

1 **Q. Reference: “2022/2023 General Rate Application,” Newfoundland Power, May 27,**
2 **2021, Volume 1, Exhibit 3.**

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4 **Please confirm that if a revised wholesale rate was in effect in 2022 reflecting the**
5 **cost of the Muskrat Falls Project that the forecast RSA transfer would be unlikely to**
6 **occur. If this cannot be confirmed, please explain why.**

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8 A. Newfoundland Power cannot confirm.

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10 The Rate Stabilization Account (“RSA”) transfers for 2022 and 2023 forecast have a
11 number of regulatory mechanisms that would not be affected by the commissioning of
12 the Muskrat Falls Project.¹ Further, supply cost regulatory mechanisms are expected to
13 continue to be required after the wholesale rate is revised to reflect changes in supply
14 costs post-Muskrat Falls.

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16 Notably, the Energy Supply Cost Variance identifies the change in purchased power cost
17 that is related to the difference between purchasing energy at the 2nd block energy charge
18 in the wholesale rate, which reflects marginal energy costs and the test year energy
19 supply cost, which reflects average energy costs.² It is expected that a revised wholesale
20 rate will still include a 2nd block energy charge, therefore the Energy Supply Cost
21 Variance will be required post-Muskrat Falls.

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23 However, it is expected that supply cost dynamics post-Muskrat Falls will impact the
24 amount of the energy supply cost variances. The current 2nd block rate is 18.165¢/kWh,
25 which reflects the cost of production at Newfoundland and Labrador Hydro’s (“Hydro”)
26 Holyrood generating station. Current customer rates reflect an average supply cost rate
27 of 7.439¢/kWh.

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29 Marginal energy costs are forecast to be substantially lower upon commissioning of the
30 Muskrat Falls Project. For example, the latest marginal cost estimates from Hydro
31 indicate a marginal energy rate of approximately 4.2 ¢/kWh.³

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33 RSA transfers in 2022 and 2023 will ultimately depend on the energy variances from the
34 2022 and 2023 test years and the wholesale rate in effect in those years.

¹ See response to Request for Information NLH-NP-037.

² See Newfoundland Power’s *Rate Stabilization Clause*, effective July 1, 2021. The Energy Supply Cost Variance Reserve was approved in Order No. P.U. 32 (2007). Test year energy supply costs are reflected in customer rates.

³ See, for example, the *2022/2023 General Rate Application, Volume 2, Supporting Materials, Tab 7, Electrification, Conservation and Demand Management Plan: 2021-2025*, page 3 and Schedule H.