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August 18, 2023

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

Dear Ms. Blundon:

**Re: Newfoundland and Labrador Hydro Application for a Non-Firm Rate for
Labrador – Newfoundland Power's Comments**

The Application

Newfoundland and Labrador Hydro's ("Hydro") *Application for a Non-Firm Rate for Labrador* (the "Application") was filed with the Newfoundland and Labrador Board of Commissioners of Public Utilities (the "Board") on September 15, 2022. On March 1, 2023, the Board requested Hydro to provide clarification on specific issues. Hydro responded to the Board's request on March 15, 2023 and committed to filing a revised Application which was subsequently filed on March 29, 2023.

Hydro's revised Application proposes, amongst other things:

- (i) the establishment of a non-firm rate for the Labrador Interconnected System ("LIS");
- (ii) amendment to its Supply Cost Variance Deferral Account ("SCVDA") to enable revenues from the proposed non-firm rate for Labrador to be credited to the balance in the SCVDA; and,
- (iii) amendment of the Island Industrial Customers ("IIC") rate sheets to reflect that, for most of the time, the incremental cost of providing non-firm energy will reflect the market value of exports.

The Board set today's date as the deadline for comments from parties. The following provides Newfoundland Power Inc.'s ("Newfoundland Power" or the "Company") comments.

Newfoundland Power Inc.

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Establishment of a Non-Firm Rate for the LIS

Hydro's non-firm rate offering includes an energy rate and an administrative charge. The energy rate is based on the market value of exports. The energy rate also includes a minimum price based on the energy price component of Hydro's Rate 2.4L which applies to large General Service customers on the LIS. The administrative charge is equal to the basic customer charge included in Newfoundland Power's Rate #2.4 (General Service 1000 kVA and over). The proposed non-firm rate does not include a demand charge.

Newfoundland Power does not object to Hydro offering a non-firm rate on the LIS. However, in the Company's view, the energy rate should include a per kWh "adder" so that non-firm customers contribute toward recovery of costs associated with common assets being used to deliver the energy. The Company submits that the administrative charge should not be based on Newfoundland Power's customer costs. Additionally, the rate should exclude direct connection to the Muskrat Falls Terminal Station until further study is completed.

kWh Cost Adder

Customers on the non-firm rate will use the transmission system to receive energy supplied by Hydro. In typical rate design for general service customers, a portion of these costs are recovered through a per kW demand charge included in a rate offering.¹ However, as indicated by Hydro, it is not common practice for utilities to include a demand charge in non-firm service-related rate offerings.²

While demand charges are not generally included in non-firm rate offerings to recover costs associated with use of common assets, utilities across Canada include a per kWh charge in their non-firm rate offerings for similar purposes. For example, both BC Hydro and NB Power include an "adder" to the market-based portion of their respective non-firm pricing which results in non-firm customers contributing to fixed costs arising from the offer of surplus energy.³ Manitoba Hydro's Surplus Energy Program also includes a distribution charge (per kWh) which recovers approximately one-third of embedded costs associated with distribution, sub-transmission, and transmission.⁴

Newfoundland Power also observes that BC Hydro's per MWh adders are charged in addition to the greater of the market price and the minimum price.⁵ According to BC Hydro, both the floor and adder are to help ensure that customers make some contribution to BC Hydro's fixed costs even in periods of very low or negative market pricing.⁶

¹ See, for example, Application (Revision 1), Schedule 1, Attachment 1, Page 11, Table 6.

² Request for Information PUB-NLH-006.

³ Request for Information NP-NLH-002.

⁴ Request for Information NP-NLH-003. Similarly, pricing in Hydro Quebec's Additional Energy Option also reflects recovery of embedded costs. See Request for Information NP-NLH-001.

⁵ Request for Information NP-NLH-020.

⁶ Ibid.

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Administrative Charge

In its response to Request for Information PUB-NLH-001, Hydro outlines the administrative activities associated with offering its non-firm rate.⁷ Hydro provides that it has not yet completed a detailed analysis to estimate the annual administrative cost of making the non-firm rate available.⁸

In Newfoundland Power's view, the activities outlined by Hydro are unique to its non-firm rate offering. For this reason, the Company submits that the basic customer charge included in its Rate #2.4 (General Service 1000 kVA and over) not be used as a proxy for these costs. As an alternative, Hydro could complete its detailed analysis to determine the administrative charge for the non-firm rate offering. Newfoundland Power also observes that if a per kWh cost adder is implemented, an additional administrative cost may not be necessary. For example, BC Hydro's non-firm rate offerings, which include a per MWh cost adder, do not include a separate administrative charge.

Muskrat Falls Terminal Station

Schedule 1 to Hydro's revised Application outlines the maximum non-firm load for Labrador East and Labrador West based on the current system configuration of the LIS.⁹ Hydro provides that, in the current scenario, customers availing of non-firm service will be supplied by the existing Recapture and Twin Falls Power Corporation Limited Energy blocks on the LIS.¹⁰ Hydro indicates that it is also studying the feasibility of connecting non-firm customers at a location closer to the Muskrat Falls Terminal Station.¹¹

Muskrat Falls has been fully commissioned to provide service to customers on the Island Interconnected System ("IIS"). All costs associated with the Muskrat Falls project are to be collected from customers on the IIS.¹² At this time, it is unclear how non-firm service provided via a direct connection to Muskrat Falls Terminal Station could impact the provision of service over the Labrador-Island Link ("LIL") such as through reduced LIL power transfers.¹³ It also appears that non-firm customers would not contribute towards any fixed costs associated with the potential use of Muskrat Falls related assets.

For these reasons, Newfoundland Power submits that Hydro's non-firm rates offering for the LIS should exclude direct connection to the Muskrat Falls Terminal Station until the findings of Hydro's feasibility study are complete and impacts associated with connecting non-firm customers at a location closer to the station are known.

⁷ Request for Information PUB-NLH-001, part b.

⁸ Request for Information NP-NLH-019.

⁹ Application (Revision 1), Schedule 1, Page 3, Table 1. Also see Request for Information NP-NLH-021.

¹⁰ Request for Information NP-NLH-018.

¹¹ Application (Revision 1), Schedule 1, Page 5.

¹² Order in Council 2013-343.

¹³ Request for Information NP-NLH-022.

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Amendment to Hydro's SCVDA

Hydro proposes an amendment to its SCVDA to enable revenues from the proposed non-firm rate for Labrador to be credited to the balance in the SCVDA.

Newfoundland Power is supportive of this proposal. In the Company's view, all revenues associated with net exports generated via Muskrat Falls should be credited to customers.¹⁴ Newfoundland Power observes that, of the \$105 million net export revenues generated by Hydro and related entities in 2022, \$36 million was credited to Hydro deferral accounts to the benefit of customers with the remainder recorded in Muskrat Falls Corporation's net income.¹⁵ 2022 was the first year Hydro began to credit net export revenues to its SCVDA.¹⁶ The Company expects further clarity on Hydro's monetization entitlements of net export revenues to be available during its next general rate application process.

Currently, Muskrat Falls project costs associated with the Muskrat Falls Power Purchase Agreement and the Transmission Funding Agreement are charged to Hydro's SCVDA.¹⁷ Therefore, credit of non-firm related revenues and any further net export revenues to the SCVDA serves as a practical means to offset Muskrat Falls project costs.

Amendment of the IIC Rate Sheets

Hydro proposes the amendment of the IIC rate sheets to reflect that, for most of the time, the incremental cost of providing non-firm energy will reflect the market value of exports as opposed to the cost of generating thermal energy at Hydro's Holyrood Thermal Generating Station. Hydro is also proposing to eliminate the application of the 10% administration fee associated with IIC non-firm service following its review of non-firm service in other jurisdictions.¹⁸

Newfoundland Power is supportive of amending the IIC rate sheets to reflect the market value of exports as the proposal more adequately reflects marginal energy costs on the IIS. The Company notes that, in this scenario, Muskrat Falls related assets will be used to deliver the cheaper energy for IIC non-firm service and costs will continue to be incurred by Hydro to administer the rate offering. Consistent with the discussion regarding non-firm service for the LIS, the IIC non-firm rate should include both a per kWh cost adder and a minimum price to help ensure that IIC contribute to fixed costs.

¹⁴ This is consistent with the Board's recommendation outlined in its *Rate Mitigation Options and Impact Muskrat Falls Project – Final Report, February 7, 2020*. On Page 85 of that report, the Board recommended, among other items associated with external market purchases, that Nalcor's profits on export sales should be allocated to the benefit of customers that pay the costs of the provision of this service.

¹⁵ Request for Information NP-NLH-025.

¹⁶ Request for Information NP-NLH-016.

¹⁷ Application (Revision 1), Schedule 4, Page 1.

¹⁸ Application (Revision 1), Schedule 1, Page 13.

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Concluding

We trust this is in order. If you have any questions regarding the enclosed, please contact the undersigned.

Yours truly,



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