

HAND DELIVERED

September 20, 2019

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

Ladies & Gentlemen:

Re: Rate Mitigation Options and Impacts Reference – Comments on Phase Two Reports

A. Introduction

Newfoundland Power Inc. (“Newfoundland Power” or the “Company”) filed its Request for Standing to participate in the *Reference on Rate Mitigation Options and Impacts* (the “Reference”) on March 8, 2019.

Newfoundland Power serves approximately 87% of electricity customers in the province. Absent rate mitigation, these customers are currently required to bear the vast majority of Muskrat Falls Project costs.¹

In 2018, Newfoundland Power outlined, on a conceptual basis, its views on potential rate mitigation options as part of the Company’s *2019/2020 General Rate Application*.² Potential options identified by Newfoundland Power included: (i) crediting Nalcor Energy’s revenue from export sales to customer rates; (ii) developing new electricity markets within the province; and (iii) limiting Muskrat Falls cost recovery, including operating costs.

¹ Order in Council OC2013-343 requires the cost of supply from the Muskrat Falls Project, including the Muskrat Falls generating facility, Labrador-Island Link and the Labrador Transmission Assets, to be recovered in full through rates charged to customers on the Island Interconnected System.

² See response to Request for Information PUB-NP-012 filed as part of Newfoundland Power’s *2019/2020 General Rate Application*.

Potential rate mitigation options identified through the Reference thus far are broadly consistent with Newfoundland Power's 2018 observations.

This letter outlines Newfoundland Power's views on the reports completed by Synapse Energy Economics ("Synapse") and The Liberty Consulting Group ("Liberty") as part of Phase Two of the Reference.

B. General Observations

i. Synapse Phase Two Report

Synapse's Phase Two report focuses on the potential benefits of conservation and electrification for customer rate mitigation.

Newfoundland Power has researched customer conservation potential within the province. The Company provided extensive data and information to Synapse to assist in its analysis as part of the Reference.³ The results contained in Synapse's Phase Two Report generally align with Newfoundland Power's research.

Identified electrification potential for the transportation sector is also broadly consistent with the Company's research to date.⁴ Newfoundland Power currently provides information to customers on the costs and benefits of electric vehicles. Further promotion of electric vehicles is being evaluated as part of ongoing planning for future customer programs.

Synapse's results in relation to rate design and demand management are also broadly consistent with Newfoundland Power's research and experience.⁵ The Company concurs that further work is required to determine whether time-of-use rates would provide net benefits to customers. Newfoundland Power intends to assess time-of-use rates through additional research and its planned Rate Design Review.

³ Newfoundland Power and Newfoundland and Labrador Hydro ("Hydro") commissioned Dunskey Energy Consulting to complete the *2019 Conservation Potential Study*. This study, which used local data to identify conservation, demand management and electrification potential in the province, was provided to the Board in response to Information Request PUB-NP-104.

⁴ Newfoundland Power completed an *Electric Vehicle Market Assessment Report*, which was provided to the Board in response to Information Request PUB-NP-012.

⁵ Newfoundland Power completed a 2-year study of time-of-use rates from December 2011 to November 2013. The results of this study were provided in response to Information Request PUB-NP-029.

ii. Liberty Phase Two Report

Liberty's Phase Two Report focuses on various revenue generating and cost saving options to mitigate potential customer rate increases.

Newfoundland Power generally concurs with Liberty that potential rate mitigation options include financial mitigation opportunities, eliminating duplication between Hydro and Power Supply, and reducing operating and maintenance ("O&M") costs for the Muskrat Falls Project.

Liberty observes that financial mitigation opportunities offer "*by far the largest*" source of rate mitigation.⁶ Newfoundland Power concurs with Liberty's observation.

Liberty observed that integrating Hydro and Power Supply "*would allow reduction of 113 full-time-equivalent personnel, many of them at Nalcor and Hydro's higher compensation levels.*"⁷ Newfoundland Power is supportive of eliminating any duplication that exists within Hydro and Nalcor Energy. The Company has previously observed that such efforts are timely as the province approaches completion of the Muskrat Falls Project.⁸

Regarding O&M costs for the Muskrat Falls Project, Liberty observes that "*a reduction of \$12 million from the current \$97.4 million estimate is realistic.*"⁹ Newfoundland Power is supportive of pursuing opportunities to reduce O&M costs and shares Liberty's concern that, while pursuing cost reductions, "*reliability must remain paramount.*"¹⁰

Regarding joint procurement, Liberty observes "*there would be benefit in the completion of more analysis of the potential savings, which, if they prove significant, may lead to reconsideration of*

⁶ Identified financial mitigation opportunities include: (i) equity returns from the Muskrat Falls Project; (ii) revenues from Muskrat Falls export sales; (iii) Hydro's equity return included in customer rates; and (iv) other smaller opportunities, such as water rental payments from Muskrat Falls and Churchill Falls and preferred dividends from Churchill Falls. See Liberty's Phase Two Report, page 12.

⁷ See Liberty's Phase Two Report, page 6.

⁸ This is consistent with Newfoundland Power's Phase One Submission, which noted: "*The Provincial Government's role in the electrical sector has undergone several structural changes in the past to reflect the achievement of policy goals. Newfoundland Power observes the province is also in a transition period today as it approaches completion of the Muskrat Falls Project*" (see Newfoundland Power's Phase One Submission, page 8, lines 9-12).

⁹ See Liberty's Phase Two Report, page 7. O&M reductions are comprised of: (i) operations-related FTE reductions; (ii) Corporate Support and Engineering Services charged to Muskrat Falls Project O&M; (iii) a reduced O&M contingency allowance; and (iv) reduced System Equipment Maintenance and Administration costs (see Liberty's Phase Two Report, page 84).

¹⁰ See Liberty's Phase Two Report, page 90.

*the current policy barrier to achieving them.*¹¹ Newfoundland Power concurs the potential savings to customers from joint procurement are uncertain and would require further analysis.

C. Specific Observations

i. Conservation and Electrification

While broadly consistent overall, some differences exist between Synapse's results and Newfoundland Power's research.

The most material difference relates to the analysis of customer benefits from installing heat pumps. A better understanding of the reasons for these differences would be beneficial in assessing potential options and impacts for customers. Newfoundland Power's ongoing Heat Pump Load Research Study will assist in further examining potential benefits to customers from heat pump adoption.

While some differences exist in the research completed, Synapse recognizes "*The Dunsky Report presents a much more in-depth analysis of local conditions and should be used for detailed input into 2020-2025 CDM program design, as was its intention.*"¹²

ii. Consolidation

Liberty considered potential cost savings to customers through consolidating certain utility operations in the province under Newfoundland Power.

Regarding consolidation, Liberty found "*potential savings that would arise with a transfer of operating responsibilities to Newfoundland Power modest, and subject to significant execution risks and limitations.*"¹³

Newfoundland Power agrees that consolidation of operations, as considered by Liberty, would not yield immediate cost savings for customers. However, in Newfoundland Power's view, there may be potential long-term benefits for customers arising from consolidation that merit more detailed consideration by the Provincial Government.

¹¹ See Liberty's Phase Two Report, page 62.

¹² See Synapse's Phase Two Report, page 126.

¹³ See Liberty's Phase Two Report, page 7.

D. Longer-term Observations

i. Protecting Customers' Interests

The most important issues to Newfoundland Power's customers are cost and reliability. Meeting customers' expectations requires balancing both the cost and reliability of the service they receive. This is consistent with the provincial power policy.¹⁴

In its Phase One Submission, Newfoundland Power noted that, in examining potential rate mitigation options, the Board should consider the level of regulatory oversight required to ensure the interests of customers are protected.¹⁵

The Muskrat Falls Project was exempted from oversight by the Board in November 2013.¹⁶ At that time, the estimated capital cost of the project was \$7.4 billion.¹⁷ The capital cost of the project has since increased to \$12.7 billion.¹⁸ The magnitude of this increase represents a material change in the project and the costs to be borne by Newfoundland Power's customers.

In its Phase Two Report, Liberty observes that the absence of Board oversight of future Muskrat Falls Project costs: (i) "*will more likely than not result in higher spending;*"¹⁹ and (ii) will result in the Board having "*to take Muskrat Falls and LIL reliability 'as it finds them.'*"²⁰

Newfoundland Power concurs that transparent Board oversight of the Muskrat Falls Project is necessary to permit reasonable protection of customers' interests. In the Company's view, *all* costs borne by customers through customer rates should be subject to oversight by the Board.

¹⁴ Section 3(b)(iii) of the *Electrical Power Control Act, 1994* effectively requires that power be delivered to customers in the province at the lowest possible cost consistent with reliable service.

¹⁵ See Newfoundland Power's Phase One Submission, page 8, lines 16-17.

¹⁶ See the *Muskrat Falls Project Exemption Order under the Electrical Power Control Act, 1994 and the Public Utilities Act (O.C. 2013-342)*, filed November 29, 2013.

¹⁷ For the sanction of the Muskrat Falls Project, see the December 17, 2012 Government press release *Government of Newfoundland and Labrador Announces Sanction of the Muskrat Falls Development*. For the total estimate at sanction of \$7.4 billion, see Nalcor Energy's *Muskrat Falls Project Update, June 23, 2017*, slide 10. The \$7.4 billion includes (i) \$6.2 billion in capital costs associated with the Muskrat Falls generating facility and Labrador transmission assets and (ii) \$1.2 billion in financing costs.

¹⁸ See Nalcor Energy's *Muskrat Falls Project Update, June 23, 2017* presentation, slide 10.

¹⁹ See Liberty's Phase Two Report, page 36.

²⁰ See Liberty's Phase Two Report, page 36.

ii. Public Policy Requirements

The existing legislative and regulatory framework governing the Muskrat Falls Project effectively requires the Board, upon commissioning of the project, to approve recovery of *all* Muskrat Falls Project costs from customers on the island of Newfoundland. In 2018, Newfoundland Power noted this presents a significant potential limitation to rate mitigation options.²¹ Modification of this framework will be required to permit implementation of identified rate mitigation options.

For example, while the Board has established processes to ensure customers' interests are protected, extending the Board's oversight to future Muskrat Falls Project costs would require government action to change existing legislation. Legislative changes may also be required to give effect to other identified rate mitigation options.²²

E. Conclusion

We trust the foregoing is satisfactory for the present.

Newfoundland Power looks forward to presenting its views on customer rate mitigation options to the Board in the upcoming public hearing. We thank the Board for the opportunity to continue participating in this Reference.

In the meantime, should you have any questions, please do not hesitate to contact the undersigned at your convenience.

Yours truly,



Kelly Hopkins
Corporate Counsel

²¹ See response to Request for Information PUB-NP-012, page 5, lines 20 to 24, filed as part of Newfoundland Power's 2019/2020 General Rate Application.

²² For example, both Hydro and Nalcor Energy are created as crown corporations through provincial legislation: the *Hydro Corporation Act* and the *Energy Corporation Act*. Changes to this legislation may be required to permit integration of the two entities.

- c. Dennis Browne, QC
Consumer Advocate

Gregory J. Connors
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