

June 10, 2022

Board of Commissioners
of Public Utilities
P.O. Box 21040
120 Torbay Road
St. John's, NL A1A 5B2

Attention: G. Cheryl Blundon
Director of Corporate Services
and Board Secretary

Dear Ms. Blundon:

**Re: Newfoundland and Labrador Hydro – July 1, 2022 Utility Rate Adjustments
Application – Newfoundland Power's Comments**

A. The Application

On May 27, 2022, Newfoundland and Labrador Hydro ("Hydro") filed an application with the Board of Commissioners of Public Utilities (the "Board") requesting approval of utility rate adjustments, effective July 1, 2022 (the "Application"). The Application proposals include updates to the Rate Stabilization Plan ("RSP") Current Plan Adjustment and the Utility Conservation and Demand Management ("CDM") Cost Recovery Adjustment, as well as the implementation of a Project Cost Recovery Rider. The proposed utility rate sheets included with the Application also reflect the discontinuance of the RSP Fuel Rider, effective July 1, 2022.

The proposed Project Cost Recovery Rider marks the beginning of cost recovery associated with the Muskrat Falls Project. In support of the new rider, Hydro filed Order in Council OC2022-120 which permits Hydro to begin recovery of payments under the Muskrat Falls Power Purchase Agreement ("PPA"). Hydro also filed correspondence from the Government of Newfoundland and Labrador (the "Government") which requested that Hydro file its RSP updates with a view to maintaining retail electricity rates as close to current levels as possible after July 1, 2022.

Hydro estimates the Application proposals will increase the wholesale electricity rate charged to Newfoundland Power by 2.1%, resulting in an increase in the average end-customer bill by 1.4%. Hydro's understanding is that Newfoundland Power's subsequent application to update its Rate Stabilization Account ("RSA") and Municipal Tax Adjustment ("MTA") factors, when combined with Hydro's proposals, will result in retail electricity rates continuing to be close to their current levels after July 1, 2022.

Newfoundland Power Inc.

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B. Newfoundland Power's Comments

Newfoundland Power offers the following comments in respect of the Application.

First, Newfoundland Power confirms that when its RSA and MTA rate adjustments are combined with the proposals in Hydro's Application, the overall impact on customer rates is estimated to be a 0.3% average decrease on July 1, 2022.¹

Second, while Newfoundland Power views the Project Cost Recovery Rider proposal as extraordinary in nature, it is reflective of the circumstances associated with the Muskrat Falls Project, including the continued uncertainty of final costs, rate mitigation amounts and full commissioning of the project.² The implementation of the rider reflects OC2022-120 without increasing existing customer rates.

Third, Hydro submits that the payments made by Newfoundland Power as a result of the implementation of the Project Cost Recovery Rider will be credited to the utility component of the Supply Cost Variance Deferral Account.³ Hydro has also confirmed that payments made by Newfoundland Power through the Project Cost Recovery Rider will attract a credit of interest charges to the benefit of Newfoundland Power's customers only.⁴

Finally, Hydro has submitted that it has no ability to transfer to Newfoundland Power, or its customers, balances associated with its Supply Cost Variance Deferral Account determined by the Board to be due from Island Industrial customers.⁵ This suggests that that Newfoundland Power and its customers bear no risk associated with deferred supply costs attributable to the Island Industrial customer class.⁶

Based on the foregoing, Newfoundland Power is supportive of Hydro's proposed RSP and CDM utility rate adjustments. Further, given there is no overall increase in customer rates at this time, the Company does not object to the implementation of the proposed Project Cost Recovery Rider, provided that: (i) supply costs attributable to the Island Industrial customers are not borne by Newfoundland Power's customers at any point in the future; and (ii) rate mitigation amounts received by Hydro are distributed between Hydro's customer classes based on cost of service principles.

¹ See Attachment C to the response to Request for Information PUB-NP-001.

² See, for example, the response to Request for Information PUB-NLH-011.

³ See Hydro's Application, Schedule 1, page 3, lines 14 to 17.

⁴ See the response to Request for Information PUB-NLH-004.

⁵ See the response to Request for Information NP-NLH-002.

⁶ In Order No. P.U. 37 (2019), the Board approved revisions to Hydro's Cost of Service methodology for use in the determination of test year class revenue requirements reflecting the inclusion of the Muskrat Falls Project costs upon full commissioning.

Newfoundland Power observes that OC2022-120 provides Hydro the ability to significantly increase customer rates as a result of Muskrat Falls PPA payments.⁷ Given uncertainty in the timing of the completion of its next general rate application (“GRA”), Hydro currently anticipates updates to the Project Cost Recovery Rider for Newfoundland Power’s customers to be included in future July 1st rate applications.⁸ It is Hydro’s intention to also implement a Project Cost Recovery Rider to apply to the Island Industrial customer class; however, its ability to do so in the near term appears to be limited due to rate shock concerns for that class.⁹

The use of the July 1st process and associated customer impacts to increase customer electricity rates for Muskrat Falls was not anticipated by the parties. Given continued uncertainty and the potential magnitude associated with future rate increases associated with the recovery of Muskrat Falls Project costs, Newfoundland Power requests that Hydro include updates on the timing and amount of future changes to the Project Cost Recovery Rider in its ongoing quarterly reports associated with its next GRA to provide greater visibility on future rate increases to customers.

⁷ See the response to Request for Information PUB-NLH-013. In terms of the magnitude of potential future cost recovery, Hydro expects payments to be between \$20 million and \$22 million for the Muskrat Falls PPA per month. See Hydro’s May 13, 2022 correspondence to the Board re *Supply Cost Variance Deferral Account Monthly Report– Board Questions – Hydro’s Response*. If approved, Hydro expects payments to credit the balance in the Supply Cost Variance Deferral Account by approximately \$2.3 to \$2.4 million on a monthly basis. See the response to part (b) to Request for Information PUB-NLH-001. Based on these amounts, it is estimated Hydro’s current proposal reflects approximately 10% of the total potential cost recovery that could be applied for by Hydro with respect to the Muskrat Falls PPA payments. This estimate does not consider any deferred balances to June 30, 2022, costs associated with the Labrador Island Link (“LIL”) or finalization of Government’s rate mitigation plan.

⁸ See the response to Request for Information NP-NLH-004.

⁹ See the response to Request for Information PUB-NLH-005.

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Should you have any questions, please contact the undersigned.

Yours truly,

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