase-in rates, and the draw down of the IC RSP Surplus to phase in these rates should be approved.

Rate for Teck Resources (Teck) effective September 1, 2013

OC2013-089, as amended by OC2013-207, directs, among other things, that:

> Effective September 1, 2013, Island industrial customer rates will no longer be frozen. Effective on this date rate increases for island industrial customers will be phased in over a three year period, with funding for this phase-in to be drawn from the January 1, 2007 to June 30, 2013 accumulated Load Variation (the Rate Stabilization Plan Surplus); and
>
> Teck Resources rate increase will be phased in, to a reasonable degree, in three equal annual percentage increases, and at the end of the phase-in period Teck Resources will be subject to the standard industrial rate;

In its Application on this matter, Hydro proposed a methodology to implement these directions. Hydro has proposed that the Board set the Teck Resources RSP adjustment rate to 1.111 cents per kWh, based upon Hydro's estimate[2] of the three equal annual percentage increases. Recognizing that this estimate is based upon a filed GRA from which rates have not yet been approved, Hydro further proposed, in Schedule B to the Application, that once new base rates are approved based upon Hydro's 2013 Test Year, Hydro would apply for the disposition of any difference between the adjustment amounts calculated and the adjustment which would have been calculated using the 2013 approved Test Year rates. It is Hydro's position that the Teck Resources RSP adjustment rate to 1.111 cents per kWh should be approved at this time for consumption on or after September 1, 2013.

To complete compliance with the Orders in Council, and in particular the direction that the funding for the phase-in be drawn from the January 1, 2007 to June 30, 2013 accumulated

[1] Amended as indicated in the response to NP-NLH-11.
[2] See Appendix E to Hydro's Rate Stabilization Plan evidence.

Load Variation (the Rate Stabilization Plan Surplus), the RSP adjustment for Teck must be applied to the IC RSP Surplus. Hydro has, as ordered by the Board in Order No. P.U. 26(2013), credited $49 million[3] to the Island Industrial customers' Rate Stabilization Plan with respect to the RSP Surplus. Hydro maintains that for ease of administration, the $(10,870,627)[4] balance in the IC RSP should be segregated, and the Teck Resources RSP adjustment effective September 1, 2013 be applied to that segregated account. It is Hydro's position that no customers are disadvantaged by the segregation of the $(10,870,627) balance, and that the Board should approve that segregation at this time. Additionally, a similar segregation of the RSP Surplus allocated to Newfoundland Power should be made to facilitate the future disposition of that balance. Assuming that segregation is approved, the RSP adjustment for Teck should be applied to that account. The issue of segregation of the RSP Surplus balance will become of further significance when Hydro applies to set Industrial Customer RSP rates effective January 1, 2014, in compliance with the Orders in Council. Calculation of the appropriate rate to charge the IC will require removal of the amount to be used to fund the phase in, net of the Teck phase-in adjustment amounts from September to December, and segregation of the amount at this time will provide transparency in the calculation of that rate.

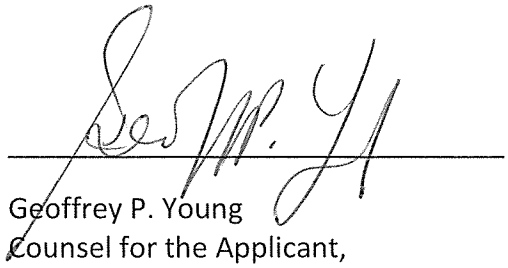
Relief Sought

Hydro is seeking a final Order at this time:

- Confirming as final the Industrial Customer Interim Rates from January 1, 2008 to August 31, 2013;
- setting the Teck resources Surplus Adjustment rate to 1.111 cents per kWh;
- approving a new RSP section related to the disposition of the RSP Surplus; and
- approving that Hydro hold a separate account from the IC and NP RSP plans, the load variation that occurs from September 1, 2013 until it is disposed of through Hydro's application to modify the load variation allocation.

[3] The August 2013 RSP report has been filed in response to IC-NLH-28.
[4] Page 11 of the August 2013 RSP report attached to IC-NLH-28.

All of which is respectfully submitted, this 23rd day of September, 2013.



Geoffrey P. Young
Counsel for the Applicant,
Newfoundland and Labrador Hydro
Hydro Place, 500 Columbus Drive
P.O. Box 12400
St. John's, NL A1B 4K7

NEWFOUNDLAND AND LABRADOR HYDRO **APPENDIX A**

RATE STABILIZATION PLAN (INTERIM)

The Rate Stabilization Plan of Newfoundland and Labrador Hydro (Hydro) is established for Hydro's Utility customer, Newfoundland Power, and Island Industrial customers to smooth rate impacts for variations between actual results and Test Year Cost of Service estimates for:

- hydraulic production;
- No. 6 fuel cost used at Hydro's Holyrood generating station;
- customer load (Utility and Island Industrial); and
- rural rates.

The formulae used to calculate the Plan's activity are outlined below. Positive values denote amounts owing from customers to Hydro whereas negative values denote amounts owing from Hydro to customers.

Section A: Hydraulic Production Variation

1. **Activity:**
   Actual monthly production is compared with the Test Year Cost of Service Study in accordance with the following formula:

   $$\{(A - B) \div C\} \times D$$

   Where:

   A = Test Year Cost of Service Net Hydraulic Production (kWh)
   B = Actual Net Hydraulic Production (kWh)
   C = Test Year Cost of Service Holyrood Net Conversion Factor (kWh /bbl.)
   D = Monthly Test Year Cost of Service No. 6 Fuel Cost ($Can /bbl.)

2. **Financing:**
   Each month, financing charges, using Hydro's approved Test Year weighted average cost of capital, will be calculated on the balance.

3. **Hydraulic Variation Customer Assignment:**
   Customer assignment of hydraulic variations will be performed annually as follows:

   $$(E \times 25\%) + F$$

   Where:

   E = Hydraulic Variation Account Balance as of December 31, excluding financing charges
   F = Financing charges accumulated to December 31

   The total amount of the Hydraulic Customer Assignment shall be removed from the Hydraulic Variation Account.

4. Customer Allocation:

The annual customer assignment will be allocated among the Island Interconnected customer groups of (1) Newfoundland Power; (2) Island Industrial Firm; and (3) Rural Island Interconnected. The allocation will be based on percentages derived from 12 months-to-date kWh for: Utility Firm and Firmed-Up Secondary invoiced energy, Industrial Firm invoiced energy, and Rural Island Interconnected bulk transmission energy.

The portion of the hydraulic customer assignment which is initially allocated to Rural Island Interconnected will be re-allocated between Newfoundland Power and regulated Labrador Interconnected customers in the same proportion which the Rural Deficit was allocated in the approved Test Year Cost of Service Study.

The Newfoundland Power and Island Industrial customer allocations shall be included with the Newfoundland Power and Island Industrial RSP balances respectively as of December 31 each year. The Labrador Interconnected Hydraulic customer allocation shall be written off to Hydro's net income (loss).

Section B: Fuel Cost Variation, Load Variation and Rural Rate Alteration

1. Activity

1.1 Fuel Cost Variations

This is based on the consumption of No. 6 Fuel at the Holyrood Generating Station:

$$(G - D) \times H$$

Where:

D = Monthly Test Year Cost of Service No. 6 Fuel Cost ($Can /bbl.)
G = Monthly Actual Average No. 6 Fuel Cost ($Can /bbl.)
H = Monthly Actual Quantity of No. 6 Fuel consumed less No. 6 fuel consumed for non-firm sales (bbl.)

1.2 Load Variations

Firm: Firm load variation is comprised of fuel and revenue components. The load variation is determined by calculating the difference between actual monthly sales and the Test Year Cost of service Study sales, and the resulting variance in No. 6 fuel costs and sales revenues. It is calculated separately for Newfoundland Power firm sales and Industrial firm sales, in accordance with the following formula:

$$(I - J) \times \{(D \div C) - K\}$$

Where:

C = Test Year Cost of Service Holyrood Net Conversion Factor (kWh /bbl.)
D = Monthly Test Year Cost of Service No. 6 Fuel Cost ($Can /bbl.)
I = Actual Sales, by customer class (kWh)
J = Test Year Cost of Service Sales, by customer class (kWh)
K = Firm energy rate, by customer class

Secondary: Secondary load variation is based on the revenue variation for Utility Firmed-Up Secondary energy sales compared with the Test Year Cost of Service Study, in accordance with the following formula:

$$(J - I) \times L$$

Where:

I = Actual Sales (kWh)
J = Test Year Cost of Service Sales (kWh)
L = Secondary Energy Firming Up Charge

1.3 Rural Rate Alteration

(a) Newfoundland Power Rate Change Impacts:
This component is calculated for Hydro's rural customers whose rates are directly or indirectly impacted by Newfoundland Power's rate changes, with the following formula:

$$(M - N) \times O$$

Where:

M = Cost of Service rate [1]
N = Existing rate
O = Actual Units (kWh, bills, billing demand)

(b) Rural Labrador Interconnected Automatic Rate Adjustments:
This component reflects the impact of the automatic rate adjustments for Hydro's rural customers on the Labrador Interconnected system, which arise from the phase-in of the application of the credit from secondary energy sales to CFB Goose Bay to the rural deficit.

Monthly adjustments will be subject to revision when a new Test Year Cost of Service is approved by the Public Utilities Board for Hydro. The amount of the automatic rate adjustment is ($98,295.)

2. Monthly Customer Allocation: Load and Fuel Activity

Each month, the load variation will be assigned to the customer class for which the load variation occurred.

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[1]

- Hydro's schedule of rates for its rural customers not affected by the December 6th, 2006 Government directive.
- For customers affected by the December 6th, 2006 Government directive, the Cost of Service rate equals the phased-in 2007 Forecast Cost of Service Rates for diesel rate classes 1.2D, 2.1D and 2.2D.
- No Rural Rate Alternation will arise from the phase-in of 2007 Forecast Cost of Service rates for the customers affected by the December 6th, 2006 Government directive.

Each month, the year-to-date total for fuel price variation will be allocated among the Island Interconnected customer groups of (1) Newfoundland Power; (2) Island Industrial Firm; and (3) Rural Island Interconnected. The allocation will be based on percentages derived from 12 months-to-date kWh for: Utility Firm and Firmed-Up Secondary invoiced energy, Industrial Firm invoiced energy, and Rural Island Interconnected bulk transmission energy.

The year-to-date portion of the fuel price variation which is initially allocated to Rural Island Interconnected will be re-allocated between Newfoundland Power and regulated Labrador Interconnected customers in the same proportion which the Rural Deficit was allocated in the approved Test Year Cost of Service Study.

The current month's activity for Newfoundland Power, Island Industrials and regulated Labrador Interconnected customers will be calculated by subtracting year-to-date activity for the prior month from year-to-date activity for the current month. The current month's activity allocated to regulated Labrador Interconnected customers will be removed from the Plan and written off to Hydro's net income (loss).

3. Monthly Customer Allocation: Rural Rate Alteration Activity

Each month, the rural rate alteration will be allocated between Newfoundland Power and regulated Labrador Interconnected customers in the same proportion which the Rural Deficit was allocated in the approved Test Year Cost of Service Study. The portion allocated to regulated Labrador Interconnected will be removed from the Plan and written off to Hydro's net income (loss).

4. Plan Balances

Separate plan balances for Newfoundland Power and for the Island Industrial customer class will be maintained. Financing charges on the plan balances will be calculated monthly using Hydro's approved Test Year weighted average cost of capital.

Section C: Fuel Price Projection

A fuel price projection will be calculated to anticipate forecast fuel price changes and to determine fuel riders for the rate adjustments. For industrial customers, this will occur in October each year, for inclusion with the RSP adjustment effective January 1. For Newfoundland Power, this will occur in April each year, for inclusion with the RSP adjustment effective July 1.

1. Industrial Fuel Price Projection:

In October each year, a fuel price projection for the following January to December shall be made to estimate a change from Test Year No. 6 Fuel Cost. Hydro's projection shall be based on the change from the average Test Year No. 6 fuel purchase price, in Canadian dollars per barrel, determined from the forecast oil prices provided by the PIRA Energy Group, and the current US exchange rate. The calculation for the projection is:

$$[\{(S - T) \times U\} - V] \times W$$

Where:

S = the September month-end PIRA Energy Group average monthly forecast for No. 6 fuel prices at New York Harbour for the following January to December
T = Hydro's average Test Year contract discount (US $/bbl)
U = the monthly average of the $Cdn / $US Bank of Canada Noon Exchange Rate for the month of September
V = average Test Year Cost of Service purchase price for No. 6 Fuel ($Can /bbl.)
W = the number of barrels of No. 6 fuel forecast to be consumed at the Holyrood Generating Station for the Test Year.

The industrial customer allocation of the forecast fuel price change will be based on 12 months-to-date kWh as of the end of September and is the ratio of Industrial Firm invoiced energy to the total of: Utility Firm and Firmed-Up Secondary invoiced energy, Industrial Firm invoiced energy, and Rural Island Interconnected bulk transmission energy.

The amount of the forecast fuel price change, in Canadian dollars, and the details of an estimate of the fuel rider based on 12 months-to-date kWh sales to the end of September will be reported to industrial customers, Newfoundland Power, and the Public Utilities Board, by the 10th working day of October.

2. Newfoundland Power Fuel Price Projection:

In April each year, a fuel price projection for the following July to June shall be made to estimate a change from Test Year No. 6 Fuel Cost. Hydro's projection shall be based on the change from the average Test Year No. 6 fuel purchase price, in Canadian dollars per barrel, determined from the forecast oil prices provided by the PIRA Energy Group, and the current US exchange rate. The calculation for the projection is:

$$[\{(X - T) \times Y\} - V] \times W$$

Where:

T = Hydro's average Test Year contract discount (US $/bbl)
V = average Test Year Cost of Service purchase price for No. 6 Fuel ($Can /bbl.)
W = the number of barrels of No. 6 fuel forecast to be consumed at the Holyrood Generating Station for the Test Year. For the 2007 Test Year, test year barrels are reduced by 589,208 based on the reduction in forecast Island Industrial customer load caused by the shutdown of one of the paper machines at Corner Brook Pulp and Paper and the shutdown of Abitibi Consolidated (Grand Falls).
X = the average of the March month-end PIRA Energy Group average monthly forecast for No. 6 fuel prices at New York Harbour for the following July to December, and the most recent long-term PIRA Energy Group average annual forecast for No. 6 fuel prices at New York Harbour for the following January to June.
Y = the monthly average of the $Cdn / $US Bank of Canada Noon Exchange Rate for the month of March.

The Newfoundland Power customer allocation of the forecast fuel price change will be based on 12 months-to-date kWh as of the end of March and is the ratio of Newfoundland Power Firm and Firmed-Up Secondary invoiced energy to the total of: Utility Firm and Firmed-Up Secondary invoiced energy, Industrial Firm invoiced energy, and Rural Island Interconnected bulk transmission energy. For the 12 months-to-date (April 2008 - March 2009) Industrial Firm invoiced energy is reduced by 87,991,636 kWh to reflect the forecast reduction in Abitibi Consolidated (Grand Falls) load.

The amount of the forecast fuel price change, in Canadian dollars, and the details of the resulting fuel rider applied to the adjustment rate will be reported to Newfoundland Power, industrial customers, and the Public Utilities Board, by the 10th working day of April.

Section D: Adjustment

1. Newfoundland Power

As of March 31 each year, Newfoundland Power's adjustment rate for the 12-month period commencing the following July 1 is determined as the rate per kWh which is projected to collect:

Newfoundland Power March 31 Balance

less projected recovery / repayment of the balance for the following three months (if any), estimated using the energy sales (kWh) for April, May and June from the previous year

plus forecast financing charges to the end of the 12-month recovery period (i.e., June in the following calendar year),

divided by the 12-months-to-date firm plus firmed-up secondary kWh sales to the end of March.

A fuel rider shall be added to the above adjustment rate, based on the Newfoundland Power Fuel Price Projection amount (as per Section C.2 above) divided by 12-months-to-date kWh sales to the end of March.

When new Test Year base rates come into effect, if a fuel rider forecast (either March or September) is more current than the test year fuel forecast, a fuel rider will be implemented at the same time as the change in base rates reflecting the more current fuel forecast and the new test year values.

Otherwise, the fuel rider portion of the RSP Adjustment will be set to zero upon implementation of the new Test Year Cost of Service rates, until the time for the next fuel price projection.

2. Island Industrial Customers

As of December 31 each year, the adjustment rate for industrial customers for the 12-month period commencing January 1 is determined as the rate per kWh which is projected to collect:

Industrial December 31 Balance

plus forecast financing charges to the end of the following calendar year,

divided by 12-months-to-date kWh sales to the end of December.

A fuel rider shall be added to the above adjustment rate, based on the Industrial Fuel Price Projection (as per Section C.1 above) amount divided by 12-months-to-date kWh sales to the end of December.

When new Test Year base rates come into effect, if a fuel rider forecast (either March or September) is more current than the test year fuel forecast, a fuel rider will be implemented at the same time as the change in base rates reflecting the more current fuel forecast and the new test year values. Otherwise, the fuel rider portion of the RSP Adjustment will be set to zero upon implementation of the new Test Year Cost of Service rates, until the time for the next fuel price projection.

Section E: Historical Plan Balances:

1. August 2002 Balance:

Newfoundland Power and Island Industrial customer balances accumulated in the Plan as at August 2002 will be recovered over a 5-year collection period, with adjustment rates established each December 31, commencing December 31, 2002. Financing charges on the plan balances will be calculated monthly using Hydro's approved Test Year annual weighted average cost of capital.

Newfoundland Power

The adjustment rate for each year of the five-year adjustment period will be determined as follows:

$$A = (B - C + D) \div E \div F$$

Where:

A = adjustment rate ($ per kWh) for the 12-month period commencing the following July 1.
B = Balance December 31
C = projected recovery to the following June 30 (if any), estimated using the most recent energy sales (kWh) for the period January to June.
D = projected financing charges to the following June 30
E = number of years remaining in the adjustment period
F = energy sales (kWh) (firm and firmed-up secondary) to Newfoundland Power for the most recent 12 months ended December 31

Recovery and financing will be applied to the balance each month. At the end of the five-year recovery period, any remaining balance will be added to the plan then in effect.

Island Industrial Customers, excluding Teck Cominco Limited [Exempted pursuant to Order No. P.U.1(2007)]

The adjustment rate for each year of the five-year adjustment period will be determined as follows:

$$G = H \div I \div J$$

Where:

G = adjustment rate ($ per kWh) for the 12-month period commencing the following January 1.
H = Balance December 31
I = number of years remaining in the adjustment period
J = firm energy sales (kWh) to Industrial Customers, excluding sales to Teck Cominco Limited, for the most recent 12 months ended December 31

Recovery and financing will be applied to the balance each month. At the end of the five-year recovery period, any remaining balance will be added to the plan then in effect.

2. RSP Balance, December 31, 2003:

Newfoundland Power and Island Industrial customer balances accumulated in the Plan as at December 31, 2003 will be consolidated with the outstanding August 2002 customer balances as of December 31, 2003, and will be included with the Newfoundland Power and Island Industrial customer balances respectively for rate-setting purposes as of December 31, 2003.

Section F: RSP Surplus

1. August 31, 2013 Balance:

The net load variation for Newfoundland Power and the Industrial Customers from January 1, 2007 to August 31, 2013, including financing (the RSP Surplus), will be removed from the respective customer class balance, and allocated based upon direction provided by Government in Orders in Council OC2013-089 and OC2013-207. The balances which remain after this amount is removed will form the adjusted August 31, 2013 current plan balances for each customer class.

The Newfoundland Power allocated amount of the RSP Surplus will be held until such time as its disposition occurs in accordance with an Order of the Board of Commissioners of Public Utilities through a refund plan in accordance with Order in Council OC2013-089. The Industrial Customer class allocated amount will be used, firstly, to reduce the Industrial Customer class adjusted August 31, 2013 RSP balance to zero. The remaining Industrial Customer class allocated amount will be segregated and used, commencing September 1, 2013, in accordance with the rules below. Financing on the RSP Surplus balances will be calculated monthly using Hydro's approved Test Year annual weighted average cost of capital.

2. Island Industrial Customer RSP Surplus Balance:

The RSP Surplus balance allocated to the Industrial Customer class will be used to fund a phase-in of new Industrial Customer base rates effective September 1, 2013 using monthly adjustments determined as follows:

2.1 Island Industrial Customers excluding Teck Resources

The monthly adjustment for each month from September 1, 2013 to August 31, 2015 will be determined for each billing component (demand, energy and specifically assigned charge) for each Industrial Customer, except Teck Resources, as follows:

$$A = (B – C) X D$$

Where:

A = Monthly RSP Adjustment
B = Approved Island Industrial Customer base rate
C = Phase-In Industrial Customer rate, calculated in accordance with the formula below
D = Actual monthly Industrial Customer billing units

Phase-In Industrial Customer Rates – September 1, 2013 to August 31, 2014

The Phase-In Industrial Customer rates will be calculated for each of demand, energy, and each customer's specifically assigned charges. For Industrial Customers, except Teck Resources, the phase-in rates for the twelve months commencing September 1, 2013 will be the base rates approved in Hydro's 2007 Test Year. These rates are:

Demand Charge: $6.68 per month per kilowatt of billing demand
Firm Energy Charge: Base Rate 3.676 ¢ per kWh

Specifically Assigned Charges:	Annual Amount
Corner Brook Pulp and Paper Limited	$ 347,167
North Atlantic Refining Limited	$ 150,976
	$ 498,143

The RSP adjustment rate, which is applicable to energy sales, will be set to zero effective September 1, 2013. Subsequent to this date normal RSP adjustments will continue to apply.

Phase-In Industrial Customer Rates – September 1, 2014 to August 31, 2015

The Phase-In Industrial Customer rates for the twelve months commencing September 1, 2014 for each of demand, energy, and each customer's specifically assigned charges will be calculated as follows:

$$E = F x (1 +G)$$

Where:

E = Phase-In Industrial Customer rate
F = Phase-In Industrial Customer rate in effect as of September 1 of the preceding year
G = Equal annual percentage required over the three-year phase-in period to achieve the total change between:

- Hydro's revenue from these customers calculated using the 2007 Test Year rates, including the RSP adjustment in effect August 31, 2013, and
- the revenue for those customers calculated using those rates approved by the Board based on Hydro's 2013 Test Year, excluding any RSP adjustment,

using the 2013 Test Year billing units.

RATE STABILIZATION PLAN (INTERIM) (Continued)

Phase-In Industrial Customer Rates – September 1, 2015

Effective September 1, 2015, the Phase-In Industrial Customer rates will be the most recent Board approved Test Year rates.

The monthly adjustments and financing will be applied to the balance each month. At the end of the phase-in period, any remaining balance will be added to the Industrial Customer plan then in effect.

2.2 Teck Resources

The monthly adjustment for each month commencing September 1, 2013 until approval of 2013 Test Year base rates will be a rate per kWh, applied to actual monthly energy sales, calculated as follows:

$$H = (I + (J \times K))/K$$

Where:

H = Adjustment rate per kWh

I = Amount required to achieve one-third of the estimated change between:

- Hydro's revenue from this customer calculated using the 2007 Test Year rates including the RSP adjustment in effect on August 31, 2013, and
- the revenue from this customer calculated using those rates approved by the Board based on Hydro's 2013 Test Year excluding any RSP adjustment,

using the 2013 Test Year billing units.

J = RSP adjustment rate per kWh in effect on August 31, 2013

K = Teck Resources 2013 Test Year kWhs

Note: Once new base rates are approved based upon Hydro's 2013 Test Year, Hydro will apply for the disposition of any difference between the adjustment amounts calculated and the adjustment which would have been calculated using the 2013 approved Test Year rates. The difference will be refunded to, or collected from, Teck Resources, in a manner to be approved by the Board.

Upon the approval of 2013 Test Year rates and until August 31, 2015,Teck Resources Phase-In Industrial Customer monthly adjustment will be calculated in a manner similar to those specified above for the other Industrial Customers, as follows:

$$L = (M - N) \times O$$

Where:

L = Monthly RSP Adjustment

M = Approved Island Industrial Customer base rate

N = Phase-In Teck Resources Industrial Customer rate, calculated in accordance with the formula below

O = Actual monthly Teck Resources billing units.

Phase-In Teck Resources Industrial Customer Rates – September 1, 2013 to August 31, 2014

The phase-in rates for the twelve months commencing September 1, 2013 will be the base rates approved in Hydro's 2007 Test Year plus the monthly rate per kWh adjustment as outlined above.

Demand Charge:	$6.68 per month per kilowatt of billing demand
Firm Energy Charge:	
Base Rate:	3.676 ¢ per kWh
RSP Surplus Adjustment:	(1.111) ¢ per kWh
Net Energy Rate	2.565 ¢ per kWh
Specifically Assigned Charges:	
Teck Resources Annual Amount:	$186,169

Phase-In Teck Resources Industrial Customer Rates – September 1, 2014 to August 1, 2015

Upon the approval of 2013 Test Year rates, Teck Resources Phase-In Industrial Customer rates for each of demand, energy, and specifically assigned charges will be calculated in the same manner as specified above for the other Industrial Customers except that the September 1, 2014 to August 31, 2015 rates will be calculated based upon the 2007 Test Year rates, with the energy charge reduced by the rate per kWh in effect as of September 1, 2013, as outlined above.

The calculation is:

$$P = Q \times (1 + R)$$

Where:
P = Phase-In Teck Resources rate
Q = Phase-In Teck Resources rate in effect as of September 1 of the preceding year
R = Equal annual percentage required over the three-year phase-in period to achieve the total change between:

- Hydro's revenue for this customer calculated using the 2007 Test Year rates including the RSP adjustment in effect on August 31, 2013, and
- the revenue for this customer calculated using those rates approved by the Board based on Hydro's 2013 Test Year, but excluding any RSP adjustment

using the 2013 Test Year billing units.

Phase-In Teck Resources Industrial Customer Rates – September 1, 2015

Effective September 1, 2015, Teck Resources will be charged the most recent Board approved Test Year rates consistent with the other Industrial Customers.

The monthly adjustments and financing will be applied to the balance each month. At the end of the phase-in period, any remaining balance will be added to the Industrial Customer plan then in effect.