Reference: Volume 2, Customer, Energy and Demand Forecast

Q. Volume 2, Customer, Energy and Demand Forecast, page 5. The energy sales forecast includes annual electricity price increases of 2.25% effective January 1 each year from 2022 to 2026 based on the Provincial Government's April 2019 release *Protecting You from the Cost Impacts of Muskrat Falls.* What would be the impact on Newfoundland Power's energy sales forecast and its General Rate Application proposals if there is no Government rate mitigation plan in place for 2022 and 2023?

A. Without a Government rate mitigation plan to address the costs of the Muskrat Falls Project, customer electricity rates would increase to approximately 22.9 ¢/kWh.[1] This compares to current customer rates of approximately 13.5 ¢/kWh.[2] The total increase in customer rates that would result from Muskrat Falls Project costs not being mitigated is approximately 70%.[3]

Changes in energy prices have an impact on customer usage. As a general proposition, as electricity rates increase, energy usage will decrease.[4] A 70% increase in electricity rates would be exceptional by historical standards. Increases of this size are precedent-setting and Newfoundland Power knows of no comparable example on which to base an analysis.[5] This makes estimation of elasticity impacts associated with unmitigated customer rates due to the Muskrat Falls Project particularly complex and uncertain.

On July 28, 2021, the governments of Canada and Newfoundland and Labrador announced an agreement in principle for the financial restructuring of the Muskrat Falls Project.[6] At that time, the Provincial Government's mitigated customer rate target was updated to 14.7 ¢/kWh, or approximately 9% higher than previously indicated target of 13.5 ¢/kWh.[7]

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1 See Government of Newfoundland and Labrador *Protecting You From the Cost Impacts of Muskrat Falls,* April 2019, page 2.

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

3 (22.9 - 13.5) / 13.5 = 0.696, or approximately 70%.

4 Current analysis indicates that a 1% increase in the price of electricity will result in a 0.23% decrease in energy sales. See the *2022/2023 General Rate Application, Volume 2, Supporting Materials, Tab 3, Customer, Energy and Demand Forecast,* page 5, Section 3.2.

5 For example, in Order No. P.U. 14 (2017), the Board noted concern of rate shock associated with Hydro's proposed July 1, 2017 rate increase. On page 16/17 of the Order, the Board states: *"The annual rate impacts for retail customers associated with the operation of the RSP have historically been the range of +/- 10%, however, the estimated impact in July 2017 is much larger, with an estimated rate increase for retail customers in the order of 18%-19%. The Board is very concerned about increases of this magnitude which are well outside of the normal range. The Board acknowledges that the estimated rate increase is a result of the normal operation of the RSP and that the last two annual RSP adjustments resulted in material decreases. However, the estimated rate increase for July 2017 is such a significant increase that it may be argued that it would cause rate shock, despite the earlier rate decreases."*

6 See Government of Newfoundland and Labrador news release *Securing a Strong Future for Newfoundland and Labrador,* July 28, 2021.

7 (14.7 - 13.5) / 13.5 = 0.089, or approximately 9%.

If customer rates increased to 14.7 ¢/kWh on July 1, 2022, as an example, it would be expected to decrease 2022 and 2023 energy usage. Newfoundland Power estimates it could reduce 2022 energy sales by 5-10 GWh and 2023 energy sales by 60-70 GWh.[8]

In terms of customer rate impacts, the impact of the lower energy sales would result in an estimated 0.4% to 0.5% reduction in the estimated March 1, 2022 proposed rate increase of 0.8%.[9]

8 Given the lag effect that price changes have on consumption, the elasticity impact is larger in the second year of a rate change.

9 Based on 2023 revenue requirement being reduced by an estimated $3 million to $4 million. Proposed customer rates are based on 2023 revenue requirement.