Q. (Reference Application) Are NP and Hydro considering policy changes to promote customer-owned generation? For example, BC Hydro has around 9,000 net metering participants. Closer to home, Nova Scotia has over 11,000 net-metered solar installations, and New Brunswick has 1,350 net metering participants. It is understood that although Hydro has a $2 billion Build Application before the Board, there are only 14 net metering projects in service across the province. Should the province consider modifying the net metering program to a simultaneous buy-sell arrangement whereby customers would be paid unmitigated rates for power supplied to the grid and would pay approved mitigated rates for power taken from the grid? Would this have a significant uptake on net metering given that Hydro is forecasting rates of the order of 25 cents/kWh in 2035 (Hydro Build Application, Schedule 3, Attachment 1, Table 5)?

A. General

Newfoundland Power currently has 64 active net-metering customers, with an additional 20 customer applications approved. Between 2023 and 2024 there was a 92% increase in approved applications in the Net Metering Service Option.[1] This demonstrates increasing customer interest in Newfoundland Power's Net Metering Service Option.

As intended, the Net Metering Service Option provides customers with the option to offset their own energy usage through small-scale renewable generation they develop themselves.[2]

The Net Metering Service Option is designed to reasonably reflect the avoided or marginal costs on the system and to reduce the risk of cross-subsidization with non-net metered customers. In Order No. P.U. 17 (2017), the Board states:

> *"The Board is satisfied based on the information provided that the proposed settlement rates reasonably reflect the avoided costs on each system and would provide for a transparent and consistent approach for the annual settlement of net excess generation. Further, a settlement rate for net excess generation that is reflective of the avoided or marginal cost can reduce the risk of cross subsidization with non-net metered customers, since incremental costs above this rate would have to be paid by all customers. The Board accepts that variations in annual energy usage due to generation, weather, occupancy of other factors are to be expected which may, in some years, result in net excess generation credits. The Board believes that this excess energy has value to the system which should be recognized. The Board finds that a settlement rate based on avoided cost is a reasonable approach in the circumstances to assign fair value to the energy credits to the benefit of the*

[1] Newfoundland Power approved 12 net-metering applications in 2023 and 23 applications in 2024, an increase of 11 customers (11/12 = 0.917 or 92%).

[2] See Government of Newfoundland and Labrador *Net Metering Policy Framework*, July 2015, page 2.

net metering customer while, at the same time being consistent with the least cost provision of service to all customers."[3]

Unmitigated Net Metering Service Option

A Net Metering Service Option pricing approach that includes: (i) buying energy from Net Metering Service Option customers at an unmitigated rate; and (ii) allowing Net Metering Service Option customers to consume excess energy at Newfoundland Power's approved mitigated rates is not appropriate.

The settlement rate included as part of the Net Metering Service Option is Newfoundland and Labrador Hydro's ("Hydro") 2nd block energy charge applicable to Newfoundland Power. The 2nd block energy charge was recently changed and is reflective of the reduction in the marginal cost of energy on the Island Interconnected System.[4] The value of this energy is realized by Hydro when it exports energy to North American electricity markets.[5] Hydro's 2nd block energy charge to Newfoundland Power now ranges between approximately 3.4 ¢/kWh and 9.7 ¢/kWh.[6]

Newfoundland Power's Domestic Service energy rate is 15.213 ¢/kWh. This includes the effects of the Government of Newfoundland and Labrador Rate Mitigation Plan.[7] As a result, compensating Net Metering Service Option customers at an unmitigated rate would be significantly higher than Hydro's marginal energy costs.

Adding more energy to the Island Interconnected System from prospective Net Metering Service Option customers at a rate that is higher than Hydro's marginal energy costs would increase overall costs to customers. Effectively, this arrangement would: (i) create additional energy that Hydro would need to export at the low marginal energy rate; and (ii) cause increased costs on the Island Interconnected System due to the high cost of purchasing energy from Net Metering Service Option customers.

In this scenario, since the additional cost of the Net Metering Service Option energy is greater than Hydro's energy exports, the additional compensation paid to Net Metering Service Option customers would have to be recovered from non-net metered customers. This cross-subsidization concern was articulated by the Board in Order No. P.U. 17 (2017) and forms the basis for compensation provided as part of the Net Metering Service Option.

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3 See Order No. P.U. 17(2017), page 5, lines 33-44.
4 See Order No. P.U. 1 (2025), page 3, lines 34-37.
5 In 2024, Hydro recorded Energy sales revenue of $118 million from its Energy Trading operations. See Hydro's *2024 Annual Report, Nalcor Energy Consolidated Financial Statements*, December 31, 2024, page 49 of 51.
6 See Order No. P.U. 1 (2025). Hydro's 2nd block energy charges to Newfoundland Power are 3.354 ¢/kWh from April to November and 9.698 ¢/kWh from December to March.
7 See Government of Newfoundland and Labrador News Release – *Provincial Government Announces Finalization of Rate Mitigation Plan*, May 16, 2024.