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May 12, 2023

Board of Commissioners of Public Utilities
Prince Charles Building
120 Torbay Road, P.O. Box 21040
St. John's, NL A1A 5B2

Attention: Cheryl Blundon
Director of Corporate Services and Board Secretary

Re: Application for July 1, 2023 Utility Rate Adjustments – Hydro's Reply

On April 17, 2023, Newfoundland and Labrador Hydro ("Hydro") filed an application with the Board of Commissioners of Public Utilities ("Board") for approval of certain utility rate adjustments ("Application"), including updates to the Rate Stabilization Plan ("RSP") Current Plan Adjustment, and the Utility Conservation and Demand Management ("CDM") Cost Recovery Adjustment, to become effective July 1, 2023. No revision was proposed to the Project Cost Recovery Rider.

Application Summary

Hydro's proposals for updates to the RSP Current Plan Adjustment and Utility CDM Cost Recovery Adjustment are made in accordance with the existing rules as approved in previous Board Orders. The projected July 1, 2023 average residential customer rate increase resulting from the proposed rate updates is 6.9%, which reflects this Application and the rate application that will be filed by Newfoundland Power Inc. ("Newfoundland Power") in the near future (as required in accordance with its Rate Stabilization Clause).

Hydro has proposed not to increase the Project Cost Recovery Rider of 0.798 cents per kWh, which was implemented July 1, 2022 to permit Hydro to begin to meet its obligation to recover the costs it was incurring under the terms of the Muskrat Falls Purchase Power Agreement ("PPA").¹ Hydro continues to make payments under the Muskrat Falls PPA and, with the recent commissioning of the Labrador-Island Link, Hydro is also required to make monthly payments under the Transmission Funding Agreement ("TFA"). The combined monthly charges of the two agreements are greater than \$60 million per month and the amount being recovered from customers is less than \$4 million per month (on average). If not for the material customer rate increase already projected for July 1, 2023, Hydro would have planned to increase the Project Cost Recovery Rider effective July 1, 2023 to partially reflect the increased costs it is required to pay under the TFA.² The Government of Newfoundland and Labrador ("Government") has provided correspondence requesting no additional recovery in project costs at this time.³

Hydro believes its Application reflects a reasonable balance of rate stability and its ongoing obligation to recover the cost of providing service to its customers.

¹ Payments by Hydro under the Muskrat Falls PPA began in November 2021.

² Please refer to Hydro's response to PUB-NLH-001 of this proceeding.

³ Government's correspondence on April 14, 2023, included as Schedule 2 to the Application, requested Hydro include no additional Lower Churchill Project-related costs in the upcoming July 1 annual RSP adjustments.

Party Comments

Hydro notes that Newfoundland Power advised that it had no comments on the Application; no comments were received from the industrial customers.

The Consumer Advocate advised that it does not oppose the proposed changes to the RSP Current Plan Adjustment or the CDM Cost Recovery Adjustment. However, in correspondence dated May 9, 2023,⁴ the Consumer Advocate does oppose Hydro's proposal to continue the Project Cost Recovery Rider without change.

The Consumer Advocate describes the introduction of the Project Cost Recovery Rider in 2022 as being intended to avoid a reduction in Newfoundland Power's average customer rates, consistent with correspondence from the Government. The Consumer Advocate further references this correspondence as being an ongoing government objective.⁵ However, there has been no request by Government to reduce the Project Cost Recovery Rider, nor has there been a request for Hydro to maintain electricity rates at or close to current levels as there was in 2022.

The Consumer Advocate has proposed a reduction in the Project Cost Recovery Rider to offset the customer rate impact resulting from the increases required in the other rate adjustments. Accepting this proposal would reduce the recovery of the costs associated with the Muskrat Falls PPA and the TFA at a time when the monthly charges to Hydro are materially increasing. Such an approach would be misaligned with the implementation of rates to recover the cost of service. Hydro notes that the projected average customer rate impacts to become effective July 1, 2023 are lower than 10% and would not be normally considered "rate shock"; mitigation measures as proposed by the Consumer Advocate would not normally be employed. The Consumer Advocate's proposed approach would also increase the costs that would be due from future customers (or from future rate mitigation) while the supply of service resulting from these agreements is enabling reduced fuel costs to the benefit of existing customers. Such an approach is not aligned with the principle of intergenerational equity.

In the regulatory framework described by the Board in Order No. P.U. 7(2002-2003),⁶ the Board noted that the End Result is important, i.e., "In compliance with legislation, the end result must be fair, just and reasonable from the perspective of both the consumer and utility."⁷ Hydro's proposal to maintain the Project Cost Recovery Rider at its existing level at a time when other rate components are increasing is aligned with the End Result regulatory principle. Therefore, Hydro respectfully requests that the Board approve Hydro's Application as submitted.

Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



Shirley A. Walsh
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⁴ "NLH Application for July 1, 2023 Utility Rate Adjustments," Newfoundland and Labrador Hydro, May 9, 2023.

⁵ *Ibid.*, p. 4.

⁶ *Public Utilities Act*, RSNL 1990, c P-47, Board of Commissioners of Public Utilities, Board Order No. P.U. 7(2022-2003), June 7, 2002.

⁷ *Ibid.*, p. 29.

ecc:

Board of Commissioners of Public Utilities

Jacqui H. Glynn
PUB Official Email

Consumer Advocate

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