

- 1 **Q. (Application Volume 2, Electrification, Conservation and Demand Management**  
2 **Plan 2021-2025) It is stated (page 3) “based on a residential retail rate of 13.5¢/kWh**  
3 **and an export sales value of 4.2¢/kWh, each additional kWh consumed domestically**  
4 **will provide a benefit of 9.3¢.”**
- 5 a) **What is the basis for assuming a residential retail rate of 13.5 cents/kWh?**  
6 b) **What is the basis for assuming an export sales value of 4.2 cents/kWh? How**  
7 **does this compare to Nalcor Energy export sales prices in recent history?**  
8 **Does this figure incorporate transmission costs? If so, please provide the**  
9 **transmission costs. If not, why not?**
- 10 c) **From whose perspective is this benefit derived? If the Government provides**  
11 **rate mitigation bringing rates down to 13.5 cents/kWh post Muskrat Falls**  
12 **commissioning, who benefits from electrification, Government or**  
13 **consumers?**
- 14
- 15 A. a) Projected incremental revenues used in the Net Present Value (“NPV”) analysis  
16 of customer electrification programs are based on the customer rates approved by  
17 the Board in Order No. P.U. 31 (2019) and annual inflationary increases in  
18 electricity rates of 2.25%.<sup>1</sup> For example, the customer electricity rates assumed in  
19 the NPV analysis would result in an “all-in” residential rate of approximately  
20 13.5 ¢/kWh in 2021.<sup>2</sup> The assumption for forecast electricity rates used in the  
21 NPV analysis reflects the Provincial Government’s rate mitigation framework  
22 announced in 2019.<sup>3</sup>
- 23
- 24 b) The basis for assuming an export sales value of 4.2¢ per kWh was the 2021  
25 marginal cost projection provided by Newfoundland and Labrador Hydro  
26 (“Hydro”) in April 2020.
- 27
- 28 As part of Newfoundland Power’s 2022 *Capital Budget Application*, Hydro  
29 indicated that Nalcor Energy Marketing’s realized electricity price for export sales  
30 was \$23 per MWh, or 2.3¢ per kWh, in 2020.<sup>4</sup>
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- 32 According to Hydro’s Marginal Cost Study, marginal costs for Hydro’s Island  
33 Interconnected System include transmission line charges to deliver electricity to  
34 export markets as well as Hydro’s transmission line losses.<sup>5</sup>

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<sup>1</sup> See the *2021 Electrification, Conservation and Demand Management Application, Volume 1, Exhibit 2, Appendix A, Column C*.

<sup>2</sup> In addition to the monthly energy charge, an “all-in” residential rate also considers the monthly basic customer charge, expressed in ¢/kWh.

<sup>3</sup> See page 8 of the Provincial Government’s April 2019 release *Protecting You From the Cost Impacts of Muskrat Falls*.

<sup>4</sup> See Request for Information NLH-NP-015 filed in relation to Newfoundland Power’s 2022 *Capital Budget Application*.

<sup>5</sup> See the *Marginal Cost Study, Appendix A – Marginal Cost Study Update – 2018* prepared by Christensen Associates Energy Consulting, page 16.

1 c) The electrification programs included in the *Electrification, Conservation and*  
2 *Demand Management Plan: 2021-2025* will provide rate mitigating benefits for  
3 customers.  
4

5 On July 28, 2021, the Provincial Government and the Federal Government  
6 announced an agreement-in-principle to mitigate rate impacts associated with the  
7 Muskrat Falls Project. The mitigated customer rate target was updated to  
8 14.7 ¢/kWh, or approximately 9% higher than the previously indicated target of  
9 13.5 ¢/kWh.<sup>6</sup>  
10

11 If actual electricity rates were higher than the level assumed in the NPV analysis,  
12 incremental revenues, and, thus, customer rate mitigation benefits would be  
13 higher. For example, if the NPV analysis assumed customer electricity rates  
14 increased by 9% in 2022, it would result in additional net revenues of  
15 approximately \$35 million to \$40 million over the 2021 to 2034 period, or  
16 approximately \$20 million on an NPV basis. The higher net revenues would  
17 increase the estimated customer rate mitigation benefit to approximately  
18 0.65 ¢/kWh by 2034, or about 0.15 ¢/kWh higher than the current estimate of  
19 0.5 ¢/kWh by 2034.<sup>7</sup>

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<sup>6</sup>  $14.7 \div 13.5 - 1 = 0.089$ , or approximately 9%.

<sup>7</sup> For an illustration of the impact, see response to Request for Information PUB-NP-065 filed as part of Newfoundland Power's 2021 *Electrification, Conservation and Demand Management Application*.