

August 20, 2018



Dear :

Re: Your request for access to information under Part II of the *Access to Information and Protection of Privacy Act* (File # NR-101-2017)

On July 25, 2018, the Department of Natural Resources received your request for access to the following records/information:

In NR-83-2018 there was a reference to an information note entitled "Newfoundland and Labrador Hydro 2018 Rate Stabilization Plan Adjustment Application". I am seeking a copy of that note.

I am pleased to inform you that a decision has been made by the Department of Natural Resources, confirmed by the Deputy Minister, to provide access to the requested records. The records are attached.

The Department of Natural Resources would like to advise you that the information in this note is out of date given that Newfoundland and Labrador Hydro has decided not to proceed with certain aspects of its 2017 GRA. This means that the information on rate projections is no longer correct.

As set out in section 42 of the Act you may ask the Information and Privacy Commissioner to review the department's decision to provide access to the requested information. A request to the Commissioner must be made in writing within 15 business days of the date of this letter or within a longer period that may be allowed by the Commissioner. Your request should identify your concerns with the department's response and why you are requesting a review.

The request for review may be addressed to the Information and Privacy Commissioner is as follows:

Office of the Information and Privacy Commissioner
2 Canada Drive
P.O. Box 13004, Stn. A
St. John's, NL. A1B 3V8

Telephone: (709) 729-6309
Toll-Free: 1-877-729-6309
Facsimile: (709) 729-6500

Pursuant to section 52 of the Act, you may also appeal directly to the Supreme Court Trial Division within 15 business days after receiving the department's decision.

Please be advised that responsive records will be published following a 72 hour period after the response is sent electronically to you or five business days in the case where records are mailed to you. It is the goal to have the responsive records posted to the Completed Access to Information Requests website within one business day following the applicable period of time. Please note that requests for personal information will not be posted online.

For further details about how an access to information request is processed, please refer to the Access to Information Policy and Procedures Manual at <http://www.atipp.gov.nl.ca/info/index.html>.

If you have any questions, please feel free to contact me at 709-729-0463 or rhynes@gov.nl.ca.

Sincerely,

A handwritten signature in cursive script that reads "Rod Hynes".

Rod Hynes
ATIPP Coordinator

Information Note
Department of Natural Resources

Title: Newfoundland and Labrador Hydro 2018 Rate Stabilization Plan Adjustment Application

Issue: To summarize Newfoundland and Labrador Hydro's (NLH) 2018 Rate Stabilization Plan (RSP) adjustment application.

Background and Current Status:

- On April 13, 2018, NLH will file its annual RSP adjustment application with the Board of Commissioners of Public Utilities (PUB). The application proposes rate changes effective July 1, 2018 including RSP fuel cost adjustments and additional interim rate changes in relation to delays in implementing NLH's last 2017 General Rate Application (GRA)
- The GRA process establishes base electricity rates that utilities can charge customers in to recover costs. Utilities typically submit GRAs every two to three years as costs change. NLH's 2017 GRA is currently before the PUB with hearings to begin on April 16, 2018.
- Between GRAs, rates may be adjusted each year on July 1 based on NLH's actual versus forecast fuel costs for generating electricity at the Holyrood Thermal Generating Station, which is a function of the price per barrel of fuel, the amount of electricity used by customers, and annual rainfall that determines hydroelectric generation. This mechanism is the RSP, which was created to ensure that rates reflect actual costs of generation from year to year, rather than risk much larger rate changes over longer periods between GRAs.
- NLH's 2017 RSP adjustment application forecasted the annual RSP adjustment to increase more than 18 per cent for most customers due to the costs associated with the amount of fuel used at Holyrood. A PUB response to the application noted that the annual rate impacts for retail customers associated with the RSP have historically been in the range of +/-10 per cent and that the proposed 18 per cent increase could be argued to cause customer rate shock. The PUB ordered NLH to look at options to mitigate such an increase.
- NLH put forward several rate mitigation options. Following a full review, the PUB order NLH to transfer its RSP Load Variation balance (a balance of approximately \$50.7 million that accumulated as a result of over recovery in relation to the operation of Holyrood since 2013) to mitigate the 2017 RSP adjustment rate increase. The PUB approved a final rate increase of 9.1 per cent with additional costs to be recovered by NLH at a future date.
- Given this, NLH's 2018 RSP factors in the additional costs that were not recovered by NLH in 2017 in addition to the fuel, hydrology and oil price normally factored into the RSP.
- NLH's 2018 RSP adjustment application also requests interim electricity rates for 2018. NLH notes that Additional Cost of Service Information was filed with the PUB on March 22, 2018, and that the continuation of 2015 Test Year base rates is forecast to result in a revenue deficiency between \$43.4 and \$53.8 million.
- If increased base rates are not implemented in 2018, the revenue deficiency for the 2018 calendar year would need to be recovered from customers upon the establishment of final customer rates in 2019. NLH's RSP application also notes that as the GRA hearing process may not be completed until late summer or early fall, it is possible that final rates resulting from the 2017 GRA may not be implemented until later than January 1, 2019. Given this, future rates would need to include recovery of both 2018 (full year) and 2019 (part of the year) revenue deficiency.

- In total, NLH's 2018 RSP application requests a July 1, 2018 rate increase of 7.5 per cent (4.7 per cent of this increase is due to the RSP adjustment and the remaining 2.8 per cent accounts for NLH's request for an interim rate) or an additional 0.9 cents/kWh. For the average homeowner on the island, this would be an increase of about \$13/month on their electricity bill (based on average consumption of 1,517 kWh/month).

Analysis:

- NLH advises that the 2018 RSP filing will also impact the 2019 rates requested in NLH's 2017 GRA and as such, NLH will now be seeking an 8.6 per cent increase in rates in 2019 rather than the 6.4 per cent originally identified in the 2017 GRA. NLH also advises that there could be an additional RSP adjustment impact in 2019, given the RSP adjustment is an annual process.
- The application by NLH proposes increasing rates to 7.5 per cent and 8.6 percent in 2018 and 2019, respectively, for a combined increase of 16.1 per cent over two years for most customers (these changes do not impact customers in Labrador as they are not served by the Holyrood oil-fueled plant).
- NLH's 2017 GRA originally proposed 6.6 and 6.4 per cent rate increases in 2018 and 2019, respectively, for a combined increase of 13 per cent over the two years for most customers. The Consumer Advocate (CA) had issued a news release on January 8, 2018 stating NLH was seeking a 23 per cent rate increase by 2019 (despite NLH's 2017 GRA seeking a combined 13 per cent rate increase by 2019). The variance was likely due to the CA factoring in his projected 2018 RSP adjustment.
- In order to reduce customer impacts on July 1, 2018, NLH has proposed a modification to the calculation of the RSP Fuel Rider. Specifically, Hydro has proposed to calculate the fuel rider reflecting only 1.3 million barrels of consumption, versus the 2.6 million required per the RSP Rules. This approach reduces the forecast July 1, 2018 customer rate impact by 4.2%, from 8.9% to 4.7%.
- In addition to the RSP rate increase of 4.7%, Hydro's Application seeks an interim base rate increase of 2.8% (lower than the 6.6% initially sought). This interim base rate increase, if approved, will provide Hydro with recovery of approximately 52% of its increased cost of providing reliable electrical service in 2018. If this 2018 interim increase is approved, Hydro would still require a rate increase of 8.6% in 2019.
- An increase of 6.4% in 2018 would have provided Hydro with recovery of 70% of its increased cost of providing electrical service in 2018.
- NLH advises it was able to reduce customer interim rate impacts in 2018 by reducing Hydro's 2018 recovery from 70% to 52% and reflecting the impact of the 2017 GRA Settlement Agreement in its forecast revenue requirement, which is forecast to reduce NLH's revenue requirement by approximately \$16 million. Reducing NLH's recovery level in 2018 results in an increased revenue deficiency which they will seek to recover from future customers therefore, the larger customer rate increase required in 2019 (8.6% versus 6.4%)
- The upcoming hearing on the 2017 GRA is the final step in the GRA process to determine electricity rates for customers in the province. As determined by the PUB, the hearing will proceed for two weeks until April 27, 2018, then pause until a later date (it is anticipated to resume in summer 2018 to accommodate the PUB's review of provincial insurance rates scheduled to take place in May 2018).

Action to be Taken

- NR staff will monitor media reports and intervener filings on the application, and attend the upcoming GRA hearings.

Prepared/Approved by: L. MacDonald / C. Snook / J. Cowan

DSM 17/4/2018.
JS 18/4/18

Ministerial Approval:

April 16, 2018