

1 Q. Hydro proposes the recovery of an amount of the Muskrat Falls costs which will maintain rates
2 rather than seeking recovery of a lower or higher level of cost recovery.

3 a) What regulatory principles does Hydro rely on in making this proposal?

4 b) Will the decision to limit recovery now lead to higher recovery later and how is this
5 consistent with the principle of intergenerational equity?

6

7

8 A. a) In Newfoundland and Labrador Hydro's ("Hydro") view, the proposal to implement a Project
9 Cost Recovery rider at this time is consistent with the regulatory principles of rate stability,
10 intergenerational equity, and regulatory efficiency.

11 **Rate Stability**

12 Hydro's proposal to implement a Project Cost Recovery rider on July 1 will result in customer
13 rates remaining stable while giving Hydro the opportunity to begin to recover supply costs
14 associated with the Muskrat Falls Project. In the absence of the Project Cost Recovery Rider,
15 customers would receive a 6.4% rate decrease July 1. This rate decrease would likely be
16 followed by a rate increase later this same year following an application by Hydro to begin
17 recovery of the costs being incurred by Hydro under the terms of the Muskrat Falls Power
18 Purchase Agreement ("Muskrat Falls PPA").¹ Hydro notes that an average 6.8% increase in
19 retail rates would be required to fully offset a 6.4% average decrease if implemented July 1,
20 2022. A rate decrease followed by a substantive rate increase just a few months later would
21 not provide rate stability or predictability for customers.

22 The proposed Project Cost Recovery Rider allows Hydro the opportunity to begin recovering
23 Muskrat Falls PPA costs without imposing a material increase in customer rates and
24 potentially provides for lower rate increases into the future. Allowing customer rates to

¹ Hydro is not referring to its general rate application here, but an interim rate application made pursuant to the ability under the amended Order-in-Council 2013-343 to allow recovery of Muskrat Falls PPA costs.

1 decrease just prior to Hydro proposing recovery of Muskrat Falls PPA costs would forfeit this
2 opportunity.

3 **Intergenerational Equity**

4 Customers on the Island Interconnected System are receiving power from the Muskrat Falls
5 Project. It is the delivery of these power purchases from Muskrat Falls that has lowered the
6 amount of No. 6 fuel oil consumed at the Holyrood Thermal Generating Station, materially
7 contributing to the potential rate decrease available through a lower RSP² Current Plan
8 balance. To grant current customers a rate decrease for fuel savings without recognizing the
9 cost required to achieve those savings will result in current customers realizing the benefits
10 and future customers bearing the costs. Such a circumstance would not be consistent with
11 the principle of intergenerational equity.

12 Hydro's proposal seeks to balance the fuel savings benefit with the cost required to achieve
13 these savings, thereby promoting intergenerational equity amongst customers.

14 **Regulatory Efficiency**

15 Implementing the proposed Project Cost Recovery Rider at the same time as the RSP
16 update, through a single application and rate change, is consistent with the principle of
17 regulatory efficiency. Specifically, Hydro's proposal would avoid a second application and
18 customer rate change when compared to separate implementation.

19 The Supply Cost Variance Deferral Account provides for tracking of revenues collected
20 through the Project Cost Recovery Rider, which would be applied to reduce the amount of
21 future costs to be recovered from Newfoundland Power Inc. As the Supply Cost Variance
22 Deferral Account replaced the RSP with respect to the transfer of future supply cost
23 variances, implementing the Project Cost Recovery Rider at the time of updating the RSP
24 adjustments is administratively practical. There remains uncertainty on the timing of
25 Hydro's next general rate application filing, primarily due to the delayed commissioning of
26 the Labrador-Island Link which also impacts the finalization of the provincial government's

² Rate Stabilization Plan ("RSP").

1 rate mitigation plan. Therefore, including the proposed Project Recovery Rider at this time
2 will contribute to regulatory efficiency and administrative practicality.

3 b) The decision to limit recovery now may lead to higher rates in the future; however, the rate
4 increases in the future are dependent on the amount of rate mitigation made available by
5 the provincial government. Delaying an increase to customer rates at this time, as requested
6 by the provincial government, does not necessarily mean that the costs that will continue to
7 be deferred will need to be recovered through customer rates in the future.