

1 **Q. Page 1-7, lines 1-8: Please describe in detail the potential consequences for**  
2 **Newfoundland Power and its customers due to the uncertainty of the Muskrat Falls**  
3 **project in terms of costs and reliability.**  
4

5 **A. *Introduction***

6 The potential cost and reliability consequences to Newfoundland Power and its customers  
7 associated with the uncertainty of the Muskrat Falls project are addressed in *Volume 1,*  
8 *Company Evidence, Section 4: Finance, Power Supply* at page 4-27, line 9, *et. seq.*  
9

10 These potential consequences are summarized in this response.  
11

12 ***Potential Cost Consequences***

13 The costs associated with the Muskrat Falls project and Labrador-Island transmission link  
14 (collectively, the “Muskrat Falls project”) will be very large compared to existing utility  
15 investment in Newfoundland and Labrador. Current estimated project costs, including  
16 financing, are approximately \$9.05 billion or more than 3 times the book value of current  
17 utility investment in the province. Actual costs will not be known until project  
18 completion but they can be expected to have consequences for Newfoundland Power and  
19 its customers.<sup>1</sup>  
20

21 The primary potential cost consequence of the Muskrat Falls project for Newfoundland  
22 Power’s customers is substantially increased utility rates. The Muskrat Falls project  
23 developer has recently estimated the increase in Newfoundland Power’s current  
24 residential customer rates resulting from the project will be approximately 53% by 2020.<sup>2</sup>  
25 If the costs of the Muskrat Falls project increase further, forecast customer rate impacts  
26 may also increase.  
27

28 For Newfoundland Power, there are a number of potential cost consequences of the  
29 Muskrat Falls project. One potential consequence is that rising power supply costs may  
30 compromise Newfoundland Power’s future ability to fully recover costs and earn its  
31 returns.<sup>3</sup> Another potential consequence of the rising power supply costs is that they may  
32 affect customer demand for electricity, particularly in space and water heating markets.<sup>4</sup>  
33 Reduced demand could contribute to even higher potential customer rate increases being  
34 required to recover the costs of the Muskrat Falls project.

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<sup>1</sup> The *Muskrat Falls Project Oversight Committee*, Committee Report, August 2015 indicates that remaining risks include weather; geotechnical conditions; and commissioning, start up and integration. In addition, the committee noted significant scheduled pressures that could impact costs. (See Committee Report, page 26).

<sup>2</sup> Undertaking 71 filed in Newfoundland and Labrador Hydro’s *2013 Amended General Rate Application* indicates that residential customer rates will increase from current levels of 12.9 ¢/kWh to 19.8 ¢/kWh in 2020 (19.8/12.9 = 1.53). Newfoundland Power is not in a position to verify the accuracy of these calculations.

<sup>3</sup> This potential consequence has been identified by Moody’s Investor Services. See *Volume 1, Company Evidence, Section 4: Finance*, page 4-29, lines 3-13 and Exhibit 4.

<sup>4</sup> See *Volume 1, Company Evidence, Section 4: Finance*, page 4-29, lines 15-19.

1       ***Potential Reliability Consequences***

2       The Muskrat Falls project will result in interconnection of the Island Interconnected  
3       system to the North American grid. Originally, the project was expected to be complete  
4       by mid-2018, however, this schedule is under review. The Muskrat Falls project will  
5       effectively displace the current production from Newfoundland and Labrador Hydro's  
6       ("Hydro") Holyrood thermal generating plant ("Holyrood") located close to  
7       Newfoundland Power's primary load center on the northeast Avalon Peninsula.  
8

9       The reliability of Holyrood has been deteriorating in recent years. In each of the past 3  
10       winter seasons, the unavailability of Holyrood has contributed to outages affecting  
11       between 83,000 and 173,000 Newfoundland Power customers. Delay in the Muskrat  
12       Falls project has the potential to extend the risk to Newfoundland Power's customers of  
13       severe winter outages relating to the unavailability of Holyrood. This is a continuing  
14       potential near-term reliability consequence for Newfoundland Power and its customers.  
15

16       The commissioning, start-up and integration of the Muskrat Falls project present potential  
17       reliability consequences for Newfoundland Power's customers. The necessary studies to  
18       address these matters are underway but not complete.<sup>5</sup> This matter is being studied by  
19       the Board as part of Phase II of its *Investigation and Hearing into the Supply Issues and*  
20       *Power Outages on the Island Interconnected System*. The uncertainty concerning these  
21       matters presents potential medium-term reliability (and cost) consequences for  
22       Newfoundland Power and its customers.  
23

24       The Muskrat Falls generation station is located 1,100 kms from Newfoundland Power's  
25       primary load center on the northeast Avalon Peninsula. Following the commissioning of  
26       the Muskrat Falls project and the decommissioning of Holyrood, Hydro has indicated that  
27       it believes that reliability of supply will be improved.<sup>6</sup> This belief has not been tested.  
28       And the replacement of substantial generation resources close to Newfoundland Power's  
29       primary load center (i.e., Holyrood) with resources 1,100 kms away raises obvious and  
30       potentially serious issues of supply security. These are currently unresolved and under  
31       Board investigation. It is possible that additional generation resources will be required  
32       closer to Newfoundland Power's primary load center to secure supply reliability. The  
33       uncertainty concerning this matter presents potential long-term reliability (and cost)  
34       consequences for Newfoundland Power and its customers.

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<sup>5</sup> See *Volume 1, Company Evidence, Section 4: Finance*, page 4-29, line 21 to page 4-30, line 4.

<sup>6</sup> See, for example, the response to Request for Information CA-NLH-115 filed in the *Board's Investigation and Hearing into the Supply Issues and Power Outages on the Island Interconnected System*.

1           **Conclusion**

2           Since Newfoundland Power's *2013/2014 General Rate Application*, the costs of the  
3           Muskrat Falls project have increased materially. Further cost increases are possible.  
4           This materially increases the potential cost consequences to Newfoundland Power and its  
5           customers associated with the Muskrat Falls project.

6  
7           Deteriorating wholesale supply reliability has become a more prominent issue on the  
8           Island Interconnected system since 2013. This, in turn, has focused attention on the  
9           potential reliability consequences for Newfoundland Power and its customers associated  
10          with the Muskrat Falls project. These potential consequences are also significant.

11  
12          The uncertainties and their potential consequences associated with the costs and  
13          reliability of the Muskrat Falls project are elevated since Newfoundland Power's  
14          *2013/2014 General Rate Application*. Because Hydro has the exclusive right to supply  
15          the Company's wholesale requirements, most, if not all, of these potential consequences  
16          may be unavoidable from Newfoundland Power's perspective.<sup>7</sup>

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<sup>7</sup> See *Volume 1, Company Evidence, Section 4: Finance*, page 4-27, lines 17-19.