

Office of the Consumer Advocate

PO Box 23135
Terrace on the Square
St. John's, NL Canada A1B 4J9

Tel: 709-724-3800
Fax: 709-754-3800

June 13, 2022

Board of Commissions of Public Utilities
120 Torbay Road, P.O. Box 2140
St. John's, NL A1A 5B2

**Attention: G. Cheryl Blundon, Director of
Corporate Services / Board Secretary**

Dear Ms. Blundon:

**Re: Newfoundland and Labrador Hydro –
July 1, 2022 Utility Rate Adjustments Application**

This application is not without context. On December 17, 2012, the Government of Newfoundland and Labrador announced sanction of the Muskrat Falls Development. The sanctioning announcement stated, “Muskrat Falls will meet our province’s future energy needs, stabilize rates for residents and businesses, while generating significant economic, employment and social benefits for the people of our province, the Atlantic region and the rest of the country”. The public was also informed that “Muskrat Falls will provide the province with a stable revenue stream and will not impact net debt. The project will also generate estimated revenues in excess of \$20 billion over fifty years once it comes onstream.”.

Sadly, none of this turned out to be factual. The debacle that was unleashed on December 17, 2012 continues to haunt our economy, taxpayers and ratepayers. On commissioning, the public was informed that the project would cost \$7.7 billion. However, the project today exceeds \$13 billion in costs. Furthermore, the project is not yet fully commissioned.

Commissioner LeBlanc in the Inquiry respecting the Muskrat Falls Project – Muskrat Falls: A Misguided Project wrote:

“The reality is that the financial burden brought about by the Project has significantly diminished the confidence of many people in this province. This is certainly a sad commentary. Newfoundlanders and Labradorians were told that the Project would be the “next chapter in our Province’s future ... guided by independent security and self-sufficiency” and that “it will meet our Province’s future energy needs, stabilize rates for residents and businesses.” That is not the reality today for the people of this province.”

After the Project was sanctioned in December 2021, Government issued an Order in Council dated 2013-11-29 requiring costs, expenses or allowances pertaining to the Muskrat Falls project to be recovered in full by Newfoundland and Labrador Hydro in Island Interconnected Rates charged to the appropriate classes of ratepayers.

This burden continues to be assumed by the island's ratepayers. Without rate mitigation, electricity rates would rise from roughly \$0.12 per kilowatt hour to in excess of \$0.23 per kilowatt hour. This would not be affordable electricity.

For these reasons efforts have been undertaken to mitigate the rate impacts of the Muskrat Falls Project. The rate mitigation plan implementation is in progress with the objective of affordable electricity despite the cost of Muskrat Falls.

It is within this context that this application for July 1, 2022 utility rate adjustment application must be considered.

Hydro's Submission

The evidence supporting the proposed utility rate adjustments as contained in Hydro's application states that Hydro has been making payments under the Muskrat Falls Power Purchase Agreement ("Muskrat Falls PPA") since November 2021. Hydro has not been able to begin cost recovery through customer rates. OC2013-343 referenced previously had barred the recovery of rates until the project is fully commissioned or near commissioning and Newfoundland and Labrador Hydro was receiving services. Clearly, we are not at full commissioning at this time. The date of full commissioning at this point is unknown.

Order in Council OC2022-120 issued May 16, 2022 permits the recovery of some segments of the Muskrat Falls Project from which Hydro is receiving electricity for the benefit of the island. Hydro, through OC2022-120, can now recover costs associated with the payments under the Muskrat Falls PPA for these services although the entire project is not fully commissioned.

In the absence of the project cost recovery rider, customers would receive a 6.4% rate decrease this July. According to Hydro, this rate decrease would likely be followed by a rate increase later this year, following an application by Hydro to begin recovery of the costs incurred under the terms of the Muskrat Falls PPA.

Hydro maintains that the proposed project costs recovery rider allows Hydro the opportunity to begin recovery of the Muskrat Falls PPA costs without imposing a material increase in customer rates and potentially provides for lower rate increases into the future.

The end result, according to Newfoundland Power's analysis, is that retail electricity rates will continue to be close to their current levels after July 1, 2022. Newfoundland Power is generally supportive of Hydro's proposal with certain conditions.

Finally, given the financial dilemma the Muskrat Falls Project has placed upon ratepayers, Hydro's Application is not unreasonable. It is incumbent upon the Public Utilities Board to monitor the mechanics of the proposal. Also noteworthy, other rate mitigation initiatives are also in place including the review by the Department of Justice and Public Safety into capital expenditure thresholds, the power policy of the province, rate setting, and performance based regulation. Amendments to the Act should assist ratepayers in these efforts as well.

Yours truly,



Dennis Browne, Q.C.
Consumer Advocate

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cc **Newfoundland and Labrador Hydro**
NLH Regulatory (NLHRegulatory@nlh.nl.ca)
Shirley Walsh (shirleywalsh@nlh.nl.ca)
Newfoundland Power Inc.
NP Regulatory (regulatory@newfoundlandpower.com)
Dominic Foley (dfoley@newfoundlandpower.com)
Lindsay Hollett (lhollitt@newfoundlandpower.com)
Industrial Customer Group
Paul Coxworthy (pcoxworthy@stewartmckelvey.com)
Dean Porter (dporter@poolealthouse.ca)
Denis Fleming (dfleming@coxandpalmer.com)
Teck Resources Limited
Shawn Kinsella (shawn.kinsella@teck.com)
Praxair Canada Inc.
Sheryl Nisenbaum (sheryl_nisenbaum@praxair.com)
Peter Strong (peter.strong@linde.com)
Board of Commissioners of Public Utilities
Jacqui Glynn (jglynn@pub.nl.ca)
PUB Official Email (ito@pub.nl.ca)