



NEWFOUNDLAND AND LABRADOR

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

120 Torbay Road, P.O. Box 21040, St. John's, Newfoundland and Labrador, Canada, A1A 5B2

2019-04-24

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Dear Sirs/Madam:

Re: Rate Mitigation Options and Impacts Reference — Issues List and Schedule

The Board has reviewed the comments received on the draft Issues List and Schedule circulated on April 3, 2019. All the parties appear to be generally of the view that the draft Issues are appropriate and cover the subjects necessary to respond to the Reference Questions. In this respect the parties stated as follows:

Nalcor – “... the draft is comprehensive and within the scope of the Government of Newfoundland and Labrador’s Reference Questions.”

Newfoundland and Labrador Hydro – “(Hydro) has reviewed the Draft Issues to be Reviewed”.. and finds it to be, by and large, satisfactory and appropriate for the purposes”

Newfoundland Power - “It is reasonably comprehensive, within the scope of the Reference Questions, and reflective of the reports released by the Board, its consultants and other submissions.”

Consumer Advocate – “We note that the Draft Issues List is at a high level and appears to cover generally what is required to address Reference Questions.”

Island Industrial Customer Group – “with respect to the Draft Issues to be Reviewed, the Industrial Customer Group believes that the issues identified are reasonably comprehensive...”.

The Consumer Advocate and the Island Industrial Customer Group did provide additional comments on certain aspects of the draft Issues. The Consumer Advocate commented that certain issues are of significant interest and should be specifically explored including imports of capacity and energy as well as exports, market prices, the structure of the industry, the maximization of profits from the Muskrat Falls project, and rate design. The Island Industrial Customer Group sought confirmation on the level of detail of the analysis to be completed on the revenue requirement and on the implications for reliability of the various cost savings scenarios. Further they requested evaluation of information on: 1) the need to maintain Holyrood or install new thermal generation on the Island; 2) Hydro’s equity thickness; and 3) the costs associated with conservation demand and electrification initiatives. The Labrador Interconnected Customer Group provided comments on the analytical model to be used.

The Board is satisfied that the draft Issues List as circulated is sufficiently broad and comprehensive to address all the issues that must be evaluated to allow the Board to respond to the Reference Questions. The level and detail of the analysis to be completed will be of sufficient and satisfactory detail to permit the Board to answer the Reference Questions but may not, given the information available and the time involved, provide the level of detail suggested by the Island Industrial Customer Group and the Labrador Interconnected Customer Group. With respect to the issue of the future of the Holyrood Plant or the need for new thermal generation on the Island, the Board notes that this issue will be fully evaluated in a separate proceeding presently before the

Board concerning Hydro's Reliability and Resource Adequacy Study. The appropriate information, including the need for thermal generation and any associated costs may not be available, given the timing of that proceeding, to include in the analysis ongoing for the Reference.

Following the circulation of the draft Issues List, on April 15, 2019 the Government of Newfoundland and Labrador (Government) announced its Rate Mitigation Plan and advised that it and the Government of Canada will undertake analysis of the underlying drivers of expected electricity rate increase issues and will consider all options, including those identified in the Board's Interim Report. Government also said it would conclude the discussions in as expeditious a manner as possible, so that key policy issues are identified before the Board prepares its final report. In light of this, the Board has decided to suspend its review and analysis of the various options to mitigate rates that may arise from the Muskrat Falls project financing pending completion of these discussions. The issues that are affected by this are the following:

- Alterations to Muskrat Falls Project financing payment requirements, including sinking funds and interest payments
- Alterations to Muskrat Falls Project financing requirements for the project debt structure
- Rate of return included in the project financing and contractual arrangements for Nalcor and Hydro

Work on other issues identified in the Issues List will continue.

With respect to the schedule both Nalcor and Hydro suggested that the opportunity for parties to file non-expert evidence should be added. The Board agrees and also acknowledges the comments of Nalcor and the Island Industrial Customer Group on the firm and exacting nature of the schedule. While a firm schedule is necessary to allow the Board to respond to the Reference Questions by January 31, 2020, the Board will, to the extent possible, work with all parties on information gathering and filing requirements. The Board expresses its appreciation to the parties for their cooperation. Enclosed is the final Issues List and the Schedule.

If you have any questions or require any clarification please contact Ms. Maureen Greene, Q.C., Reference Counsel by e-mail mgreene@pub.nl.ca or by telephone (709) 726-3175.

Sincerely,



Cheryl Blundon
Board Secretary

CB/bt
Enclosures

ecc

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REFERENCE - RATE MITIGATION OPTIONS AND IMPACTS MUSKRAT FALLS PROJECT

Issues List

1. Potential Cost Savings

- Alterations to Muskrat Falls Project Financing payment requirements, including sinking fund and interest payments*
- Alterations to Muskrat Falls Project Financing requirements for the project debt structure*
- Rate of return included in the project financing and contractual arrangements for Nalcor Energy and Newfoundland and Labrador Hydro*
- Rate of return for Newfoundland and Labrador Hydro established by OC2009-063
- Application of project dividends to reduce the revenue requirement
- Depreciation methodologies and amortization period used for Muskrat Falls project assets
- Organizational and operational efficiencies at Nalcor Energy and Newfoundland and Labrador Hydro, including the role of Nalcor Energy Marketing and level of regulatory oversight
- Asset transfer and/or consolidation of operating responsibilities related to generation, distribution and transmission between Newfoundland and Labrador Hydro and Newfoundland Power
- Operating and Maintenance Costs of Muskrat Falls Project

2. Revenue Opportunities

- Increased demand in the Province, including demand due to electrification including oil-heated institutions switching to electricity, increased vehicle electrification and the appropriate policies and rate design considerations required to support electrification
- Enhanced conservation demand programs to reduce capacity and energy requirements to increase available capacity and energy for electrification and exports and to delay or eliminate future supply-side capacity resource requirements
- Maximization of export sales revenue from capacity and energy available for export, including best practices.

3. Available Capacity and Energy

- Forecast Island Interconnected system load and the amount of energy and capacity from the Muskrat Falls Project required to meet that load
- Recall Power available for the Island Interconnected system
- Impact on the Island Interconnected system load of rate increases to recover Muskrat Falls Project costs
- Capacity and energy available for export and load growth
- Potential Industrial and Newfoundland Power self-supply or generation

4. Rate Impacts of Cost Savings and Revenue Opportunities

- Impact of various cost savings and revenue increases on forecast electricity rates

*Work on these issues suspended until further notice.

2019-04-24

**REFERENCE - RATE MITIGATION OPTIONS AND IMPACTS
MUSKRAT FALLS PROJECT**

SCHEDULE

February 15, 2019	Board's Interim Report
February to August 2019	Information gathering and analysis continues
March 10, 2019	Requests for Standing
March 28, 2019	First technical conference
June 3-5, 2019	Second technical conference
August 5-6, 2019	Third technical conference
September 3, 2019	Board experts' reports filed
Mid-September, 2019	Parties' expert and non-expert evidence filed
October 3, 2019	Public Hearing Begins
November 1, 2019	Written Submissions Filed
January 31, 2020	Board's Final Report

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