Q. Would the approach which is taken by the provincial government with respect to mitigating rates following the commissioning of the Muskrat Falls project have the potential to impact the timing or amount of the estimated electrification rate mitigation benefits which are passed on to customers?

A. *This Request for Information relates to the Electrification, Conservation and Demand Management Plan: 2021-2025 (the "2021 Plan") developed in partnership by Newfoundland Power and Newfoundland and Labrador Hydro ("Hydro" or, collectively, the "Utilities"). Accordingly, the response reflects collaboration between the Utilities.*

Projected incremental revenues used in the Net Present Value ("NPV") analysis are based on the customer rates approved by the Board in Order No. P.U. 31 (2019) and annual inflationary increases in electricity rates of 2.25%.[1] For example, the customer electricity rates assumed in the NPV analysis would result in an "all-in" residential rate of approximately 13.5 ¢/kWh in 2021.[2] The assumption for forecast electricity rates used in the NPV analysis reflects the Provincial Government's rate mitigation framework announced in 2019.[3]

On July 28, 2021, the Provincial Government and the Federal Government announced an agreement-in-principle that will mitigate rate impacts associated with the Muskrat Falls Project. The mitigated customer rate target was updated to 14.7 ¢/kWh, or approximately 9% higher than previously indicated target of 13.5 ¢/kWh.[4]

If actual electricity rates were higher than the level assumed in the NPV analysis, incremental revenues, and thus, customer rate mitigation benefits would be higher. For example, if the NPV analysis assumed customer electricity rates increased by 9% in 2022, it would result in additional net revenues of approximately $35 million to $40 million over the 2021 to 2034 period, or approximately $20 million on an NPV basis. The higher net revenues would increase the estimated customer rate mitigation benefit to approximately 0.65 ¢/kWh by 2034, or about 0.15 ¢/kWh higher than the current estimate of 0.5 ¢/kWh by 2034.[5]

---

1 See the *2021 Electrification, Conservation and Demand Management Application,* Volume 1, Exhibit 2, Appendix A, Column C. The NPV analysis assesses the rate mitigation benefit of the Company's electrification initiatives.

2 In addition to the monthly energy charge, an "all-in" residential rate also considers the monthly basic customer charge, expressed in ¢/kWh.

3 See page 8 of the Provincial Government's April 2019 release *Protecting You From the Cost Impacts of Muskrat Falls.*

4 $14.7 \div 13.5 - 1 = 0.089$.

5 For an illustration of the impact, see response to Request for Information PUB-NP-065 which shows the estimated effect a 10% change in customer electricity rates would have on the results of the NPV analysis for each year 2021 to 2034.