

WHENEVER. WHEREVER.  
We'll be there.



HAND DELIVERED

November 1, 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: Newfoundland Power's Final Submission on Muskrat Falls Project Rate Mitigation**

Enclosed are the original and five copies of Newfoundland Power's *Final Submission on Muskrat Falls Project Rate Mitigation*.

Newfoundland Power thanks the Board for the opportunity to participate in the Reference on Rate Mitigation Options and Impacts.

We trust the foregoing and enclosed are found to be in order.

If you have any questions, please contact the undersigned at your convenience.

Yours very truly,

A handwritten signature in blue ink, appearing to read "Kelly Hopkins".

Kelly Hopkins  
Corporate Counsel

Enclosures

**Newfoundland Power Inc.**

55 Kenmount Road • P.O. Box 8910 • St. John's, NL A1B 3P6  
PHONE (709) 737-5364 • FAX (709) 737-2974 • [khopkins@newfoundlandpower.com](mailto:khopkins@newfoundlandpower.com)

c. Dennis Browne, Q.C.  
Consumer Advocate

Geoff Young, Q.C.  
Newfoundland and Labrador Hydro

Gregory J. Connors  
McInnis Cooper

Paul Coxworthy  
Stewart McKelvey



# Newfoundland Power Final Submission Muskrat Falls Project Rate Mitigation

November 1, 2019

NEWFOUNDLAND  
**POWER**  
A FORTIS COMPANY

WHENEVER. WHEREVER.  
We'll be there.

# Table of Contents

1.0	Executive Summary.....	1
2.0	Background .....	2
	a. Development of the Muskrat Falls Project.....	2
	b. Customer Rate Mitigation.....	3
	c. The Reference .....	4
3.0	Rate Mitigation Options Generally .....	5
	a. General .....	5
	b. Newfoundland Power’s 2018 Observations.....	6
	c. The Board’s Consultant Reports .....	7
4.0	Submissions on Long-Term Service Delivery .....	10
	a. Conservation and Electrification.....	10
	b. Regulatory Oversight .....	12
	c. Future of the Electricity Sector .....	14

## 1.0 Executive Summary

Muskrat Falls Project rate mitigation is an issue of significant concern for customers of Newfoundland Power Inc. (“Newfoundland Power” or the “Company”).

In September 2018, the Provincial Government issued a reference to the Newfoundland and Labrador Board of Commissioners of Public Utilities (the “Board”) to examine options to mitigate the impact of the Muskrat Falls Project on customer rates (the “Reference”). The Reference followed significant cost overruns on the project and a forecast doubling of customer rates.

The Muskrat Falls Project is expected to be commissioned within the next two years. It will supply electricity to customers for 75 to over 100 years. In Newfoundland Power’s view, options to mitigate the project’s impact on customer rates can be assessed over multiple time horizons.

The short term objective is avoiding customer rate shock upon project commissioning. This is the focus of the Reference and the consultant reports released by the Board in September 2019. In Newfoundland Power’s view, the Board’s consultants have outlined reasonable options to mitigate customer rate increases in the near term.

Longer-term objectives relate to how the provincial electricity sector can effectively deliver least-cost, reliable service to customers over the long term. Newfoundland Power submits that:

- (i) Conservation and electrification will provide rate mitigating and other cost saving benefits for customers post Muskrat Falls;
- (ii) The Board should recommend regulatory oversight of future Muskrat Falls Project costs and revenues to ensure customers’ interests are protected, including future capital and operating costs and revenues from export sales; and
- (iii) The Board should recommend the Provincial Government undertake a comprehensive review of utility operations in the province to ensure customers receive reliable service at the lowest possible cost, as required by the provincial power policy.



## 2.0 Background

### a. Development of the Muskrat Falls Project

---

The development of a lower Churchill River hydroelectric project and transmission link with the island of Newfoundland was outlined in the Provincial Government's 2007 *Energy Plan*.<sup>1</sup> The specific Muskrat Falls Project was announced in November 2010.<sup>2</sup>

In September 2011, estimates for the Muskrat Falls Project indicated construction costs of approximately \$5 billion.<sup>3</sup> In December 2012, the Provincial Government sanctioned the Muskrat Falls Project at a total estimated cost of \$7.4 billion.<sup>4</sup> By a series of updates commencing in June 2014, Nalcor Energy ("Nalcor") revised the total estimated cost of the Muskrat Falls Project.<sup>5</sup> By June 2017, the estimated cost had increased to \$12.7 billion. This is \$5.3 billion more than the originally sanctioned cost.<sup>6</sup> In June 2017, it was also announced that Nalcor's forecast annual operating costs of the Muskrat Falls Project had tripled from \$34 million to \$109 million.<sup>7</sup>

The costs of the Muskrat Falls Project have never been adjudged to be reasonable or consistent with the least-cost delivery of reliable service within the meaning of the provincial power policy.<sup>8</sup>

---

<sup>1</sup> See the Provincial Government's 2007 *Energy Plan*, Section 4: Electricity, page 32 *et seq.*

<sup>2</sup> See the November 18, 2010 Provincial Government press release *Lower Churchill Project to Become a Reality; Province Signs Partnership Agreement with Emera Inc. for Development of Muskrat Falls.*

<sup>3</sup> See Navigant's *Independent Supply Decision Review*, September 14, 2011, Table 6: Summary of Muskrat Falls and Labrador-Island Link Capital Cost Estimate, page 41. The table shows: (i) total capital costs associated with the Muskrat Falls generating facility to be \$2.9 billion; and (ii) total capital costs associated with the Labrador-Island Link to be \$2.1 billion. The total capital cost is \$5 billion (\$2.9 billion + \$2.1 billion). This does not include financing costs or any costs associated with the Maritime Link.

<sup>4</sup> For the sanction of the Muskrat Falls Project, see the December 17, 2012 Provincial 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's *Muskrat Falls Project Update, June 23, 2017* presentation, slide 10.

<sup>5</sup> On June 24, 2014, Nalcor updated its capital cost estimate to \$7.0 billion, an increase of \$0.8 billion from the sanction capital cost estimate of \$6.2 billion. On September 29, 2015, Nalcor further revised its capital cost estimate to \$7.65 billion. On June 24, 2016, Nalcor provided a total Muskrat Falls Project cost update. The total cost of the project increased to \$11.4 billion.

<sup>6</sup> See Nalcor's *Muskrat Falls Project Update, June 23, 2017* presentation, slide 10.

<sup>7</sup> See Nalcor's *Muskrat Falls Project Update, June 23, 2017* presentation, slide 14.

<sup>8</sup> Orders in Council effectively exempt the Muskrat Falls Project from the Board's oversight under the *Electrical Power Control Act, 1994* and the *Public Utilities Act*. See the *Muskrat Falls Project Exemption Order under the Electrical Power Control Act, 1994 and the Public Utilities Act (OC2013-342)*, filed November 29, 2013.

1 Nonetheless, Orders in Council effectively require the recovery of *all* Muskrat Falls Project costs  
2 from customers on the Island Interconnected System, 92% of whom are served by  
3 Newfoundland Power.<sup>9</sup>

4

## 5 **b. Customer Rate Mitigation**

---

6 In August 2011, the cost of electricity upon completion of the Muskrat Falls Project was  
7 estimated to be approximately 14.3¢/kWh.<sup>10</sup> At the time of sanctioning the Muskrat Falls Project  
8 in December 2012, Nalcor projected average customer rates in 2021 of approximately  
9 15.1¢/kWh.<sup>11</sup>

10

11 From 2014 to 2017, increases in Muskrat Falls Project costs resulted in a dramatic increase in the  
12 estimated customer rate impacts associated with the project. By June 2017, Nalcor estimated  
13 the average customer rate following commissioning of the Muskrat Falls Project would be  
14 approximately 22.9¢/kWh, effectively double what customers were paying at that time.<sup>12</sup>

15

16 This increased estimate led to a greater focus on assessing what might be done to mitigate  
17 customer rate impacts associated with the project. Current estimates show that, in the absence  
18 of mitigation, customer rates will increase to 21.0¢/kWh in 2021.<sup>13</sup> The Provincial Government  
19 indicated that it intends to limit the increase in customer rates to 13.5¢/kWh in 2021.<sup>14</sup>

---

<sup>9</sup> 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.

<sup>10</sup> See the *Report of the Joint Review Panel: Lower Churchill Hydroelectric Generation Project Nalcor Energy Newfoundland and Labrador*, August 2011, page 19.

<sup>11</sup> See Nalcor's *Muskrat Falls Project Update, June 23, 2017* presentation, slide 19.

<sup>12</sup> See Nalcor's *Muskrat Falls Project Update, June 23, 2017* presentation, slide 19, and Hearing Transcript, Byron Chubbs, October 15, 2019, page 6, lines 19-23.

<sup>13</sup> See, for example, response to Information Request PUB-Nalcor-031 filed as part of the Reference.

<sup>14</sup> See Provincial Government, *Protecting You from the Cost Impacts of Muskrat Falls*, April 2019, page 8.

### 1 c. The Reference

---

2 On September 5, 2018, the Provincial Government directed the Board to examine options to  
3 mitigate the impact of the Muskrat Falls Project on customer rates.<sup>15</sup> The Reference Questions  
4 were threefold:

- 5 (i) Options to reduce the impact of Muskrat Falls Project costs on electricity rates up to  
6 the year 2030, or such shorter period as the Board sees fit, including cost savings and  
7 revenue opportunities with respect to electricity;
- 8 (ii) The amount of energy and capacity from the Muskrat Falls Project required to meet  
9 Island Interconnected load and the remaining surplus energy and capacity available  
10 for other uses, such as export and load growth; and
- 11 (iii) The potential electricity rate impacts of the options identified in Reference Question  
12 one, based on the most recent Muskrat Falls Project cost estimates.<sup>16</sup>

13  
14 On January 2, 2019, the Board released two preliminary reports from its consultants, The Liberty  
15 Consulting Group (“Liberty”) and Synapse Energy Economics (“Synapse”), as part of the  
16 Reference. Newfoundland Power observed both reports were reasonably comprehensive in  
17 identifying potential options to reduce future costs to customers.<sup>17</sup>

18  
19 On September 3, 2019, the Board released final reports from its consultants. Both reports were  
20 reviewed and discussed as part of a public hearing in October 2019 (the “Public Hearing”).

21  
22 This report constitutes Newfoundland Power’s final written submission as part of the Reference.

---

<sup>15</sup> References to the Board are completed pursuant to Section 5 of the *Electrical Power Control Act, 1994*. See the September 5, 2018 Provincial Government press release *Premier Ball Brings PUB Back into Muskrat Falls*.

<sup>16</sup> See correspondence from Minister Siobhan Coady to the Board, dated September 5, 2018.

<sup>17</sup> See Newfoundland Power’s *Submission on Phase One of Muskrat Falls Project Rate Mitigation*, January 18, 2019, page 1, lines 13-15.



## 3.0 Rate Mitigation Options Generally

### a. General

---

Newfoundland Power's customers expect reliable service at affordable rates. The provincial power policy mirrors these expectations.<sup>18</sup> In the Company's view, the Muskrat Falls Project presents a threat to these expectations.<sup>19</sup>

The Muskrat Falls Project is a long-life asset that will supply electricity to customers for 75 to over 100 years. The assessment of options to mitigate customer rate impacts associated with the project should be done over multiple time horizons.<sup>20</sup>

The short-term objective is to avoid customer rate shock upon commissioning of the Muskrat Falls Project. This has been the focus of the Reference, including the Board's consultant reports.<sup>21</sup>

Longer-term objectives relate to how the provincial electricity sector can effectively meet customers' service expectations into the future. This would include: (i) how domestic electricity usage can be optimized to provide maximum value for customers; (ii) how to implement oversight to ensure customers' interests are protected over the life of the Muskrat Falls Project; and (iii) how the provincial electricity sector can be organized to provide reliable and affordable service to customers over the long term.<sup>22</sup>

This section outlines Newfoundland Power's views on rate mitigation options generally, including the Board's final consultant reports.

Section 4.0 outlines Newfoundland Power's submissions relating to the long-term provision of reliable service to customers at least cost.

---

<sup>18</sup> See Section 3(b)(iii) of the *Electrical Power Control Act, 1994*.

<sup>19</sup> See Hearing Transcript, Peter Alteen, October 15, 2019, page 4, lines 18-20.

<sup>20</sup> See Hearing Transcript, Peter Alteen, October 15, 2019, page 4, line 24 to page 5, line 3.

<sup>21</sup> See Hearing Transcript, Peter Alteen, October 15, 2019, page 5, lines 5-10.

<sup>22</sup> See Hearing Transcript, Peter Alteen, October 15, 2019, page 5, lines 15-25.

## 1 **b. Newfoundland Power's 2018 Observations**

---

2 Rate mitigation has been a significant concern for Newfoundland Power's customers since  
3 Nalcor announced a potential doubling of customer rates in June 2017. As stated by  
4 Mr. Byron Chubbs, Newfoundland Power's Vice President of Energy Supply and Planning:

5  
6 *"[E]lectricity customers have been hearing about [a] potential doubling of rates now for*  
7 *over two years. This is important because we know our customers are concerned and*  
8 *they've been concerned for a while, and they've been telling us their concern through*  
9 *customer interactions and our customer surveys."*<sup>23</sup>

10  
11 In 2018, the Board and Consumer Advocate asked Newfoundland Power what options the  
12 Company believed were available to mitigate forecast customer rate increases.<sup>24</sup> Newfoundland  
13 Power provided a list of 4 options. These options were conceptual in nature and included:

- 14 (i) Delay, defer or limit Muskrat Falls Project cost recovery;  
15 (ii) Credit Nalcor electricity export revenue against customer rates;  
16 (iii) Develop new electricity markets within the province; and  
17 (iv) Credit Nalcor oil revenues against customer rates.

18  
19 In Newfoundland Power's view, all of these options still hold true today as having meaningful  
20 potential to mitigate forecast electricity rate increases for customers.<sup>25</sup>

21  
22 With the exception of Nalcor oil revenues, the Board's consultants have examined and quantified  
23 the rate mitigation potential for each of these options.<sup>26</sup>

---

<sup>23</sup> See Hearing Transcript, Byron Chubbs, October 15, 2019, page 6, line 25 to page 7, line 7.

<sup>24</sup> See responses to Requests for Information PUB-NP-012 and CA-NP-071 filed as part of Newfoundland Power's 2019/2020 General Rate Application.

<sup>25</sup> See Hearing Transcript, Byron Chubbs, October 15, 2019, page 8, lines 11-13.

<sup>26</sup> In correspondence dated September 26, 2019, the Board indicated to Nalcor that *"potential revenue from Nalcor's oil development business is not within the scope of this Reference and therefore this issue will not be addressed in the hearing or considered by the Board in its review and report to the Government on the Reference Questions."*

## 1 c. The Board's Consultant Reports

---

### 2 *The Liberty Report*

3 The Board engaged Liberty to assist in responding to Reference Questions one and three on  
4 potential rate mitigation options and associated customer rate impacts. The results of Liberty's  
5 work can largely be grouped into two categories: (i) financial mitigation opportunities; and  
6 (ii) efficiency opportunities within the provincial electricity sector.

7  
8 Liberty's work showed that financial mitigation opportunities present by far the greatest  
9 opportunities for customer rate mitigation.<sup>27</sup> According to Liberty, *"Two dominant sources*  
10 *account for somewhat more than ¾ of the amounts identified as available for rate mitigation:*  
11 *LCP dividends and Off-system sales of Muskrat Fall Excess."*<sup>28</sup> Smaller sources of financial  
12 mitigation opportunities identified by Liberty include Newfoundland and Labrador Hydro's  
13 ("Hydro") equity return,<sup>29</sup> water power rental rates from Muskrat Falls and Churchill Falls,<sup>30</sup> and  
14 Churchill Falls preferred dividends.<sup>31</sup>

---

<sup>27</sup> See Liberty's *Final Report on Phase Two of Muskrat Falls Project Potential Rate Mitigation Opportunities* ("Liberty's Phase Two Report"), September 3, 2019, page 2.

<sup>28</sup> See Liberty's Public Hearing presentation, slide 7.

<sup>29</sup> Liberty considered two options in relation to Hydro's equity return: (i) maintain Hydro's existing targets and apply expected dividends to rate mitigation; or (ii) reduce Hydro's targets, which will also reduce costs to customers. For example, Liberty indicated that *"changing the equity share in the capital structure from 25 percent to 20 percent would increase Hydro's dividends by about \$111 million between 2021 and 2025, but reduce them in each year thereafter. The 20 percent equity target produces \$22 million less in cumulative dividends through 2039"* (see Liberty's Phase Two Report, page 24). Hydro's Chief Financial Officer, Ms. Lisa Hutchens, indicated during the Public Hearing *"the shift to the 20 percent in a short-term perspective, I think, absolutely needs to be considered"* (see Hearing Transcript, Lisa Hutchens, October 11, 2019, page 170, lines 2-5).

<sup>30</sup> Liberty indicates that combined water rental payments for Muskrat Falls and Churchill Falls total approximately \$20 million (see Liberty's Phase Two Report, page 4). During the Public Hearing, Newfoundland Power indicated it also pays water rentals of approximately \$1 million per year (see Hearing Transcript, Byron Chubbs, October 15, 2019, page 100, lines 19-20).

<sup>31</sup> Liberty's assessment of financial mitigation opportunities does not include potential savings achievable through changes to depreciation methodologies or service lives. Liberty's Phase Two Report indicated that existing financing arrangements *"pose fundamental obstacles"* for changing depreciation methodologies and service lives (see page 27). However, during the Public Hearing, Liberty stated *"But if those agreements are opened up, I would expect everything to be on the table, including depreciation"* (see Hearing Transcript, Randall Vickroy, October 4, 2019, page 9, lines 14-16).

1 The total value of all financial mitigation opportunities, according to Liberty, begins at about  
2 \$165 million in 2021 and grows to over \$500 million by 2030.<sup>32</sup>

3  
4 Efficiency opportunities examined by Liberty include Muskrat Falls Project operating and  
5 maintenance cost estimates, integrating Hydro with Nalcor's Power Supply division, and  
6 transferring certain operations from Hydro to Newfoundland Power.

7  
8 Liberty concluded that reducing Muskrat Falls Project operating and maintenance cost estimates  
9 and integrating Nalcor utilities could yield cost savings for customers of approximately  
10 \$30 million annually.<sup>33</sup>

11  
12 In Newfoundland Power's view, the options identified by Liberty represent reasonable  
13 opportunities to mitigate customer rate increases associated with the Muskrat Falls Project.<sup>34</sup>

14  
15 In addition, Liberty found the potential savings that would arise from a transfer of operating  
16 responsibilities from Hydro to Newfoundland Power modest and subject to significant execution  
17 risks and limitations.<sup>35</sup> This conclusion also appears reasonable to Newfoundland Power. As  
18 stated by Mr. Chubbs:

19  
20 *"Hydro's 230 KV transmission operations were ultimately excluded from this review,*  
21 *meaning that only parts of the poles and wires assets were considered, and Liberty*  
22 *concluded that any potential savings from a transfer of other functions were more than*  
23 *offset by differences in cost of capital. It makes sense that an exercise that starts with two*  
24 *poles and wires operators on the Island of Newfoundland, and ends with two poles and*  
25 *wires operators on the Island of Newfoundland, would not produce material benefits to*

---

<sup>32</sup> See Liberty's Phase Two Report, page 3. These amounts do not include Provincial Government revenue from Harmonized Sales Tax (see Liberty's Phase Two Report, page 5).

<sup>33</sup> Regarding Muskrat Falls Project operating and maintenance costs, Liberty concluded that *"a reduction of \$12 million from the current \$97.4 million estimate is realistic"* (see Liberty's Phase Two Report, page 7). Regarding the proposed integration of Nalcor Utilities, Liberty indicated a unified organization could achieve reductions of 113 full-time equivalent positions and generate savings of \$21 million beginning in 2023 (see Liberty's Phase Two Report, page 6).

<sup>34</sup> See Hearing Transcript, Byron Chubbs, October 15, 2019, page 9, lines 11-12, and page 10, lines 1-2.

<sup>35</sup> See Liberty's Phase Two Report, page 7.

1 customers. So Liberty's conclusions here also appear reasonable to Newfoundland Power,  
2 certainly for the 2030 timeframe of the Reference."<sup>36</sup>

### 4 *The Synapse Report*

5 The Board engaged Synapse to assist in responding to Reference Question two on the amount of  
6 energy and capacity required to meet domestic load and the amounts available for export.

7 Synapse largely focused on the areas of electrification, conservation and demand management.

8  
9 Synapse's work showed that, of these areas, electrification presents the highest value rate  
10 mitigation opportunity.<sup>37</sup> In explaining its findings, Synapse stated "*essentially you can obtain*  
11 *increased revenues if you sell more energy, more electricity, internal[ly] than selling on the export*  
12 *market primarily because export market prices are relatively low.*"<sup>38</sup>

13  
14 Synapse's work also showed that conservation and demand management: (i) provide a cost-  
15 effective means to help reduce customer bills; (ii) allow increases in export sales; and  
16 (iii) mitigate peak-load-increasing effects of electrification.<sup>39</sup>

17  
18 Synapse's findings are generally consistent with Newfoundland Power's own research.<sup>40</sup> As  
19 stated by Ms. Krista Langthorne, Newfoundland Power's Manager of Energy Conservation:

20  
21 *"Synapse observed electrification has the largest rate mitigation potential. Synapse*  
22 *observed that conservation has the largest bill reduction potential and will continue to*  
23 *lower system costs. Synapse also observed more research is required to evaluate the*

---

<sup>36</sup> See Hearing Transcript, Byron Chubbs, October 15, 2019, page 10, lines 5-20.

<sup>37</sup> See Synapse's Phase 2 Report on Muskrat Falls Project Rate Mitigation ("Synapse's Phase Two Report"), September 3, 2019, page 128.

<sup>38</sup> See Hearing Transcript, Robert Fagan, October 7, 2019, page 11, lines 10-15.

<sup>39</sup> See Synapse's Phase Two Report, pages 128-129.

<sup>40</sup> In correspondence to the Board dated September 20, 2019, Newfoundland Power noted: "*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*" (see page 4).

1 potential of time of use rates. All of these observations align with Newfoundland Power's  
2 research."<sup>41</sup>

## 4 4.0 Submissions on Long-Term Service Delivery

### 5 a. Conservation and Electrification

---

#### 6 Context

7 Conservation is an important issue to Newfoundland Power's customers. It will continue to be  
8 important to customers post Muskrat Falls.<sup>42</sup>

9  
10 Delivering customer conservation programs is a key aspect of how Newfoundland Power meets  
11 its customers' service expectations. As stated by Ms. Langthorne:

12  
13 *"The primary reason that customers conserve is reduced electricity costs. Conservation*  
14 *provides tangible benefits in two ways. First, it lowers individual customer bills. Second, it*  
15 *reduces overall system costs which benefit all users of the electrical system. Over the past*  
16 *decade, Newfoundland Power has consistently met or exceeded all of its targets set out in*  
17 *its conservation plans every year. This has allowed customers to save almost 60 million*  
18 *dollars on their electricity bills, and has also saved 74 million dollars in avoided fuel cost at*  
19 *the Holyrood generating station."*<sup>43</sup>

20  
21 Electrification will provide rate-mitigating benefits to customers post Muskrat Falls. This will  
22 occur when customer price exceeds the market price of export sales.

---

<sup>41</sup> See Hearing Transcript, Krista Langthorne, October 15, 2019, page 19, line 18 to page 20, line 1.

<sup>42</sup> During the Public Hearing as part of the Reference, Newfoundland Power stated: "In June, 2017, Nalcor Energy announced that customer rates would need to double to recover the rising cost of Muskrat Falls. Our customers first reaction to this was to conserve. In 2018, the number of residential heat pump installations increased by 57 percent in one year. That's triple the rate of installation from the period 2014 through 2017. The growing number of heat pump installations reflects the broader sentiment of Newfoundland Power's customers towards the rising electricity costs." See Hearing Transcript, Krista Langthorne, October 15, 2019, page 16, lines 8 to 20.

<sup>43</sup> See Hearing Transcript, Krista Langthorne, October 15, 2019, page 15, line 13 to page 16, line 1.



1 The rate-mitigating benefit of electrification can be observed in a simple illustration involving  
2 electric vehicles. Based upon a retail rate of 13.5¢/kWh, a net export sales value of 2.9¢/kWh,  
3 and an annual consumption of 5,000 kilowatt hours, each electric vehicle in the province can  
4 provide a rate mitigating benefit of \$530 annually.<sup>44</sup>

5  
6 Newfoundland Power and Hydro have commenced the development of conservation and  
7 electrification programming to reflect the provincial electrical system upon commissioning of the  
8 Muskrat Falls Project.

9  
10 Planning began with a comprehensive assessment of conservation and electrification market  
11 potential by Dunsky Energy Consulting. Market potential is an estimate of long-term energy and  
12 demand impacts associated with a specific technology. This information provides the basis for  
13 comprehensive program assessment and development.<sup>45</sup> Synapse had input into the study  
14 completed by Dunsky Energy Consulting and recommended this study be used for future  
15 program design.<sup>46</sup>

16  
17 Future programs will be designed to maximize the benefits of conservation and electrification for  
18 customers. New initiatives associated with electrification will take time to realize, but the  
19 Muskrat Falls Project is a long-term investment, so initiatives that take time to realize will still  
20 benefit customers.<sup>47</sup>

21  
22 Electrification and conservation can seem like opposite messages from a customer perspective.  
23 For this reason, Newfoundland Power expects customer education will be a prominent feature of  
24 future programs.<sup>48</sup>

---

<sup>44</sup> See Hearing Transcript, Krista Langthorne, October 15, 2019, page 19, lines 3-14.

<sup>45</sup> See Hearing Transcript, Krista Langthorne, October 15, 2019, page 17, line 7 to page 18, line 11.

<sup>46</sup> In its Phase Two Report, Synapse stated: *“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”* (see page 126).

<sup>47</sup> See Hearing Transcript, Krista Langthorne, October 15, 2019, page 20, lines 5-9.

<sup>48</sup> See Hearing Transcript, Krista Langthorne, October 15, 2019, page 20, lines 12-18.

1 As with all previous plans, the new multi-year plan for customer programming post Muskrat Falls  
2 will be filed for review by the Board.

3

#### 4 *Submission*

5 **Newfoundland Power submits that conservation and electrification will provide rate**  
6 **mitigating and other cost saving benefits for customers post Muskrat Falls.**

7

### 8 **b. Regulatory Oversight**

---

#### 9 *Context*

10 Regulatory oversight ensures that, in the absence of consumer choice, customers' interests are  
11 protected. As stated by Mr. John Antonuk, President of Liberty:

12

13 *"Utility regulation doesn't fundamentally exist because there's a conflict of interest. It*  
14 *exists because there's no competition, and regulation provides an alternative to assure*  
15 *that there is oversight of capital costs, operating costs, and reliability that a market would*  
16 *provide if it existed, but in the absence of that market, we have regulation."*<sup>49</sup>

17

18 Regulatory oversight of electric utilities is not uniformly applied in Newfoundland and Labrador.  
19 Newfoundland Power is fully regulated by the Board. The majority of Hydro's costs of providing  
20 service are also regulated.<sup>50</sup> Nalcor, however, is exempt from Board oversight<sup>51</sup> and the Board  
21 has no authority to review Muskrat Falls Project costs to ensure their reasonableness.<sup>52</sup>

---

<sup>49</sup> See Hearing Transcript, John Antonuk, October 3, 2019, page 163, lines 16-24.

<sup>50</sup> Certain costs, such as Hydro's return on equity, are established by Provincial Government policy and are not subject to Board oversight.

<sup>51</sup> Section 17(2) of the *Energy Corporation Act* effectively establishes that Nalcor is not a utility as defined by the *Public Utilities Act* and that Act does not apply to the corporation.

<sup>52</sup> See the *Muskrat Falls Project Exemption Order under the Electrical Power Control Act, 1994 and the Public Utilities Act (OC2013-342)*, filed November 29, 2013.

1 Liberty views the current regulatory framework in the province as anomalous.<sup>53</sup> Newfoundland  
2 Power shares this view. As observed by Mr. Peter Alteen, President and Chief Executive Officer of  
3 Newfoundland Power:

4

5 *“The current setup, that existing combination of legislation, cabinet orders, and contracts*  
6 *that support the Muskrat Falls Project, essentially placed Nalcor Energy in the position of*  
7 *determining what the customers on the island integrated grid will pay in relation to the*  
8 *project.... Leaving Nalcor Energy in the position of being able to unilaterally determine*  
9 *what customers will have to pay is not in Newfoundland Power’s view good public policy.*  
10 *It is not in Newfoundland Power’s view in the interest of our customers. Some type of*  
11 *oversight makes sense.”*<sup>54</sup>

12

13 Liberty has recommended extending Board oversight to future Muskrat Falls Project costs and  
14 revenues.<sup>55</sup> Newfoundland Power is supportive of this recommendation.

15

16 Newfoundland Power observes there are choices in the degree and form of oversight that may  
17 be appropriate.<sup>56</sup> Ultimately, the appropriate degree and form of oversight will depend on a  
18 number of factors, including public policy regarding final decision making authority<sup>57</sup> and how  
19 Muskrat Falls Project costs are eventually collected from customers.<sup>58</sup>

---

<sup>53</sup> See Liberty’s Phase Two Report, page 38.

<sup>54</sup> See Hearing Transcript, Peter Alteen, October 15, 2019, page 20, line 21 to page 21, line 24.

<sup>55</sup> In its Phase Two Report, Liberty stated: *“Empowering the Board to exercise with respect to LCP the same authority it has to review other ongoing utility capital and operating costs and operating and maintenance methods, practices, decisions, and actions will provide a more unified basis for ensuring optimization of costs and reliability”* (see page 10).

<sup>56</sup> See Hearing Transcript, Peter Alteen, October 15, 2019, page 22, lines 8-9.

<sup>57</sup> One example is the degree of Board oversight over Hydro rates prior to it becoming regulated in the 1990s. During the Public Hearing, Newfoundland Power noted: *“At that time, if Hydro wished to increase rates, the Government typically... would refer the matter to the Board. A hearing, typically a process that looked like a typical rate case, followed and the Board issued a report to the Government. And then it was Cabinet that determined what the final rates would be. So, there could be a role of oversight from a regulator which is not necessarily inclusive of the final decision making authority”* (see Hearing Transcript, Peter Alteen, October 15, 2019, page 23, lines 4-17).

<sup>58</sup> For example, during the Public Hearing, Mr. Stan Marshall, President and Chief Executive Officer of Nalcor, referenced the option of a fixed rate for the Muskrat Falls Project (see Hearing Transcript, Stan Marshall, October 8, 2019, page 10, lines 5-11). Newfoundland Power noted that such a construct *“would affect in turn how much oversight you want to place on the remaining O&M”* (see Hearing Transcript, Peter Alteen, October 15, 2019, page 86, lines 7-8).

1 In Newfoundland Power’s view, some form of regulatory oversight of future Muskrat Falls  
2 Project costs and revenues will be necessary to ensure customers’ interests are protected over  
3 the long term.

#### 4 *Submission*

5 **Newfoundland Power submits the Board should recommend regulatory oversight of future**  
6 **Muskrat Falls Project costs and revenues to ensure customers’ interests are protected,**  
7 **including future capital and operating costs and revenues from export sales.**  
8

### 9 **c. Future of the Electricity Sector**

---

#### 10 *Context*

11 Development of the Muskrat Falls Project has fundamentally changed the level of Provincial  
12 Government investment in the electrical system.

13  
14  
15 At the time of sanctioning the Muskrat Falls Project in 2012, the Provincial Government’s total  
16 investment in the electrical system recovered in customer rates was approximately \$1.5 billion.<sup>59</sup>  
17 With the addition of the \$12.7 billion Muskrat Falls Project, the Provincial Government’s total  
18 investment recovered in customer rates will grow to about \$15 billion.<sup>60</sup> This represents a  
19 tenfold increase in less than a decade.<sup>61</sup>

20  
21 Crown utility operations in the province have been structured, in significant part, to facilitate  
22 development and operation of the Muskrat Falls Project.<sup>62</sup> Work completed during the

---

<sup>59</sup> Reflects Hydro’s average rate base in 2012. See response to Request for Information NP-NLH-024 filed as part of Hydro’s 2020 Capital Budget Application.

<sup>60</sup> Reflects Hydro’s 2019 forecast average rate base of approximately \$2.3 billion (\$2.3 billion + \$12.7 billion = \$15 billion). See response to Request for Information NP-NLH-024 filed as part of Hydro’s 2020 Capital Budget Application.

<sup>61</sup> These amounts do not include the Provincial Government’s investments in other unregulated electrical system assets, such as the Churchill Falls and Exploits hydroelectric facilities.

<sup>62</sup> During the Public Hearing, Mr. Marshall stated: “So our current structure and the one that I will maintain until I leave, with some adjustments, was established in 2016 with two focuses. One was to ensure that Muskrat Falls got done. That was part of what I was brought here to do.” See Hearing Transcript, Stan Marshall, October 8, page 13, lines 8-13.

1 Reference showed the current structure of utility operations results in duplication that may not  
2 be consistent with least-cost service delivery to customers.<sup>63</sup> As observed by Mr. Chubbs:

3  
4 *“Once Muskrat Falls is complete, customers on the island will be paying for three separate*  
5 *utilities to operate the grid; a regulated Nalcor utility, Newfoundland and Labrador Hydro,*  
6 *an unregulated Nalcor utility in Power Supply, and Newfoundland Power, a regulated*  
7 *utility. Multiple utilities each with similar roles to perform without a doubt results in*  
8 *duplications and inefficiencies in how we collectively operate, and this tells me that*  
9 *potential customer benefits might exist by restructuring the sector to reduce duplication,*  
10 *eliminate inefficiencies, and keep cost[s]... as low as possible.”<sup>64</sup>*

11  
12 Newfoundland Power recognizes the need to maintain focus on completion of the Muskrat Falls  
13 Project before implementing organizational changes to achieve efficiencies.<sup>65</sup> This appears  
14 reasonable, particularly given the uncertainties that currently exist regarding rate mitigation<sup>66</sup>  
15 and the resources required to ensure adequate service reliability for customers in the future.<sup>67</sup>

16  
17 However, the Provincial Government’s investment in the electrical system has increased  
18 materially in recent years. This investment has resulted in duplicative utility operations to be  
19 paid for by customers. Such duplication may not, ultimately, be consistent with the least-cost  
20 delivery of reliable service to customers, as required by the provincial power policy.

---

<sup>63</sup> For example, Liberty indicated that integrating Hydro and Nalcor’s Power Supply division could yield cost savings for customers of approximately \$20 million annually (see Liberty’s Phase Two Report, page 6). During the Public Hearing, Mr. Antonuk of Liberty stated: *“Honestly, I think from what we were seeing spans of control tended to be too small and not too large, which was one of the indications that there was duplication.”* See Hearing Transcript, John Antonuk, October 3, 2019, page 141, lines 12-15.

<sup>64</sup> See Hearing Transcript, Byron Chubbs, October 15, 2019, page 11, lines 7-21.

<sup>65</sup> This was also recognized by Mr. Marshall of Nalcor during the Public Hearing. See Hearing Transcript, Stan Marshall, October 8, 2019, page 32, line 22 to page 33, line 9.

<sup>66</sup> Liberty indicated the technical and accounting aspects of rate mitigation would require further study by Nalcor and the Provincial Government. See Liberty’s Phase Two Report, page 26.

<sup>67</sup> For example, the future of the Holyrood Thermal Generating Station is being considered as part of the Board’s Reliability and Resource Adequacy proceeding. During the Public Hearing, Nalcor indicated it plans to generate savings of approximately \$20 million through reductions in staffing. Nalcor also indicated *“This plan couldn’t be achieved in this manner without the repurposing of the Holyrood plant.”* Nalcor indicated they do not have an alternative plan should the closure of Holyrood be deferred. See Hearing Transcript, Michael Roberts, October 11, 2019, page 17, line 10, to page 18, line 12.

1 In Newfoundland Power's view, once customer rate shock is mitigated and the Muskrat Falls  
2 Project is operating reliably, the Provincial Government should undertake a comprehensive  
3 review of utility operations to ensure compliance with the provincial power policy. This will help  
4 ensure customers receive reliable service at affordable rates over the long term.<sup>68</sup>

5

6 *Submission*

7 **Newfoundland Power submits the Board should recommend the Provincial Government**  
8 **undertake a comprehensive review of utility operations in the province to ensure customers**  
9 **receive reliable service at the lowest possible cost, as required by the provincial power policy.**

---

<sup>68</sup> See Hearing Transcript, Byron Chubbs, October 15, 2019, page 11, line 21 to page 12, line 15.