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

Hearing Transcript

REFERENCE TO THE BOARD
RATE MITIGATION OPTIONS AND IMPACTS
MUSKRAT FALLS PROJECT

October 15, 2019

PRESENT:

The Board:

Board Members
Darlene Whalen, Chair
Dwanda Newman, Vice-Chair
John O'Brien, Commissioner

Board Counsel / Staff
Maureen Greene, Q.C., Reference Counsel
Sara Kean, Assistant Board Secretary

Parties:

Nalcor Energy / Newfoundland and Labrador Hydro
David Eaton, Q.C., Counsel – Nalcor
Geoff Young, Q.C., Counsel – NL Hydro

Newfoundland Power
Kelly Hopkins, Counsel
Liam O'Brien, Counsel

Consumer Advocate
Dennis Browne, Q.C. – Consumer Advocate
Stephen Fitzgerald, Counsel – Consumer Advocate

Island Industrial Customer Group
Paul Coxworthy, Counsel
Denis Fleming, Counsel
Dean Porter, Counsel

Witnesses:

Newfoundland Power
Peter Alteen, Q.C., President & CEO
Byron Chubbs, Vice-President, Energy Supply and Planning
Krista Langthorne, Manager, Energy Conservation

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(9:07 a.m.)
CHAIR:
Q. Good morning, everybody.
MR. O'BRIEN:
Q. Good morning.
ALTEEN, Q.C.:
A. Good morning.
CHAIR:
Q. No preliminary matters, I understand, so we're going to go right to you, Mr. O'Brien, to introduce your panel.
MR. O'BRIEN:
Q. Thank you, Madam Chair, and Commissioners. I'm going to hand things over to Mr. Alteen. He's going to introduce his panel, he's going to walk you through the presentation which everyone should have.
CHAIR:
Q. Thank you. Good morning, Mr. Alteen.
MR. O'BRIEN:
Q. Mr. Alteen.
ALTEEN, Q.C.:
A. Good morning, Madam Chair, Madam Vice-Chair, Commissioner O'Brien. My name is Peter Alteen, and I'm the President of

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Newfoundland Power. With me today on this panel is Mr. Byron Chubbs and Ms. Krista Langthorne. Mr. Chubbs is the President of Energy Supply and Planning with Newfoundland Power. He's a graduate of Memorial University, and he first joined Newfoundland Power in 2004 as an engineering student. He served in a variety of engineering and operation management roles in the company between 2004 and 2016. In 2016, Mr. Chubbs left Newfoundland Power and took up the position of Vice-President Customer Service with Maritime Electric, an affiliate of Newfoundland Power that provides electrical service to the Province of Prince Edward Island. In 2018, he rejoined Newfoundland Power in his current position. He is the executive responsible for energy supply at Newfoundland Power, and he's also responsible for Newfoundland Power's capital plan. Mr. Chubbs is the executive responsible for our participation in this reference and coordinating all of that within the company. Ms. Langthorne is Newfoundland Power's Manager of Customer

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Conservation. She's also a graduate of Memorial University, and she's certified in Project Management and Sustainable Energy and Building Technologies. Ms. Langthorne joined Newfoundland Power in 2012 as a conservation planner, and she's served in a variety of conservation and market analysis roles prior to becoming the Manager of Customer Conservation. She is currently the manager responsible for Newfoundland Power's analysis of all matters related to electrification and conservation. She currently serves on Fortis Transportation Electrification Committee and the provincial government's Electrical Vehicle Working Group. Ms. Langthorne has been responsible for coordinating all of our electric market assessment with the Board's consultants, Synapse Energy Economics. Madam Chair, this proceeding today is about the rates Newfoundland Power's customers will have to pay as a result of Nalcor Energy Muskrat Falls Project. Newfoundland Power delivers electrical service to approximately 268,000 customers on the island grid. That's about

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92 percent of the customers on the grid. Hydro serves the remaining 8 percent, and the combination of legislation, cabinet orders, and contracts which support the Muskrat Falls Project basically dictate that these are the customers who will have to pay the cost of the project. The Provincial Power Policy is explicitly referred to in your Terms of Reference, and that policy directs that all utility facilities be managed and operated in a manner that results in power being delivered to consumers at the lowest possible cost consistent with reliable service. We think that this policy clearly mirrors the primary expectations of our customers, and that's an expectation of reliable service at affordable rates, and the Muskrat Falls Project clearly provides something of a threat to these expectations. Initial references focused on the affordability part of that threat. This is a big concern for our customers and it's a big concern for us too. From Newfoundland Power's perspective, Madam Chair, the assessment of options

available to mitigate customer rate impacts associated with the project can be done over multiple time horizons. In the short term, the focus is the level of customer rates upon commissioning of the project. Here the objective is avoiding customer rate shock. The focus of the Board's consultants work and the reference has been at identifying specific sources of funding to mitigate customers rates beginning in 2021. Mr. Chubbs and Ms. Langthorne will briefly comment on the consultants conclusions, but in addition there are three issues Newfoundland Power would specifically like to raise here today. The first concern is the long-term organization of the electrical sector in the province, and Mr. Chubbs will address that issue shortly. The second issue relates to planning for optimizing electric usage in local markets once the project is commissioned. Ms. Langthorne will address this issue. The third issue relates to long term oversight of the Muskrat Falls Project's impact on customer rates. I will conclude our presentation

with some comments along those lines. With that, I'll pass it to Mr. Chubbs.

MR. CHUBBS:

A. Thank you, Peter. Madam Chair, the Muskrat Falls Project was officially sanctioned in December of 2012 at an estimated cost of 7.4 billion dollars. Customers at the time were paying about 12.2 cents per kilowatt hour, and were forecast to be paying approximately 15.1 cents per kilowatt hour in 2021, and this was an increase of just under 25 percent. This 15.1 cents included all the cost of Muskrat Falls and was expected to increase at a rate less than inflation going forward, or in other words, it would decline in real dollars. Following a series of project updates by June, 2017, the project cost had increased to 12.7 billion dollars, and that's an increase of 72 percent. As a result, the 2021 customer rate forecast increased to 22.9 cents per kilowatt hour, double what customers were paying at the time. More refined estimates have been produced since then, but effectively, electricity customers have been hearing

about are potential doubling of rates now for over two years. This is important because we know our customers are concerned and they've been concerned for a while, and they've been telling us their concern through customer interactions and our customer surveys. As part of our observations on Phase 2, I would like to start back in 2018. In 2018, during Newfoundland Power's General Rate Application, we were asked by the Board and other parties what might be done to address rate increases related to Muskrat Falls. In our response, we identified what we believed were options that had the most potential to mitigate electricity rate increases. These were largely conceptual in nature based on information that we had at the time. I've listed some of these options here. Number one was to delay, defer, or limit Muskrat Falls Project cost recovery, and Liberty has addressed this and quantified it in detail in their report. Number two was to credit Nalcor electricity export revenue against customer rates. Both Liberty and Synapse

have each analyzed and quantified the value of export in their reports. The third was to develop new electricity markets within the province, and Synapse has addressed this directly in their report, and Krista will discuss this more shortly. We also had a fourth option which was to credit Nalcor oil revenues against customer rates. Of course, this item is excluded from the scope of the reference. However, we believe that all these options still hold true today as having meaningful potential to mitigate electricity rate increases in the province. This leads me to the options that the Board's consultant, Liberty, have identified in Phase 2 of the Reference. Liberty concluded that the financial mitigation options represent the largest opportunity to mitigate future customer rates, and it appears from their analysis that applying future revenue streams from Nalcor dividends and excess sales revenue will contribute about 125 to 135 million dollars to mitigate rates in 2021, and these revenues are projected to increase over time. Liberty

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also identified existing government revenue streams related to the electricity sector as funds that could be applied to rate mitigation. These include Hydro and Churchill Falls dividends, water power rentals, and possibly even HST paid by electricity customers, and it appears these funds could provide an additional 25 to 75 million dollars for rate mitigation by 2021.

(9:15 a.m.)

These options all appear reasonable to Newfoundland Power, and I think there's been mostly agreement on this matter so far in the Reference. Next are the efficiency improvements that Liberty has identified, and the Board were specifically directed in the Reference to look at cost savings with respect to electricity, including the activities of Nalcor Energy and its subsidiaries, and this is what Liberty did. They estimated that in total the Nalcor Group of Companies could generate efficiencies of about 30 million annually by integrating Power Supply and Hydro and reducing future Lower Churchill Project O &

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M costs. Liberty's conclusions along these lines also appear reasonable. As part of the Reference, Liberty also examined combining functions of Newfoundland Power and Hydro. Hydro's 230 KV transmission operations were ultimately excluded from this review, meaning that only parts of the poles and wires assets were considered, and Liberty concluded that any potential savings from transfer of other functions were more than offset by differences in cost of capital. It makes sense that an exercise that starts with two poles and wires operators on the Island of Newfoundland, and ends with two poles and wires operators on the Island of Newfoundland, would not produce material benefits to customers. So Liberty's conclusions here also appear reasonable to Newfoundland Power, certainly for the 2030 timeframe of the Reference. The electrical system in the province is going through a massive change. The Island of Newfoundland is changing from a completely isolated grid to a system that is interconnected to Labrador and the

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Maritimes, and this is going to transform how the system operates going forward. With the addition of the 12.7 billion dollar Lower Churchill Project, the value of the system that customers are paying for will grow to about 16 billion dollars, more than four times what it is today. Once Muskrat Falls is complete, customers on the island will be paying for three separate utilities to operate the grid; a regulated Nalcor utility, Newfoundland and Labrador Hydro, an unregulated Nalcor utility in Power Supply, and Newfoundland Power, a regulated utility. Multiple utilities each with similar roles to perform without a doubt results in duplications and inefficiencies in how we collectively operate, and this tells me that potential customer benefits might exist by restructuring the sector to reduce duplication, eliminate inefficiencies, and keep cost as low as low as possible. The Board's consultants work identified and quantified options for rate mitigation for 2021, but there's still questions that are unanswered. For example, Liberty indicated

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the technical and accounting aspects for rate mitigation would require further study by Nalcor and the province. In addition, the Board's reliability and resource adequacy proceeding has not yet concluded, and the Muskrat Falls Project is not yet in operation. It's Newfoundland Power's view that once Muskrat Falls is operational and these important questions are resolved, then the Government should undertake a comprehensive reassessment of how the sector is structured and operated, and the assessment would be aimed that ensuring the sector delivers least cost reliable service to customers over the long term. Newfoundland Power has practical experience in restructuring electric utility operations. In the early 1990s, following the cod moratorium, Newfoundland Power experienced a sharp reduction in electricity sales growth, and it was clear the company had to restructure its operations as a result, and from that point we began a focus on a flatter, leaner management structure, reorganizing our field operations, and the

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deployment of technology, and this allowed Newfoundland Power's workforce to reduce by about 40 percent during the process. This was done through early retirement programs and attrition and without layoffs to permanent employees. It took over a decade of restructuring for the restructuring to be completed. Following completion in 2005, Newfoundland Power was in a position to deliver reliable service to its customers at the lowest cost in a flat sales environment. Newfoundland Power approached this restructuring in a planned and deliberate way, continually reassessing our engineer operations and the cost and the quality of service we were providing to our customers. We did not approach this restructuring looking for immediate or short-term rate relief or reductions, and had we done so, it would have been more risky both from a cost perspective and a service perspective, and it may not have been done at all. Today Newfoundland Power routinely beats inflation in its cost management while delivering reliable service to customers, and this

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long-term view taken by the company in the early 90s placed us in a position to be able to do this. So in our view, with the electricity system going through such a massive transformation, it's worth stepping back and looking at how the system is structured and whether it is achieving maximum value for customers. This includes not only an assessment of future system costs, but also future system reliability, and we recognize that any potential benefits, costs, and risk would take time to assess. Any change might take a period of time to achieve, and we also recognize there will be no immediate benefits to customers to address the rate impacts of Muskrat Falls in 2021. However, Newfoundland Power's experience indicates that meaningful cost changes on an electrical system can be achieved and without sacrificing service quality, and we think the Board should recommend to Government that the organization of the electricity system be given a thorough examination once Muskrat Falls is commissioned and operating

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reliably. With that, I'll pass it on to Krista.

MS. LANGTHORNE:

A. Thanks, Byron. My presentation today will focus on the benefits of conservation and electrification for rate mitigation and bill reduction for customers. I will talk about the current programs we offer, how the local electricity market is changing, and how Newfoundland Power is planning for a future post-Muskrat Falls. Our customers tell us that conservation is very important to them. The primary reason that customers conserve is reduced electricity costs. Conservation provides tangible benefits in two ways. First, it lowers individual customer bills. Second, it reduces overall system costs which benefit all users of the electrical system. Over the past decade, Newfoundland Power has consistently met or exceeded all of its targets set out in its conservation plans every year. This has allowed customers to save almost 60 million dollars on their electricity bills, and has also saved 74 million dollars in avoided fuel

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cost at the Holyrood generating station. Heat pumps are a popular technology used by our customers to reduce their energy costs associated with space heating. The data on this slide shows the total number of residential customer heat pump installations in the province for the period 2014 through 2018. In June, 2017, Nalcor Energy announced that customer rates would need to double to recover the rising cost of Muskrat Falls. Our customers first reaction to this was to conserve. In 2018, the number of residential heat pump installations increased by 57 percent in one year. That's triple the rate of installation from the period 2014 through 2017. The growing number of heat pump installations reflects the broader sentiment of Newfoundland Power's customers towards the rising electricity costs. Newfoundland Power is already planning customer programming and education to reflect the provincial electrical system upon commissioning of Muskrat Falls. We recognize that the future will not look like the recent past.

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Marginal costs will be different. The marginal cost of energy will be lower, and the marginal cost of capacity will be relatively high, and as Byron indicated, we were aware in 2018 that the development of new electricity markets could provide rate mitigating benefits for customers. The starting point for conservation and electrification planning is an assessment of the overall market potential. Market potential is simply an estimate of long-term energy and demand impacts associated with a specific technology. The graph on this slide shows the market potential associated with electric vehicle technologies in the province. I will refer to electric vehicles as EVs. The yellow line on the graph reflects the number of EVs estimated over a fifteen-year period in the province. The blue line reflects the potential number of EVs which might be realized with programming to influence customers to adopt EVs. The difference between the yellow and the blue line is the EV potential for the fifteen-year period. Our research values this

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potential at 170 million dollars by 2034. A comprehensive market assessment of potential conservation and electrification technologies has been completed with the assistance of Dunsky Energy Consulting. This study assesses potential technologies aimed at energy conservation, demand management, and electrification. The Dunsky Energy potential study will provide the basis for comprehensive program assessment and development which is already underway. This will ensure we are in a position to provide appropriate programming and education for our customers upon the commissioning of Muskrat Falls. Synapse Energy Economics, the Board's consultant, had input into the potential study and a copy of this study has been filed on the public record of this Reference. Dunsky Energy indicated there is reasonable potential for EVs in the province. On the other hand, the potential associated with electric heating technologies was found to be limited by the future price of electricity and heating oil. The potential

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associated with time of use rates was limited and required further study, and that study is already underway. Electrification will result in rate mitigating benefits when the customer price exceeds the net proceeds of export sales. The simple illustration on this slide shows the rate mitigating benefit associated with a single EV. Based upon a retail rate of 13.5 cents per kilowatt hour, and a net export sales value of 2.9 cents per kilowatt hour, and an annual EV consumption of 5,000 kilowatt hours, will provide a rate mitigating benefit of 530 dollars annually. The present value over the life of a single vehicle will be 3900 dollars. Dunsky sees potential for over 145,000 electric vehicles in the province by 2034. Synapse observed electrification has the largest rate mitigation potential. Synapse observed that conservation has the largest bill reduction potential and will continue to lower system costs. Synapse also observed more research is required to evaluate the potential of time of use rates. All of these observations align with

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Newfoundland Power's research. In conservation and demand management, influencing customer behaviour is central. Customer behaviour does not change overnight. New initiatives associated with electrification will take time to realize, but Muskrat Falls is a long-term investment, so initiatives that take time to realize will still benefit our customers. Customer education will be key to the success and timing of these rate mitigating benefits. At first glance, electrification and conservation can seem like opposite messages from a customer perspective. For this reason, I expect that education will pay a prominent role in Newfoundland Power's upcoming customer conservation, demand management, and electrification plan. With that, I'll pass back to Peter.

ALTEEN, Q.C.:

A. Okay. The current setup, that existing combination of legislation, cabinet orders, and contracts that support the Muskrat Falls Project essentially placed Nalcor Energy in the position of determining what the

customers on the island integrated grid will pay in relation to the project. They're in the driver's seat. In May of last year, the Government intervened and indicated that residential customer rate will be limited to 13.5 cents a kilowatt hour once the project is commissioned. Newfoundland Power took some comfort in that announcement. We think that our customers took some comfort in it also, but the Muskrat Falls Project has very long life assets, 75, 100 years, perhaps even longer than 100 years, and no matter how that projects costs are going to be reflected in rates over the very long term, or even the medium term, is highly uncertain from Newfoundland Power's perspective and from Newfoundland Power's customers perspective. Leaving Nalcor Energy in the position of being able to unilaterally determine what customers will have to pay is not in Newfoundland Power's view good public policy. It is not in Newfoundland Power's view in the interest of our customers. Some type of oversight makes sense. From our perspective, regulatory oversight has a

couple of obvious advantages. One is regulators like yourselves have expertise in utility cost and rates. You're used to the subject matter, and you routinely incorporate customer's interests in your decision making. It's part of what you do.

(9:30 a.m.)

But there are also choices in the degree and form of oversight that might be appropriate. For example, the relatively comprehensive oversight which is appropriate for a fully regulated enterprise like Newfoundland Power may not necessarily make sense for the Muskrat Falls Project. The discussions over the past two weeks concerning Nalcor Energy Marketing and the possibility of the Board exercising some oversight over the risk management policy in terms of trading is an example of a less comprehensive type of regulation that might be appropriate in the circumstances.

ALTEEN, Q.C.:

Q. .. And the oversight might not necessarily include final decision making authority.

This harkens back to the Board's oversight over Newfoundland and Labrador Hydro rates prior to Hydro becoming regulated in the 1990s. At that time, if Hydro wished to increase rates, the Government typically – which the Government had the ultimate authority to determine what those rates would be or if Hydro could raise the rates – would refer the matter to the Board. A hearing, typically a process that looked like a typical rate case, followed and the Board issued a report to the Government. And then it was Cabinet that determined what the final rates would be. So, there could be a role of oversight from a regulator which is not necessarily inclusive of the final decision making authority.

When I think about some of the issues raised in the context of oversight in the Muskrat Falls Project and what the possibilities are, this type of model may have some application. The issue of regulatory oversight has risen in the context of this reference in a couple of places. We think it's appropriate for you

to specifically raise the issue in your report to the Government.

The Government has a number of complex decisions in front of it with respect to rate mitigation and many of those decisions are outside the scope of this Board or the reference before the Board. Nevertheless raising the issue clearly now will put the issue on the Government's agenda. And a decision on oversight, we understand, has the potential to require change to some of the legislative Cabinet order and contractual arrangements supporting the Muskrat Falls Project. But it seems to us that some things probably need to change to avoid the future looking like the recent past with respect to how we're going to price Muskrat Falls' production. We think there must be a better public policy outcome than that and we think that regulatory oversight, to some degree, is part of a better public policy outcome.

To conclude, Madame Chair, Madame Vice-Chair, Commissioner, we've been listening carefully to our customers' concerns over

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where electricity prices are going for a few years now. They're concerned that it's going to become unaffordable. We share that concern. The rising electricity price forecast associated with the project have shaken our customers' confidence.

This reference has identified between 150 and 200 million dollars in potential rate mitigation options for 2021. This is an important step because these are tangible dollar valued options to help reduce the rising price forecast.

By the time Muskrat Falls is commissioned, an appropriate customer conservation demand management electrification plan will be read. It will assist customers in managing their bills. It will support electrification over the long term. And when the plan is implemented, it should help reduce the rising electricity price forecast too. This too will count as progress in addressing the challenges presented by the Muskrat Falls Project.

Providing a degree of regulatory

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oversight to the project is, in our view, an option the Government should seriously consider. It won't affect the 12.7 billion dollars that's been invested in the project. But it may help ensure future expenditures, such that they're variable, will be reasonable and it may instil a degree of customer confidence in where electricity pricing is going.

Finally, there's been a lot of change since the Muskrat Falls Project was sanctioned in 2012. Project costs are now estimated at 5.3 billion more than the sanctioned value of 7.4 billion. To put that in perspective, that's equivalent to the investment or almost five times the total investment Newfoundland Power has in its 130-year-old electrical system, almost five times, and that's just the overruns.

Operating costs are now estimated it looks like to be something like 97 million dollars. That's 62 or 63 million dollars higher than the original estimate. That looks quite familiar because that's about what our annual operating costs are, what it

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takes to run Newfoundland Power.

My point in raising these numbers and trying to punctuate them is just to say the water is changed on the bead since 2012 and that these costs were largely unanticipated, but are clearly significant. And while progress has been made in rate mitigation as a result of this reference, there are material unanswered questions out there.

Once they get resolved, how Muskrat Falls costs will go into rates, how that will be reflected in financial statements, how the project will affect reliability, whether we can or cannot open financing arrangements and do something along that line. Once all of that is over and resolved, we think – and the project's run and it's reliable, we think it's at that point that Government should conduct a detailed examination of where we are in light of what's been invested, so that we can ensure that we make the best of the situation as it then stands. And that should be focused through the lens of the Provincial Power Policy, in our opinion.

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That's what the Government should do. That will result in our customers receiving power at the lowest possible cost consistent with reliable service in all of the circumstances that then pertain and I think that is what this Board should be focusing on and what the Government should be focusing on and it is what Newfoundland Power is focused on. Thank you. Thank you very much for your attention.

CHAIR:

Q. Thank you.

YOUNG, Q.C.:

Q. Good morning, Chair. Good morning, Panel. My name is Geoff Young. I'm in-house counsel with Newfoundland and Labrador Hydro. I think most of my questions will probably be directed to Ms. Langthorne, but I'm not certain of that. I'm sure from the resumes I just heard, I think you're all capable of answering the questions I have.

Fairly focused though, what I'd like to pursue a little bit further, and you've indicated a fair bit of work has already been done, started on this with Dunsky and

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others, with respect to electrification, with respect to heat pumps and the impact. We know also that some research has been looked at at least about time-of-use rates and Synapse were here the other day and they were talking about critical peak pricing. Just wondering if you can indicate where we are along that, particularly with regard to starting with heat pumps, because that I think, as you've shown in your graph, clearly the up and coming technology that's going to affect electrification in the near future, already I would suggest.

MS. LANGTHORNE:

A. Sorry. I'm sorry can you read the question in terms of what you're looking for for heat pumps? Like -

YOUNG, Q.C.:

Q. Just wondering – well, yeah, I'm just wondering where your research is with regard to rate design in that regard.

MS. LANGTHORNE:

A. Okay.

YOUNG, Q.C.:

Q. If there's any new movement there in that

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light.

MS. LANGTHORNE:

A. Okay. For rate design, time-of-use rates and critical peak pricing was included in the potential study analysis that was conducted by Dunsky Energy Consulting and for both cases, they found that the potential was limited. So, since the potential study, we've been in conversations with Dunsky, working jointly with Hydro, to have them do some more analysis to look at what the impacts of electrification will be in the future and if there is some flexibility around the Industrial contracts with Hydro's customers, whether or not that would change the outlook for time-of-use rates and critical peak pricing.

In terms of heat pumps, we watch that market very, very closely. We provide comprehensive information to our customers about whether or not a heat pump is right for their home. We work very closely with the installers in the market to make sure that the same messages are getting communicated to customers and that customers

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can take comfort in knowing that a quality unit is being installed into their home.

We are about to undertake – we've started the process of a heat pump load research study. We'll actually look at the energy savings and the load impact of heat pumps on the system. So that work has started.

YOUNG, Q.C.:

Q. Thank you. With regard to – and you've mentioned this also, there's a bit of a delicate balance between electrification, promoting load growth, energy intensive, but not causing a peak. And I assume that the last comment you made about the research for heat pumps, is it targeted at that specifically or are you just monitoring that at this point to see which way it's going?

MS. LANGTHORNE:

A. Are we targeting it for electrification?

YOUNG, Q.C.:

Q. Yes. Well, I'm wondering about is there a particular concern about capacity shortage to happen with heat pumps coming on at the rate that it is.

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MS. LANGTHORNE:

A. We are looking very closely – that's one of the primary objectives of the study is to look at the load impact of heat pumps on the system and how they operate at times of peak.

YOUNG, Q.C.:

Q. Okay, thank you. One of the conversations I had with Synapse had to do with screening tests you might use for technology, CDN technologies, and I suggested to them that there might be some concern that we'll have to watch as we design this to make sure that the customers who can't participate to reduce their bills through conservation and who might get caught in an increased rate due to lower overall usage, if that occurs. To the extent that that occurs, there may be people who are disadvantaged by the CDN, and I asked about whether they used the rate impact measures test and things of that nature to ensure that that didn't occur. Have you looked at that yet in your research?

MS. LANGTHORNE:

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A. Yes. We look at, and we are very familiar with the standard practice tests that are used for utility cost effectiveness screening of conservation programs. So, the RIM test is not currently utility practice to use as a screening tool for conservation programs and the National Standard Practice Manual for assessing cost effectiveness of energy efficiency resources, which is, I would say, the authoritative document on utility cost effectiveness screening also does not recommend the use of the RIM test as a screening measure for conservation programs. And in 2015, the Board approved the use of the program Administrators Cost Test as a substitute for the RIM test.

YOUNG, Q.C.:

Q. So, I assume the concern is that the RIM test is too conservative and it suppresses too many useful options? Is that generally the observation that's made? It screens out too many things that other like total resource cost test might – for example, might promote?

MS. LANGTHORNE:

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A. The rate payer impact measure test is seen as the most restrictive of all the tests. It also only provides an indication of whether rates could increase or decrease. It does not inform you on the impact of the rate increases. And the rate impacts are only one consideration of program design. You also have to consider the overall bill reduction that a customer could achieve and then you have to look at your customer participation and try to make your programs broad enough so that it reaches a majority of customers.

YOUNG, Q.C.:

Q. Thank you. Those are all our questions. Thank you, Panel.

CHAIR:

Q. Thank you. Consumer Advocate.

BROWNE, Q.C.:

Q. Thank you, Chair. I have some questions. Talking about time-of-use rates and the potential, you mentioned these. It would seem to me there was a study undertaken some time ago or some kind of pilot project that Newfoundland Power was involved in

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pertaining to time-of-use rates. Do you recall that and what the outcomes were?

MS. LANGTHORNE:

A. Yes, I do.

BROWNE, Q.C.:

Q. And what were the outcomes?

MS. LANGTHORNE:

A. We completed a pilot project of time-of-use rates in 2015. We had about 200 customers participate. We found that we could see that customers could reduce their energy usage in the morning, but we did not see a lot of movement in the evening. And the savings were pretty similar to what we've seen in other jurisdictions and I believe it was about 1.6 percent reduction.

BROWNE, Q.C.:

Q. And how was it conducted? Were monitors placed in people's homes to allow them to access electricity at a certain time? How was it monitored? What were the mechanics of that?

MS. LANGTHORNE:

A. There was a monitor placed inside customers' homes that provided them with information on

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their electricity use and they were provided with program information on the times of the peak periods and what the differential of the costs were.

(9:45 a.m.)

BROWNE, Q.C.:

Q. Now, when that was conducted, electricity rates were probably at somewhere in the vicinity of ten cents a kilowatt, I would think, and when we're looking at Muskrat Falls, we're looking at more than that. Do you think the uptake in time-of-use rates may be different from a rate payer's perspective now than they were then?

MS. LANGTHORNE:

A. Not necessarily. There's only certain loads that customers can really shift. So, it really does depend on their behaviour and if they're motivated to shift their usage or not. I will say that we, as I mentioned, are looking closer at time-of-use rates and we are also conducting a rate design review that is about to get underway that will also look closer at time-of-use rates.

BROWNE, Q.C.:

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Q. And the rate design review that you're undertaking, will that be made public or filed with the PUB?
MS. LANGTHORNE:
A. Yes, I believe it would.
BROWNE, Q.C.:
Q. And what's the timeframe on that?
MS. LANGTHORNE:
A. We are working with Dunsky to take that analysis of the time-of-use rates. So that should be finished by the end of the year and those inputs are very important for us to get started on a rate design review. So, we expect that to get started in the new year.
BROWNE, Q.C.:
Q. In terms of heat pumps, the Government was out there last week announcing a million dollars, a thousand dollars for a thousand customers, to incentivize people to move to heat pumps. What do you think of a program such as that?
MS. LANGTHORNE:
A. I think that customers are very interested in heat pumps and if that helps customers

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reduce their electricity use, then that's a good thing.
BROWNE, Q.C.:
Q. And what programs has Newfoundland Power in place to incentivize customers to do something similar?
MS. LANGTHORNE:
A. We actually offer financing for customers to overcome that upfront cost to allow customers to install heat pumps.
BROWNE, Q.C.:
Q. And how does that work, financing? If a customer was to approach Newfoundland Power and with the idea of getting a heat pump, what are the mechanics of that? Just take us through that because customers would need to know -
MS. LANGTHORNE:
A. Sure.
BROWNE, Q.C.:
Q. - how to avail of that and this is as good a forum as any right now.
MS. LANGTHORNE:
A. Customers would contact us or there's a form on our website to apply for financing. We

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would then review their usage. We would ask them to supply us with a permit to show that the work can take place at their residence. We would also ask who the installer is and ask for an invoice because we want to make sure that the installer is a certified installer and that the heat pump meets the efficiency requirements that we require to try to make sure that customers are going to see the energy savings out of their investment. And then they have a term over five years in which they can pay that back and that comes right off their utility bills.
BROWNE, Q.C.:
Q. Have you had much uptake in that as of today?
MS. LANGTHORNE:
A. We've had about 400 customers participate.
BROWNE, Q.C.:
Q. And that's ongoing?
MS. LANGTHORNE:
A. Yes.
BROWNE, Q.C.:
Q. Your last stats on residential heat pumps in

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your figure on page 11 is 2018. What's going on in 2019? Do you have any idea of where you are on that in terms of heat pumps?
MS. LANGTHORNE:
A. We will have some market research hopefully within the next month. We typically survey our customers in the fall of the year.
BROWNE, Q.C.:
Q. So, you don't know right now if customers are moving to heat pumps or have moved, any of your customers have moved in 2019? Is that your evidence?
MS. LANGTHORNE:
A. I don't have the specific numbers, but I can tell you through conversations with customers and installers that heat pumps is a very popular technology among customers. The most popular content to the Take Charge website relate to heat pumps. So, customers are very engaged and very interested in heat pumps.
BROWNE, Q.C.:
Q. Now, just moving away from that topic and onto another. One of the larger measures

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that has been discussed in reference to rate mitigation and how consumers can be assisted in reference to the ultimate charge for their electricity bill is the financing and refinancing that might be available under the – through the Federal Loan Guarantee and other financial instruments. Has Newfoundland Power done any study of those possibilities and what might be available there from their perspective?

ALTEEN, Q.C.:

Q. No, we have not. We see those agreements as between the governments, Nalcor and their debt holders. So, there's not much we can do to influence that.

BROWNE, Q.C.:

Q. So, you have – you must have some point of view on what's available out there, just from reading the newspapers if you haven't studied it yourselves, in terms of sinking fund payments and the covenants that are available on the loan guarantee. Hasn't anyone at Newfoundland Power looked at that to -

ALTEEN, Q.C.:

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Q. Not in – we have not looked in detail at the financial terms associated with the financing with a view to determining how you would negotiate or renegotiate terms. As a general proposition, when a project turns out to be substantially different than what the original plan is, that you would have to refinance the project is a commercial reality that occurs, not infrequently. But we have not gone and looked at the covenants contained in the documents with a view to providing legal advice to the Government.

BROWNE, Q.C.:

Q. In terms of the 13.5 cents that the Government is suggesting rates be set at, that's all well and good from the Government's perspective, but Newfoundland Power is a private company. If Government were to establish rates at 13.5 cents, what can we look forward to from Newfoundland Power? Are we going to see a rate application the next day because they see some movement to – because as a private company, you would have a right to bring on a rate application in the circumstances?

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What's the plan here? What can customers look forward to from Newfoundland Power once the 13.5 cents is set?

ALTEEN, Q.C.:

Q. I don't know. I can't predict the future, but I can say this. The last time Newfoundland Power's costs resulted in a rate increase for customers was in 2016 and that last year in 2018, as part of the resolution of the General Rate Application filed then, we extended that through 1920 (sic), so that would make a period of about five years that Newfoundland Power's costs have not served to increase its customers rates at all.

BROWNE, Q.C.:

Q. Yeah, that's understandable, but we can't get any kind of commitment or some suggestions from Newfoundland Power that rate payers can find comfort in, and indeed the Government should find comfort in by doing all this rate mitigation just to leave an open space there for Newfoundland Power to move in with a rate application. You can't give any guarantee that you won't do

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that?

ALTEEN, Q.C.:

Q. That is correct.

BROWNE, Q.C.:

Q. And in a similar vein, Liberty found striking the amount of capital spending by Hydro and Newfoundland Power combined and indeed, there are issues in reference to capital spending before this Board right now. The capital spending of Newfoundland Power is increasing all of the time. Your parent, Fortis, in a release seemed to take comfort for – take comfort to its shareholders that rate base is expanding for its various component companies in various jurisdictions, including this one, I would imagine.

What would Newfoundland Power's view be on a legislative cap for the amount of capital spending that a utility could submit for review in any one year? What's your position on a cap?

MR. CHUBBS:

A. I'll speak to that, Mr. Browne. Newfoundland Power doesn't believe a cap is

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in the best interest of our customers. All of our capital projects that we put forward are consistent with the power policy of the Province; that is to provide least cost reliable service, and I think that we do that and we provide – we justify all those capital projects on those basis to the Board and we think that that works for our customers.

BROWNE, Q.C.:

Q. I don't know if it works for your customers, but it certainly works for your shareholder, for your owner, Fortis. Right now in the Province, Newfoundland Power tell people that we have flat load growth. Is that correct? The load growth is flat?

ALTEEN, Q.C.:

Q. Load is actually declined in each of the last three years and this year, I would consider it flat vis-à-vis last year.

BROWNE, Q.C.:

Q. And projections for the coming years, when do you see an increase in load growth into the future?

ALTEEN, Q.C.:

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Q. We do five-year sales forecast as a matter of routine. We don't see appreciable load growth in that five-year time horizon.

BROWNE, Q.C.:

Q. And your reliability criteria SAIDI and SAIFI, how are we with that with Newfoundland Power vis-à-vis national comparators?

MR. CHUBBS:

A. I'll speak to that. Our reliability performance has been fairly stable over the last ten years. During normal operations, our reliability, compared to the national average, is about half the Canadian average. So, I think our reliability performance is adequate, certainly for the environment that we operate in, yes.

BROWNE, Q.C.:

Q. Well, in some stats it appears to be better than national averages. Isn't that not correct?

MR. CHUBBS:

A. During normal operating conditions, our system reliability is better than the national average. The numbers that—the

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statistics that we provide usually, you know, to the Board and to other parties for comparison do not include major storms and major system events. They don't include times when, you know, we lose—say lost supply from Newfoundland and Labrador Hydro, those conditions. So, what we report on are the—those statistics really are a measure of how our poles and wire is operating. So, we exclude those major events that kind of exceed the capacity of our system or out of our control. When you include everything, if you were to look at what all customers see throughout the year, our reliability is actually just the Canadian average.

BROWNE, Q.C.:

Q. So, we have no load growth, flat load growth, coming into the future. Your reliability is very good by any standard. Why is there more capital spending? How can you justify more capital spending just with those two stats alone and why would this not be a good time to introduce a cap for capital spending indeed and which will be imposed on Newfoundland Hydro as well given

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the circumstances in which we find ourselves? Isn't it time for a change and for a reassessment of what's been going on here?

ALTEEN, Q.C.:

A. Because it would be bad policy. Madam Chair, if you took the situation that we actually ran into three or four years ago, we had an unexpected failure of the distribution circuit that served the Island of Bell Island and it was unanticipated. And in response to that, to secure the supply for the Island of Bell Island, we had to come in with a supplemental capital expenditure application, something in the order of 15 to 18 million dollars as I recall, but that number might be wrong. Once you start talking caps, you start impairing the ability of a utility to fulfil its obligation to provide service to it customers. So, while a cap may have some attraction from a simplicity perspective, from a delivery of reliable service over a large service area like Newfoundland Power has to serve, it doesn't make a lot of

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sense. However, a system which requires Newfoundland power to come forward and show that each and every one of its capital expenditures are consistent with reliable service delivery at the lowest possible cost, that is an appropriate standard and that is what is consistent with current Canadian practice.

BROWNE, Q.C.:

Q. Some jurisdictions in Canada have performance-based rate-making. I think two Fortis companies in Ontario and Alberta respectively are into performance-based rate systems. Are you familiar with that?

ALTEEN, Q.C.:

A. Yes, and our affiliate in British Columbia is also -

BROWNE, Q.C.:

Q. Okay.

ALTEEN, Q.C.:

A. - subject to performance-based rate-making.

BROWNE, Q.C.:

Q. And how does it work there, performance-based rate-making?

ALTEEN, Q.C.:

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A. In all of these schemes, the essential principle that underlines performance-based rate-making is simple, and that is to create incentives to ensure that a utility doesn't increase its rates by anything more than inflation minus a productivity factor, often called X. So, at the core of these programs is a formula, inflation minus X, and that's why rates change on an annual basis in the utilities that are under performance-based regulation. Now, inflation minus X gets to be a much larger formula when you put in a bunch of other variables and that's the differences between the various jurisdictions, but at the core of it is the I minus X calculation. So, when you look back at Newfoundland Power's performance, you can compare it sort of like that. In our last rate case, we actually filed the results of a study that was a 20-year review of the total cost, total contribution of all of Newfoundland Power costs. That's all of our capital; that's all of our operating; it's profit; it's contracted costs; it's all of that. And in the 20 years ending in

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2017, it was clearly indicated that the total impact of Newfoundland Power's costs on customers' rates was about half a cent a kilowatt hour. And if you go back and look at inflation over that period, it looked like our cost performance had beaten inflation by an aggregate of 24 percent over that 20-year period. So, that's one percent and a bit per year over a 20-year period. We conclude from performance, like that we perform as well as a utility that is under performance-based regulatory schemes. That's what our customers actually see. The good news in the story is it's just not all about the cost. Through that period, Newfoundland Power was able to improve its—the reliability of its system by close to 40 percent. So, you have reduced real costs of 24 percent; improved reliability of 39 percent, I think was the number. And you could see these numbers in the context of—I think it was PUB-NP-73 I think was the RFI.

(10:00 a.m.)

So, performance-based regulation is not likely going to change the results of our

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performance a great deal. That's my point with that. The Board has actually considered this context and I'm sure at least the Chair and the Vice-Chair may vaguely recall this, you weren't there, Commissioner O'Brien, back in the 2008 through 2010 period when the Consumer Advocate brought forward John Todd from Elenchus Consulting or whatever as an expert to talk about those issues and the Board concluded that--much of what the Board does encourages productivity that is similar to that which is—occurs under or incented under performance-based rate-making schemes in Canada.

BROWNE, Q.C.:

Q. Yes, that was before Muskrat Falls. Things are changing. And have the Fortis Companies in Canada generally met their performance requirements under the performance rate-based systems under which they are in these three provinces?

ALTEEN, Q.C.:

A. I haven't done a detailed review of that, but I generally think they do.

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BROWNE, Q.C.:
Q. And Fortis is happy with the returns in these three provinces that they're getting, the performance-based systems are into?
ALTEEN, Q.C.:
A. Not really into—in a position to speak to Fortis' happiness about returns, Madam and Vice-Chair.
BROWNE, Q.C.:
Q. But Fortis is doing pretty good out there. We have to admit that and good for Fortis. Isn't that true?
ALTEEN, Q.C.:
A. I'm a shareholder in Fortis and I'm happy to be so.
BROWNE, Q.C.:
Q. So, given that we are into this Muskrat Falls conundrum which Newfoundland Power didn't want and the rate payers certainly didn't want, but we're here and we have to work with it, you are bringing forward a number of conservation and incentivization for customers, but in reference to yourselves with the new reality, what is Newfoundland Power prepared to do? You're

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not prepared to go with a cap. You're not prepared to look at performance-based rate-making. What is it that you are going to do, Newfoundland Power, the company itself to assist indeed yourselves and customers? Because I'm unconvinced that performance-based rate-making might be to your benefit overall. Everyone recognizes you're a private company and that you have to make a return. That's a given. What is it that you're proposing here?
ALTEEN, Q.C.:
A. Newfoundland Power hasn't agreed or disagreed with anything. What I've pointed out is that PBR is unlikely to have better outcomes for customers than Newfoundland Power's proven performance. If you accept and Newfoundland Power is tooled to provide least-cost reliable service to its customers, if we are achieving that, and I believe we've been achieving that for some time now, you can only sacrifice cost or reliability. And Newfoundland Power thinks that the balance that it has achieved over the last decade is consistent with the

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customers' long-term interest. The view that a project, which has gone quite a bit over projected costs, that the remedy for that is to take a part of the electrical system that is performing reasonably well and make it perform worse, we don't see that as a solution to the problem presented by Muskrat Falls, Madam Chair.
BROWNE, Q.C.:
Q. Do you believe that all the costs of the Muskrat Falls Project have been prudently incurred and should be included in rates?
ALTEEN, Q.C.:
A. I'm not in a position to say how much, if any, of the Muskrat Falls Project were prudently incurred and should be included in rates. My suspicion is if an analysis was done, you—along those lines, you might reach a conclusion that part of those costs are not prudent or in accordance with what we would call public utility regulatory standards, reasonable is the—another word. So, I'm not in a position to say, though I suspect not.
BROWNE, Q.C.:

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Q. Do you find yourselves struggling at Newfoundland Power because you can't go out and buy electricity on the spot market in—because you are bound by legislation to purchase power from Hydro, isn't that not correct?
ALTEEN, Q.C.:
A. That is correct.
BROWNE, Q.C.:
Q. Whose interest is that in, that Newfoundland Power can't purchase electricity on the spot market to bring it onto the Island for its customers or even an amount of power?
ALTEEN, Q.C.:
A. I believe it's in the interest of Nalcor Energy.
BROWNE, Q.C.:
Q. Would you like to see a system where Newfoundland Power would have the right to purchase power on the spot market for, ultimately, for the benefit of Newfoundland Power and its customers here to keep rates stable?
ALTEEN, Q.C.:
A. That's a complicated question and will

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require me to make a lot of assumptions, but I think I can say this much, if the system was an open market, so that Newfoundland Power could either acquire or develop its own resources to supply its customers, then that choice may well tend to reduce the costs that our customers would have to pay an account of the energy or generation resources that we need. That's certainly been our experience I think in Prince Edward Island where we purchased a large amount of our supply. So, that has served to reduce prices because market prices are quite low now. Whenever you ask a question like that, to superimpose that change on the current situation, raises a whole range of other complications and it wouldn't necessarily be so depending on what we would intend to do with the 12 or 13 billion dollars of capital costs associated with the Muskrat Falls Project or at least the Muskrat Falls generation part of the project for sure.

BROWNE, Q.C.:

Q. But the wholesale price you're paying Newfoundland Hydro for electricity right now

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is what? Roughly.

ALTEEN, Q.C.:

A. At the margin, I think it's 18 cents a kilowatt hour.

BROWNE, Q.C.:

Q. And if Newfoundland Hydro or Nalcor Energy Marketing is selling power on the market to foreign buyers outside of the province for 2.5 cents a kilowatt, do you see any possibilities there at all for Newfoundland Power or for a restructuring of the system to take advantage of those low costs? And I take your point, it couldn't all be done overnight.

ALTEEN, Q.C.:

A. We don't see that. We haven't fully evaluated that in the short term, but our recommendation to the Commission that once we reach steady-state on the system or that point on the system we're comfortable with what's been invested works well, then looking at that type of proposition as part of a broader assessment of what's in the best interest of the customers served by the system might yield—or that might a part of

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the consideration, Mr. Browne. That's the way I would look at it. Looking at it now where the system is not even operational, we're trying to get over the commissioning, we want to get over that entry-level of rates and see where we stand, I don't know that looking at that now makes as much sense as looking at it once the system is up and working reliably. That's our view of the work. Then we can have some sober reflection with a timeline that permits reasoned assessment.

BROWNE, Q.C.:

Q. Sure, and I take your point on that. Newfoundland Power has always had a position on the rural-rate subsidy and the rural-rate subsidy and how Island customers are paying for the rural-rate subsidy, and how that should not be borne by Island-rate customers. What's your position on that today?

ALTEEN, Q.C.:

A. Well, I don't think our position on that has changed much. We believe economically the rural-rate deficit is essentially a subsidy

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that's paid by Newfoundland Power's customers to a bunch of other users of electricity on different systems. And that, because it's a subsidy, it tends to distort pricing for Newfoundland Power's customers, and in our view for the other customers on the system, in a better way to deliver the subsidy would be in the normal way we deliver subsidies through government, through government offices. Governments are particularly capable at determining what are the appropriate needs of people, needs-based assessments, whereas commissions like yourselves tend to be driven by economics when it comes to issues like that. So, that's—we would prefer to see the subsidy directly paid to the recipients and allow them to make choices between different energy sources based on the true cost of those sources where they live. That way, they get the subsidy, but they'll make energy choices that are more economical for everyone.

BROWNE, Q.C.:

Q. Your view of the rural-rate subsidy is a

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government social initiative that should remain with government and not be included in Newfoundland Power's customers' rates?

ALTEEN, Q.C.:

A. That's has been a longstanding position. However, we accept that it is included in our rates and we've stopped making that argument every single time we show up for rates because it's not going to go anywhere, Mr. Browne.

BROWNE, Q.C.:

Q. Sometimes you've got to keep going though. You have to keep your—keep trying. In terms of supply adequacy and reliability, the post-Muskrat Falls Project commissioning, in Newfoundland Power's view will the Avalon Peninsula's supply be improved in terms of supply adequacy and reliability post-Muskrat Falls' commissioning?

(10:15 a.m.)

ALTEEN, Q.C.:

A. It is my hope that it will remain at least consistent with the supply reliability that our customers enjoy today. However, I don't know that we've gone far enough down that

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road yet to fully understand what's involved in having or developing or creating that state of affairs, Mr. Browne. The assessments and the studies are coming in. We are reviewing them closely. The Board we know has its consultants reviewing them and that matter will find its way to a reasonable conclusion within a reasonable period of time, it is my expectation and we'll see, but it is our hope that reliability for our customers on the Avalon Peninsula, which are half of our customers, will at least be as reliable as it is today.

BROWNE, Q.C.:

Q. In terms of the Maritime Link, do you see that as a viable option for getting supply onto the Avalon and in the winter months should there be difficulties with the Labrador Island Link?

ALTEEN, Q.C.:

A. It's too early to say how all of that will play together. What we know today is that there are limitations that exist. Newfoundland and Labrador Hydro are addressing that issue in studies that

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they're filing with the Board. We are participants in that, full participants in that proceeding. So, that's where that sort of sits right now. It's hard to say much more about it really.

BROWNE, Q.C.:

Q. In Newfoundland Power's view, will there be a long-term need to keep the Holyrood thermal generation system in service once Muskrat Falls is commissioned?

ALTEEN, Q.C.:

A. We have not reached that conclusion yet.

BROWNE, Q.C.:

Q. What does that mean?

ALTEEN, Q.C.:

A. We just haven't reached that conclusion that Holyrood is the answer to providing adequate supply for customers on the Avalon Peninsula. It may be some other type of engineering initiative that may be transmission based, it may be generation based, it may be a combination of it or it may be a combination of those things in operational changes. It's a complex issue.

BROWNE, Q.C.:

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Q. So, you're not completely satisfied that there will be reliability once Muskrat Falls is commissioned in the winter, say, for instance, reliability in the winter months?

ALTEEN, Q.C.:

A. Our current view is more reliability-based assessment and planning is required to ensure the right level of reliability for our customers on the Avalon Peninsula and that is underway.

BROWNE, Q.C.:

Q. Tell me this. Currently is the transmission systems robust enough to bring 500 megawatts of firm capacity energy over the Maritime Link?

MR. CHUBBS:

A. We do know we've been following Newfoundland and Labrador Hydro's information reports that they've been filing on this matter and we do know that there are transmission constraints into the Avalon today should we lose the Labrador Island Link altogether. So, importing over the Maritime Link, there is still a transmission constraint on the Avalon that we are aware of. We do know

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that Hydro are reviewing the planning criteria that may ease that constraint. So, there's information that has been filed on that, but again, this is just, at this stage, an open matter with the Board that's being resolved. So, it hasn't come to any final conclusion yet that I'm aware.

BROWNE, Q.C.:

Q. So, it's your position therefore that this system is not robust enough currently as to bring 500 megawatts of firm capacity in energy over the Maritime Link onto the Island? Is that your position right now?

MR. CHUBBS:

A. As we understand it at this point, there is a transmission constraint into the Avalon Peninsula should the complete Labrador Island Link go out of service during -

BROWNE, Q.C.:

Q. What is that transmission –

MR. CHUBBS:

A. And that is under a peak-load scenario.

BROWNE, Q.C.:

Q. Sure. What is the—what is that transmission in capacity right now? You can give it to

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us generally.

MR. CHUBBS:

A. Well, the Island system uses about 1700 megawatts of capacity. The Labrador Island Link has a capacity of about 900 megawatts, Muskrat Falls being about 800 megawatts of generation. If that Labrador Island Link was out of service without Holyrood in operation, the constraint into the Avalon—or sorry, the total generation available on the Island is about 1400 megawatts. And the constraint into the Avalon, I think, shows up at around 1200 megawatts.

BROWNE, Q.C.:

Q. And Newfoundland Power is studying this with Hydro? Are you working with Hydro on it?

MR. CHUBBS:

A. Well, Hydro is working on it. We are involved in the process and certainly providing any assistance that we can in terms of load forecast, but it's—this is largely a transmission system planning initiative by Newfoundland and Labrador Hydro.

BROWNE, Q.C.:

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Q. In terms of your load forecast, which you've said is flat, do you share your load forecast with Newfoundland and Labrador Hydro?

ALTEEN, Q.C.:

A. Yes, we do.

BROWNE, Q.C.:

Q. When do they come looking for it or how is that done? What are the mechanics of that?

MR. CHUBBS:

A. Subject to check, I think they get it…

ALTEEN, Q.C.:

A. Subject to check, I think they get it at a time that is consistent with their planning cycle, and I believe it is in the Spring of the year. I believe it's the Spring. I'm getting a confirmatory nod from Mr. Henderson, who is the person who really knows the answer to the question.

BROWNE, Q.C.:

Q. And is there a discussion around the load forecast or what you give them, you're telling them essentially what you need in terms of load, what Newfoundland Power anticipates it will need.

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ALTEEN, Q.C.:

A. No, I think there's a reasonably collegial attitude between our forecasters and the forecasters at Hydro and they, between themselves, want to understand what underlies the forecast so that they can use it appropriately. I think that that relationship does exist.

BROWNE, Q.C.:

Q. Thank you very much, thank the panel for your answers.

ALTEEN, Q.C.:

A. Sure.

CHAIR:

Q. Thank you, Mr. Browne. Industrial Customers?

MR. COXWORTHY:

Q. Thank you Madam Chair, Commissioners. Good morning, my name is Paul Coxworthy. I'm counsel for the Island Industrial Customer Group. Ms. Langthorne, you gave some evidence earlier today about some further research is being done by Dunsky?

MS. LANGTHORNE:

A. Yes, that's correct.

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MR. COXWORTHY:
Q. And I think it was in the context of time of use rates and critical peak pricing, and I guess their initial finding that the potential for those was limited and Dunsky was asked to go back and look at that further, am I paraphrasing your evidence correctly?
MS. LANGTHORNE:
A. Yes, that's correct.
MR. COXWORTHY:
Q. And in the context of that you talk about, I thought that you said that one of the things that Dunsky has been asked to look at is the flexibility of industrial contracts and I think you added that by "industrial" you were referring to industrial customers of Hydro, was that correct?
MS. LANGTHORNE:
A. Yes.
MR. COXWORTHY:
Q. Can you comment further on what Dunsky has been asked to look at there in relation to industrial contracts?
MS. LANGTHORNE:

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A. They are looking at the curtailment windows and seeing if it's possible to extend those.
MR. COXWORTHY:
Q. Anything else?
MS. LANGTHORNE:
A. They're also looking at, well not in terms of Industrial, but they're looking at the implications of electrification in the future and what implications that has on the system during peak days.
MR. COXWORTHY:
Q. And that's not specific to the Industrial customers.
MS. LANGTHORNE:
A. No, that's not.
MR. COXWORTHY:
Q. I just want to explore with you, Ms. Langthorne, although perhaps the other members of the panel could comment on this as well, with result to Newfoundland Power's larger commercial customers, customers that, if I can characterize it, don't have a usage profile that is close to the Domestic user, so the preponderance of their use is not about heating a building or lighting a

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building or heating hot water, or the other Domestic uses that typify most of your customers. Are there a lot of large commercial customers of Newfoundland Power that fit that sort of profile that are outside sort of the standard Domestic profile and whose, a large part of their use or preponderance of their use is about some process, whether it's a manufacturing process or some process, that that's most of their electrical consumption, is there a group within Newfoundland Power, a class, if I can call it that, of customer, of large commercial customer, that's been identified by Newfoundland Power's meeting that profile?
MS. LANGTHORNE:
A. I would say we would call it a segment of our commercial market and we would have manufacturers, processors, fishplants, those types of customers that would definitely be what you've described.
MR. COXWORTHY:
Q. Sure, and are they being looked at separately in terms of their opportunities

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for being about to take up things, like time of use rates, critical peak pricing, capacity curtailment?
MS. LANGTHORNE:
A. Yes, they are, so as far of our potential study they do break the market out into segments for Newfoundland Power's larger customers and also as part of our upcoming conservation demand management plan, we would look specifically at the different implications for different segments of our market.
MR. COXWORTHY:
Q. And is Dunksy looking at that? Is that part of the further research they're doing, are they looking at that segment of Newfoundland Power's customers?
MS. LANGTHORNE:
A. No, they would look at it from a much larger perspective, where we would look at it in a more detailed way.
MR. COXWORTHY:
Q. Mr. Alteen, near the conclusion of your evidence you talked about customers' confidence being shaken, I think in the

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context of the anticipated rate increases arising from the Muskrat Falls Project, if they are not effectively mitigated, and I was hoping that you could comment on what role you believed the Public Utilities Board and I guess more to the point processes before the Public Utilities Board, could have in promoting or restoring your customers' confidence?

ALTEEN, Q.C.;

A. Yes, I can do that. What we or what I've been describing when I talk about the low customer confidence, was really brought home to us in this period post June, 2017 when it was pretty much publicly announced that rates would have to double to cover the costs of Muskrat Falls, and we saw the reactions to that through a number of means. We have surveys, we actually talked to our customers quite a bit, just normally, and we did focus groups and a bunch of other stuff to really understand what our customers sentiment was about this. And our customers, as much as, you know, you might like to think that they've been following

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the future of electricity rates closely, they were not, you know, they were shocked. They were shocked. I think there was a range of feelings from despair right to anger, whatever, and one of the themes that came out of that for us was how did this happen to us? So when I speak about instilling a degree of customer confidence, it's really about the publicity that you put around changing price in this type of industry. If we want to change the price that we charge our customers, we have to come down here under the glare of the lights, under oath, and start explaining why and the press, typically as they are here today, will cover that news, and that allows people to understand things that are going on around them. That understanding is the route of what you might get in terms of a little more confidence, Mr. Coxworthy; what it won't necessarily do, of course, is change, at this stage, change the 12.7 billion dollar price tag that's there. So that's what we're talking about. We trying to think ahead, beyond the first 13.5 cents

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kilowatt hour of rates, to what happens then. Are we going to have another one of these exercises? How are we going to manage that, what will our customers expect because they really want some—they love certainty and predictability in price, as the Industrials highly valuate it, so do our customers, but you know, we can't give them maybe as much predictability as we like, given the circumstances, but we can make it public enough and can make it understandable enough that people can get a sense of where it's going.

MR. COXWORTHY:

Q. Just a follow-up question on that. If customer confidence is not restored or at a sufficient level, will that affect the optimum take-up of the electrification and CDM proposals that are being put forward, explored through Liberty, Synapse, yourselves? If customers don't have confidence, will that impact adversely under take-up of those types of things?

ALTEEN, Q.C.:

A. That's really hard to say, if you create a

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conservation electrification demand management suite of initiatives that you can communicate effectively to customers, our experience is that customers will tend to act in their best interests. Customers conserve to save on their bill; there's no more clear message we get than that. So that's an issue that's, you know, almost like a program, something you can plan for and execute. When we look at the confidence issue, I'm talking about a much bigger issue in our opinion about the sector and we're in this sector and how we deal with that, and I'm not so such that I can draw the relation—though there may be some spillover.

MR. COXWORTHY:

Q. I guess what I'm getting at is how certain do they have to be that buying an electric car is going to save them money in the long term, how certain do they have to be that if they invest in a heat pump and other things, that over, if their time horizon is not a year or two, but you know, five or ten years, how certain do they have to be about the predictability of rates that you, of

course, mentioned earlier as being an important factor.

ALTEEN, Q.C.:

A. Certainty and predictability will assist them in making those decisions. I think that that is true. I'm not so sure that the regulatory oversight will necessarily provide a great deal of that, you know, in the short term, but yes, that will affect the take-up.

MR. COXWORTHY:

Q. If regulatory oversight doesn't achieve it, I think you said in the short term, can it achieve it in the medium and long term, that greater predictability?

ALTEEN, Q.C.:

A. These are investments that occurs, ten-year investment in a heat pump is, you know, is a similar ten-fifteen year investment, I think.

MR. COXWORTHY:

Q. Thank you, Mr. Alteen, thank you panel, I have no further questions.

CHAIR:

Q. Thank you Mr. Coxworthy. Ms. Greene.

GREENE, Q.C.:

Q. Thank you, Chair. Good morning.

ALTEEN, Q.C.:

A. Good morning.

GREENE, Q.C.:

Q. Same slide, let's start with the questions of regulatory oversight. You've given evidence this morning that some form of oversight would make sense on a go-forward basis and I wanted to explore that with you in terms of if you're making any recommendations or any suggestions to the Board to include in its report. You mentioned that the normal regulatory process is one form of oversight; the glare of the lights puts a sharper focus to things, would you agree with that?

(10:30 a.m.)

ALTEEN, Q.C.:

A. Yes, if you mean it affects management decision-making, it does do that.

GREENE, Q.C.:

Q. In what way?

ALTEEN, Q.C.:

A. In the context of the circumstances we are

describing. Take, for example, Lower Churchill O&M, operating and maintenance costs, that's a variable cost. If you want to increase that cost in a material way, then you had better be able to justify it within a regulatory framework if there's regulatory oversight. If not, you don't have that justification to make and being able to justify your costs is something that utility management are continually considering, that's just the nature of this business.

GREENE, Q.C.:

Q. So you would agree that the need to justify your operating and maintenance costs and your capital costs to an independent regulator brings a sharper focus internally where those costs are being prepared?

ALTEEN Q.C.:

A. I agree with that.

GREENE, Q.C.:

Q. With respect to the future operating and maintenance costs and future capital costs for the Lower Churchill project, do you believe enhanced regulatory oversight or any

regulatory oversight would be appropriate from the perspective of the reasonableness of the costs and ensuring customer confidence in that the costs being incurred, that they're paying for, are reasonable?

ALTEEN, Q.C.:

A. Yes, I do.

GREENE, Q.C.:

Q. So do I take it from that answer that Newfoundland Power would agree or recommend that future operating and maintenance costs and capital cost for the Lower Churchill project be subject to regulatory review in a normal process?

ALTEEN, Q.C.:

A. They should be subject to some regulatory review, whether it's the full degree of the review that Newfoundland Power's costs are given is a matter of some, I don't know, of some application variation. They may come in once every five years to get their costs set or once every ten years to get their costs set; it depends on the variability of the costs.

GREENE, Q.C.:

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Q. So that's a timing issue, is it?
ALTEEN, Q.C.:
A. It's a timing issue and it's a degree of oversight issue. I think there's two of it and it's how much the costs change. You don't want to have full regulatory oversight of a cost that's largely stable and it's not going to change much.
GREENE, Q.C.:
Q. But it would be full regulatory oversight depending on the appropriateness of the timing for the oversight.
ALTEEN, Q.C.:
A. It would be an oversight as to reasonableness.
GREENE, Q.C.:
Q. In your discussion in your presentation around this slide, you mentioned that there are other potential options with respect to regulatory oversight and you mentioned the Hydro situation pre 1996, and how do you see that being applicable here?
ALTEEN, Q.C.;
A. Right now Nalcor Energy is an unregulated entity and it's entitled to take the costs

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and it is subject, obviously, to its owners' oversight, the Government of Newfoundland, but it simply is entitled to pass whatever costs it sees fit along to our customers. You could use something like the pre-regulated Hydro experience to create a scheme of oversight where if Nalcor Energy wanted to increase the costs, they would come down here, have some review as to the reasonableness of those costs, but you may not be the people who decide the reasonableness, you would just recommend it, much like your referential capacity in this proceeding here today. And then you could report back to the Cabinet or to the Province or the Government of the Province and they could decide. That is a halfway house in terms of oversight, but it's, in our view, it's something that could be considered.
GREENE, Q.C.:
Q. Now you mentioned Nalcor costs that are being passed on to ratepayers, so the direct costs that are being passed on to ratepayers or that are contemplated would be with

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respect to the Muskrat Falls project, so are you suggesting that that be done for past Muskrat Falls costs that would be already incurred, the 12.7 billion or future costs?
ALTEEN, Q.C.:
A. No, I do not think that going back there would necessarily solve anything from a regulatory perspective.
GREENE, Q.C.:
Q. So are you providing that—I'm trying to explore for the Commissioners what is it Newfoundland Power believes is an appropriate form of regulatory oversight, what are the options, where does Newfoundland Power fall with respect to the options. So the only cost right now Nalcor Energy is passing on with the potential is the future operating and maintenance and capital costs for the Lower Churchill project, so I thought I had already understood that you thought that some process where the reasonableness of the cost were tested and some sort of final approval by the Board probably would be a preference, are you offering up this pre-1996 type of

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review as another alternative?
ALTEEN, Q.C.:
A. That is a distinct alternative that I would call something like a halfway house, it's not the regulatory review that you mentioned in the first instance.
GREENE, Q.C.:
Q. Of the people who are here in the room, there's only a few of us who are involved in the pre-1996 type of review, there were a number of occasions where the government did not accept the recommendations of the Board, including with respect to the royal rate subsidy, isn't that correct, Mr. Alteen?
ALTEEN, Q.C.:
A. I'm aware of that, but if the goal from a public policy perspective is to leave the decision-making authority with the government of the province, then that might be appropriate as a halfway house. In the model I'm describing, Ms. Greene, what the government gets is the advice of an expert, this Board, in determining what to do with Nalcor's request to increase the rate. But that ultimately, when you really step back

and look at it, is the core public policy issue of how much oversight do you want over this project in the big public policy context. We favour more than is currently contemplated.

GREENE, Q.C.:

Q. And your first preference, as I understood it, would be the normal regulatory process, is that what I took from your comments or –

ALTEEN, Q.C.:

A. I think that would provide more confidence, relatively speaking.

GREENE, Q.C.:

Q. And with respect to other options, are there any other options that you would like to raise for the Board's consideration with how the normal regulatory process, I actually like the glare of the lights, but it does bring certain clarity there with everybody as they're preparing for it, or this, the reference type review.

ALTEEN, Q.C.:

A. Those are the two models that we put out there, but there would be more options possible if we had more clarity about where

the long-term organization of the sector of the costs were. Mr. Marshall, in his evidence, raised something about, well if we fix the costs, associate the cost recovery associated with the 12.7 billion, then there's very little else that moves. Well that would affect in turn how much oversight you want to place on the remaining O&M which is a relatively small portion, but it's not insignificant at the same time. So it's not unrelated to how you want the sector to operate.

GREENE, Q.C.:

Q. And we'll come to that, what the long-term considerations that you have raised. With respect to Nalcor Energy Marketing, you did raise other options with respect to that, is my understanding from your presentation earlier. One is that there could be a retrospective review, as opposed to a prospective review and I'd like to ask you to expand on that, Nalcor Energy Marketing.

ALTEEN, Q.C.:

A. What I was trying to describe and maybe I did a poor job of it, was for Nalcor Energy

Marketing, the American experience with which I have some familiarity for local utilities, they are often buying on wholesale markets, like a fully regulated electric utility would be buying on FERC, regulated markets in the United States. Oftentimes the regulator in terms of, the utility regulator, in terms of determining how much oversight they want to exercise over such an entity, will try not to get into every single transactions because these are fast-moving markets and, you know, you've got to move fairly fast with it. What they tend to do and I've seen this in a couple of utilities, is that they look at the risk management policy of the utility, in terms of its market access and buying the supply for its customers, and they will do whatever is reasonable in the circumstances to ensure that the policy is reasonable adhered to and those policies would determine how much you could hedge, how much you could buy in a single purchase—whatever it is in terms of the appropriate risk management technique, and then they would

audit or do a compliance sort of review of it. That is commonplace practice in the United States. When I describe it to some of my co-workers at Newfoundland Power, it is not a lot unlike conceptually how this Board regulates CIACs. We have a policy; you approve the policy. We know that we're subject to audit and review, we might have to report on the policy once a year, but that type of oversight is relatively light-handed. It's not expensive to respond to and it doesn't restrain the behaviour of someone who has to act in a competitive market situation. So there are significant models or examples out there that can be used to provide oversight, just what degree of oversight do we think is appropriate I think is a starting point and I think you just go out and look at what's out there.

(10:45 a.m.)

GREENE, Q.C.;

Q. And you're aware that Liberty has recommended a similar type of regulatory oversight as you have just outlined?

ALTEEN, Q.C.:

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A. It makes all the sense in the world when I read it.
GREENE, Q.C.:
Q. So it is Newfoundland Power's position that there should be that regulatory type of oversight over the trading activities of Nalcor Energy Marketing?
ALTEEN, Q.C.:
A. Over their risk management policies and the execution of the policies. Beyond that, I don't know that it's, you know, we want to go too far down into regulating it.
GREENE, Q.C.:
Q. One issue that has been in the hearing is whether the revenue that has is earned from the marketing activities of Nalcor Energy marketing should be applied to the rates that customers will end up paying for the Muskrat Falls project. I assume that it would be Newfoundland Power's position that revenue that's earned in the export markets, using the assets customers pay for, should all be applied towards the rates that customers pay?
ALTEEN, Q.C.:

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A. Yes, it is.
GREENE, Q.C.:
Q. Turning now to another topic then, I'd like to go to Slide 8, and you've mentioned several times during your presentation this morning about the longer-term situation and you've asked the Board to recommend to government that once steady state is reached that there be an extensive study done of the electricity sector in the province. And I wanted to talk about that recommendation this morning from Newfoundland Power, and I would like first to turn to the Liberty Report, and if you could bring up, please, page 6 of the Liberty Report. And if we could go down a bit there, first paragraph in the Section B, actually I'll come back to the first paragraph, the second paragraph where Liberty stated that "The analysis of the economic effects of asset transfers from Hydro to Newfoundland Power showed negative rate consequences for customers, even if we did not assume using Hydro's equity returns for mitigation." And they go on to point out that Hydro has significantly lower

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carrying costs with capital investments, even with the same rates of return, and then they go on to say that "The greater equity levels, the higher debt costs and taxation exemplify factors that make Newfoundland Power's costs higher." So I wanted to give you the opportunity to comment on that because that was Liberty's analysis and findings that given the nature of the investor owned utility and the higher cost structures that Newfoundland Power have, there would not be benefits to the customer, and I wanted to give you the opportunity to explain why you're making the recommendation today and what would change in the longer term?
ALTEEN, Q.C.:
A. Why we're making the recommendation today isn't necessarily tied to this, and an investor owned utility's' carrying costs are higher than a Crown corp carrying costs and I think that's well understood. When we step back and look at the costs that are customers are going to be over the long term, Madam Chair, we're struck at just the

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size of the change in investment in the electrical system. So once all of this is commissioned, presuming that our costs are going to come in as they re currently forecast, the government will find itself, as owner, of about 15 billion dollars of electricity assets that it's going to be asking customers to pay the cost of it. That's the huge change here and we see, you know, when we look at this and it's come up in the reference, there's a proliferation of organizations in there that are doing all of those types of things. Now we have Newfoundland Power's, what, 1.1, 1.2 billion dollars worth of investment, that's a relative size of it, so when we talk about taking a long-term view, it's really driven by the increasing government investment as opposed to Newfoundland Power. What we think we bring to that consideration is a pretty good view of what it takes to get costs out of the system over the long term. So we're not sort of saying that this option is why we'd have the long-term review that you somehow have, Newfoundland Power having

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a bigger footprint. That may or may not be part of the discussion as some of the suggestions from the Consumer Advocate may or may not be part of the discussions, but it really, it's really from our perspective, given the big increase, the 5 or 6 billion dollars in additional costs which is probably close to twice the existing system in 2012, that you really should step back and look at it as an owner, how can I optimize this for the best interest of our customers to make sure it's reliable least cost service. When we went through that exercise, there were pretty huge transition costs, 40 million dollars in early retirement incentives alone that we came to this Board and looked for amortizations on. There were significant employee reductions, but that was necessary to get to a platform that was least cost in a low growth environment, but it had—so we went through all of that detail, got to a platform that looks reasonably well now. I think the government should be thinking about optimizing its own assets in whatever ways

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are available in a similar long-term way, not under the gun of how much we can affect rates in the next year, year and a half. That context will be much too short to find a lot of efficiencies and a lot of long-term benefits for customers that do exist that we have achieved because we took a long-term view. That's essentially where our view is on that, Ms. Greene.

GREENE, Q.C.:

Q. And that your ability to optimize costs would in effect overcome your negative consequences if your different capital structure and your different tax position?

ALTEEN, Q.C.:

A. No, I don't necessarily believe that that is, you know, a single wires provider is something that will get you long-term benefits. I'm not certain it won't, but I'm not certain at all that that is it. I think the broader context would be found within unregulated and regulated, Nalcor Hydro, those entities because that's where the costs are. They have what, 135 million dollars in OPEXs in Hydro, another 100 in

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Hydro, we've got like 65, maybe 63, so that's where the cost benefits might be and the capital costs are similar, concentrated in the government utility, that is where your answers will be. That's why we think it makes common sense to go to the owner and say, you should look at this, not under the glare of trying to reduce rates against, to avoid a rate shock, but long-term optimization of these assets. That's our recommendation to the Board. Does that make it any clearer, Ms. Greene?

GREENE, Q.C.:

Q. And a follow-up question just to make sure that I understood what you are saying is that you believe that Newfoundland Power's ability to optimize those costs, it would be greater than, because we've heard evidence during the rate case from Hydro and from Nalcor how they're focussed on costs and how they plan to do it, but I guess from what—I'm not sure if I'm doing a fair assessment of what you just outlined, you believe that Newfoundland Power's ability to maximize those costs over the longer term probably

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would bring greater value than if we left it to Nalcor and Hydro to do it.

ALTEEN, Q.C.:

A. I think it's a government, I think it's an owner thing as opposed to the utility thing in this circumstance.

GREENE, Q.C.:

Q. And I wanted to go back up to the first paragraph to give you the opportunity to comment on another factor that was underlying Liberty's analysis that it wasn't appropriate to transfer assets to Newfoundland Power and you'll find it halfway down where you begin, "We eliminated consideration of transferring the 230 kV and HVdc facilities, considering their criticality to overall system integrity and reliability." That was one factor, and then at the end of that sentence they go on to say, "The lack of Newfoundland Power's operational experience with those types of facilities", so other than the cost structures that were a factor for Liberty, they also were concerned about your lack of experience in doing 230 kV and dc

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facilities, so I wanted to give you the opportunity to respond to that as well.

MR. CHUBBS:

A. And I'll respond to that, Ms. Greene. You know, throughout this process, the issues came up with Liberty on a number of occasions and if I can take you back to the Phase 1 submissions, when we looked at this, Liberty had just talked about retail operations and it was just about, you know, customer service and distribution and when Newfoundland Power, when we filed our Phase 1 submission, we said if you're going to look at just customer service and just distribution, it makes sense to look at the whole wires system and include transmission if you want to get at the maximum efficiencies. When we started on this path, you know, Liberty brought up the fact that Newfoundland Power doesn't operate 230 kV, so Newfoundland Power's transmission system we have about 2000 kilometers of transmission at 66 kV and 138 kV; whereas Newfoundland and Labrador Hydro would have had 138 kV and 230 kV. When this issue came

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up, we reached out to a few of our Fortis affiliates, you know, there's ITC in the US which operates about 25,000 kilometers of transmission. It's a huge transmission company and we reached out to their operational folks and we said do you see a difference in 138 and 230 kV in terms of operational capabilities, something we should be considering as we're doing our analysis on this, and their opinion was that there was no material difference. We reached out to Fortis BC Electric in British Columbia, they operate the same transmission voltage levels as we do, a 66, 138 and 230 kV and they had the same opinion that there was no material difference in operating 230 kV and 138 kV. Now, 230 kV equipment is larger, it's a higher voltage, so the insulators are bigger, the transformers are bigger, the structures are critically bigger, but other than the fact that it's larger in terms of maintenance and operations, there was no material difference, so we do not share Liberty's conclusion here in terms of lack of

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operational experience. We feel we'd be able to operate that, the same as we do our own transmission lines today.

GREENE, Q.C.:

Q. And with respect to the HVdc facilities?

MR. CHUBBS:

A. Again, you know, polls and wires, it's inspection, it's maintenance, you know, steel towers, we have steel towers also, so the same thing.

ALTEEN, Q.C.:

A. But we do agree that the need for allowing the operation of the assets to fit in may make, you know, transferring the 230 kV backbone of the system any time before you get that may create risks that are not worth taking, so we don't really find the conclusions something we disagree with because of all the reasons there are sufficient reasons for them to reach a conclusion it shouldn't be there. I think that's our view of it, isn't it, Byron?

MR. CHUBBS:

A. Yes, that's correct. It made sense that

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Liberty, when they, you know, they had a lot of discussion about execution risk in terms of timing and yeah, it made sense when they said we'll take the 230 and put it aside and continue our efforts with the remaining parts of the system, you know, that made sense considering where we are and we're just getting Muskrat Falls into operation, so yes, I would agree.

GREENE, Q.C.:

Q. The last area that I wanted to question on was, came up during the questioning of the Liberty panel that Newfoundland Power also pays water rents and could you please give the estimate of the amount that Newfoundland Power pays annually for water rental payments?

MR. CHUBBS:

A. I believe it's approximately a million dollars.

GREENE, Q.C.:

Q. And do you foresee that amount changing at any point in time in the future?

MR. CHUBBS:

A. No.

GREENE, Q.C.:
Q. And I believe the suggestion to the Liberty panel by Mr. O'Brien was that that amount could also be applied to rate mitigation, so I assume that's a recommendation from Newfoundland Power that the government consider applying your water rental payments to offset rates?
MR. CHUBBS:
A. When Liberty made their—when I read Liberty's report, they identified, you know, future government revenue streams from the electricity sector and they identified some existing government revenue streams and those were water power rentals, you know, current Hydro dividends and HST. And our observation was there are others to be considered and that was one that Newfoundland Power does pay waterpower rental, so if you're going to look at revenue streams just to relate it to the electricity sector, you know, there would be no need to exclude that from the review.
GREENE, Q.C.:
Q. And are there any other revenue streams that

should also be considered that have not been discussed to date?
MR. CHUBBS:
A. One other is corporate income tax, you know, Newfoundland Power pays approximately I believe 12 million in corporate income tax every year and, you know, Liberty on this page actually highlights that as a cost to customers, but it is also a potential revenue stream that could be used for rate mitigation.
GREENE, Q.C.:
Q. And is that 12 million dollars a provincial share or
MR. CHUBBS:
A. I think it's fifty/fifty, subject to check.
GREENE, Q.C.:
Q. So the 12 million, is that fifty percent or is it the hundred percent?
MR. CHUBBS:
A. I think that's the hundred percent of the amount and about fifty percent would be provincial, fifty percent federal, again subject to check.
GREENE, Q.C.:

Q. Thank you panel, that concludes all my questions.
CHAIR:
Q. Thank you Ms. Greene. Mr. O'Brien?
MR. O'BRIEN:
Q. Nothing in reply.
CHAIR:
Q. And I don't have any questions. So thank you. Where are we siting now? We're done for the day?
GREENE, Q.C.:
Q. We are concluded for the day, happily. Tomorrow there is no sitting day. The next witness will be Mr. Patrick Bowman for the Industrial Customers and he will be here Thursday morning for 9:00.
CHAIR:
Q. Thank you very much.
Upon conclusion at 11:02 a.m.

CERTIFICATE

I, Judy Moss, hereby certify that the foregoing is a true and correct transcript in the matter of Reference to the Board, Rate Mitigation Options and Impacts, Muskrat Falls Project, heard on the 15th day of October, 2019 before the Newfoundland and Labrador Board of Commissioners of Public Utilities, 120 Torbay Road, St. John's, Newfoundland and Labrador and was transcribed by me to the best of my ability by means of a sound apparatus.

Dated at St. John's, Newfoundland and Labrador this 15th day of October, 2019

Judy Moss

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