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Via Electronic Mail

Newfoundland and Labrador Board
of Commissioners of Public Utilities
120 Torbay Road
P.O. Box 21040
St. John's, NL A1A 5B2

**Attention: Jo-Ann Galarneau, Executive Director
and Board Secretary**

Dear Ms. Galarneau:

**Re: NL Hydro Application for Adjustment to Wholesale Utility Rate
- Submission of the Island Industrial Customer Group**

1 These are the submissions of the Island Industrial Customer (IIC) Group (Corner Brook
2 Pulp and Paper Limited, Braya Renewable Fuels (Newfoundland) LP and Vale
3 Newfoundland and Labrador Limited) on the above Application.

4 The IIC Group notes that the above Application arises out of the Settlement Agreement
5 to establish a new wholesale rate for Newfoundland Power (NP), filed on June 13, 2024
6 as Information #2 in the NP General Rate Application (GRA). The IIC Group are not a
7 party to this Settlement Agreement.

8 The IIC Group notes that NP's GRA filing, as filed with the Board on December 12,
9 2023, stated that:

10 *The wholesale rate will be re-designed as part of Hydro's next general rate application.*
11 *This is expected to include a second block energy rate that will reflect the cost of energy*
12 *exports, which is now considered the marginal cost of energy.¹*

13 (Underlining added)

14 The IIC Group submit that the original NP GRA filing represented the reasonable
15 expectations of all parties to the Hydro GRA process that the utility wholesale rate, as
16 part of rate design generally for Hydro's customers, would be addressed in NL Hydro's
17 next GRA.

18 The IIC Group submit that the resolution of rate design issues in past NL Hydro GRAs
19 have involved a balancing of embedded demand costs, marginal cost of energy and

¹ Newfoundland Power 2025-2026 General Rate Application, pages 1-8 and 1-9.

1 marginal cost of capacity.² NL Hydro however, by the within Application, is extracting just
2 one of these factors – marginal cost of energy - for adjustment in isolation, without any
3 measures (interim or otherwise) or firm timetable (the timing of the filing of the next
4 Hydro GRA being apparently still subject to a great deal of uncertainty) for taking into
5 account the other factors to be considered in a sound rate design regime.

6 This concern regarding isolated rate component adjustment is not hypothetical or
7 immaterial. Attachment 1 and 2 to Hydro's response to CA-NLH-003 indicates that the
8 proposed adjustment will result in a reduction of approximately \$20 million in net
9 revenues collected in the Supply Cost Variance Deferral Account (SCVDA) over the
10 2025 and 2026 period. This reduction of net revenues may be exacerbated if further
11 delay in the filing of NL Hydro's GRA results in this isolated rate adjustment impact
12 continuing into 2027, or if the actual NP load turns out to be higher than forecast. The
13 rules for allocation of SCVDA balances as among NL Hydro's customer classes have not
14 yet been established, and will not be established until the next NL Hydro GRA. As a
15 result of all the foregoing factors, the IIC Group are faced with uncertainty about the
16 impact of this isolated rate adjustment on their future rates. However, it is a reasonable
17 observation that any material reduction in net revenues collected in the SCVDA in 2025
18 and 2026 may adversely impact future rate mitigation for all of NL Hydro's customers,
19 including the IIC Group.

20 The impact of marginal costs of capacity is also not hypothetical or immaterial and is a
21 significant issue facing the Island System. The ongoing Reliability and Resource
22 Adequacy Study Review has identified a need for substantial capacity additions to the
23 Island system, at substantial capital cost. The forecast marginal costs of capacity have
24 increased dramatically since the 2017 NL Hydro GRA³. An isolated adjustment to just
25 the marginal cost of energy would ignore these dramatically increasing capacity costs,
26 and risks sending price signals to customers which are inconsistent with conservation
27 and demand management and rate mitigation objectives.

28 The IIC Group reiterates its concern that "shelving" a due consideration of the above
29 issues until the next NL Hydro GRA, while proceeding posthaste with a new utility
30 wholesale rate, risks embedding impacts that have not been duly considered by a
31 fulsome rate design review for at least 2 years and likely considerably longer given that
32 (i) there is as yet no firm date for NL Hydro's filing of its next GRA (and past attempts to
33 set a firm date or timeframe have repeatedly fallen by the wayside) and (ii) the next NL
34 Hydro GRA, due to its long postponement and the novelty and complexity of the issues
35 to be addressed within it, can be expected to be a prolonged process to bring to
36 conclusion.

37 We trust these submissions will be found to be in order.

² See NL Hydro's response to IC-NLH-008 in this Application

³ See NL Hydro's responses to IC-NLH-006 and IC-NLH-009

Yours truly,

Stewart McKelvey



Paul L. Coxworthy

PLC/tas

- 1 c: Shirley Walsh, Senior Legal Counsel- Regulatory, Newfoundland & Labrador Hydro
- 2 Dennis M. Browne, K.C., Consumer Advocate
- 3 Dominic J. Foley, Newfoundland Power Inc.
- 4 Dean Porter, Poole Althouse
- 5 Denis Fleming, Cox & Palmer
- 6
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