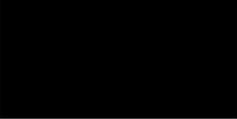


July 5, 2019



Dear 

Re: Your request for access to information under Part II of the *Access to Information and Protection of Privacy Act* (File # NR-112-2019)

On June 14, 2019, the Department of Natural Resources received your request for access to the following records/information:

Any briefing notes related to the February 15, 2019 interim report by the PUB on rate mitigation options

I am pleased to inform you that a decision has been made by the Department of Natural Resources, confirmed by the Deputy Minister, to provide access to the requested records. The record is attached.

As set out in section 42 of the Act you may ask the Information and Privacy Commissioner to review the department's decision to provide access to the requested information. A request to the Commissioner must be made in writing within 15 business days of the date of this letter or within a longer period that may be allowed by the Commissioner. Your request should identify your concerns with the department's response and why you are requesting a review.

The request for review may be addressed to the Information and Privacy Commissioner is as follows:

Office of the Information and Privacy Commissioner
2 Canada Drive
P.O. Box 13004, Stn. A
St. John's, NL. A1B 3V8
Telephone: (709) 729-6309
Toll-Free: 1-877-729-6309
Facsimile: (709) 729-6500

Pursuant to section 52 of the Act, you may also appeal directly to the Supreme Court Trial Division within 15 business days after receiving the department's decision.

Please be advised that responsive records will be published following a 72 hour period after the response is sent electronically to you or five business days in the case where records are mailed to you. It is the goal to have the responsive records posted to the Completed Access to Information Requests website within one business day following the applicable period of time. Please note that requests for personal information will not be posted online.

For further details about how an access to information request is processed, please refer to the Access to Information Policy and Procedures Manual at <http://www.atipp.gov.nl.ca/info/index.html>.

If you have any questions, please feel free to contact me at 709-729-0463 or rhynes@gov.nl.ca.

Sincerely,

A handwritten signature in cursive script that reads "Rod Hynes".

Rod Hynes
ATIPP Coordinator

Information Note
Department of Natural Resources

Title: PUB Rate Mitigation Interim Report

Issue: To provide background information on the Board of Public Utilities (PUB) Interim Report on Rate Mitigation Options and Impacts – Muskrat Falls Project (MFP).

Background and Current Status:

- On September 5, 2018, Government provided a reference question to the PUB to examine and report on options to mitigate the impact of the MFP (See Annex A for a Backgrounder).
- The PUB was asked to deliver an interim report by February 15, 2019 and a final report by January 31, 2020. The Minister of Natural Resources (NR) committed to releasing the reports publicly and using the information to inform the final approach to mitigating the MFP.
- As part of this process, the PUB engaged two expert consultants to assist with the question: the Liberty Consulting Group and Synapse Energy Economics. Both consultants filed their interim reports with the PUB on December 31, 2018. Nalcor filed its response to both reports on January 9, 2019. Submissions and comments were filed by January 18, 2019.
- The PUB's interim report sets out preliminary findings on the Reference Questions: 1) options to reduce the impact of the MFP costs on electricity rates up to 2030; and 2) the amount of energy and capacity from the MFP required to meet Island Interconnected System (IIS) load and the remaining surplus energy and capacity available for other uses such as export and load growth. (The Reference included Question 3 on rate impacts of the options, but requested preliminary findings on Questions 1 and 2 only.)
- The PUB notes that upon commissioning of the MFP, rates for customers are forecast to increase to 22.89 cents per kWh in 2021 if no mitigation takes place. The PUB's preliminary finding was that maintaining current rates (12.26 cents per kWh) or average Atlantic rates, would require approximately \$342-744 million. The interim report provides information on a number of potential initiatives to make up the shortfall, as discussed below, but noted that no single initiative would be sufficient to meet the shortfall.

Cost Savings and Revenue Opportunities

- The PUB highlighted a number of potential options Liberty and Synapse identified to reduce the impact of the MFP, including cost savings and revenue opportunities. These include:
 - MFP Financing. Liberty found that MFP financing costs are a primary area to examine for potential cost savings, such as changes to the financing structure, specifically the sinking fund payments, interest payments associated with the federal loan guarantees and the project debt structure, and the returns and dividends associated with the MFP. The PUB noted “significant potential constraints for some of these initiatives... ..some of which may require the cooperation and agreement of other parties. At the same time some of these initiatives are related to policy issues...”
 - Organizational and Operating Efficiencies. Liberty found there are cost savings associated with organizational and operational effectiveness, including Nalcor restructuring (a five per cent cut reducing revenue requirements by \$10-15 million per year) and productivity and efficiency initiatives related to NLH's operations (such as the transfer of responsibilities

related to retail services to Newfoundland Power (NP)), and operating and maintenance costs for the MFP. The Board notes, "...there are number of issues and constraints associated with restructuring Nalcor, including issues related to the legislative and regulatory framework and the complex legal arrangements that are in place... Nevertheless the Board believes that there is potential for measurable annual cost savings associated with Nalcor restructuring and this will be an area of focus for the Board as this Reference proceeds."

- Electrification. Synapse found that electrification is likely to offer the single greatest opportunity to increase revenues to reduce revenue requirement associated with the MFP. Synapse identified potential for electrification in three end-use sectors: residential heating, commercial heating, and transportation. Synapse found that under a high-electrification scenario and using current rates, incremental revenue across all sectors would be \$16.5 million in 2020, increasing to \$115.3 million in 2030.
- Conservation and Demand Management (CDM) Potential. Synapse found that CDM can assist in peak load reduction, which could delay or eliminate the need for future supply-side capacity resources and can reduce winter energy use to allow for increased export sales during higher-valued winter periods. Synapse found that total potential energy savings under high-CDM scenario by 2030 for the IIS is 1,111 GWh (14 per cent of load) and for the Labrador Interconnected System (LIS) is 224 GWh (9 per cent of load). The PUB also noted there are costs of implementing CDM that need to be considered.
- Maximizing Export Sales Revenue. Synapse found that there is potential to increase export revenue from the sales of surplus energy, varying considerably depending on the level of CDM, load response to price effects, and electrification. Synapse estimated the range of approximate net revenues from export energy sales for a number of different scenarios from 2021 to 2030. Synapse's base case estimated revenues between \$92-142 million, Synapse's low electrification/high energy efficiency case estimated revenues between \$96-168 million, and Synapse's high electrification/low energy efficiency case estimated revenues between \$93-135 million. Synapse also noted capacity sales to be a much smaller opportunity because aggressive, proactive peak load reduction is required through various mechanisms to ensure sufficient Provincial resource adequacy.
- Allocation of Export Sales Revenue. Liberty noted that the exclusion of export sales profits from customer rates is not in accordance with sound utility practice. In its comments, NP noted that it is consistent with sound utility practice to ensure customers receive the full benefit of export sales.

Available Energy and Capacity

- Synapse also focused on the amount of capacity and energy required to meet current and future load on the IIS and the amount available from the MFP to serve this load:
 - Forecasts: review of NLH and NP short and long-term load forecasts found them to be generally reasonable with a slight adjustment to NLH's forecast for the period past 2023. Synapse's base forecast is 9,977 GWh in 2019 declining to 9,598 GWh in 2030 after deducting losses and self-supply by NP and industrial customers. They also noted that the base forecast would be impacted by the elasticity effects of electricity price increases which will be studied further in the next phase.

- Surplus: under the current base case assumptions, the available annual export sales volume is approximately 4,000 GWh which could increase to as much as 4,800 GWh by 2030 if there is significant CDM potential achieved and low electrification.
- Capacity exports: found that 80 MW could be available for delivery over the Maritime Link, “assuming sufficient reserves are available in the province.” Further detailed analysis will be completed in the next phase for the amount and value of potential capacity sales in all markets.
- Load requirements: further analysis is necessary before any conclusions can be reached. Nalcor, NP, the Consumer Advocate and the Island Industrial Customer Group support this course of action.

Other Suggestions and Comments

- Next steps will include information gathering, the publishing of final consultant reports and a hearing. As this process remains ongoing, the interim report does suggest that the Province may wish to consider policy issues related to MFP financing, the planned treatment of returns and dividends as well as export sales revenues, NLH’s return, and regulatory oversight with respect to Nalcor and the MFP.
- The PUB stated that there is no one rate mitigation initiative that will generate enough cost savings or revenue to meet the gap shortfall and that it is clear at this stage there is significant work left to do before any conclusions can be drawn.
- The PUB report states repeatedly that its findings are preliminary and the next phase of its work will focus on further quantifying and understanding the options identified and their respective impacts. The PUB also noted early consideration can be given to:
 - discussions with the Federal government and other stakeholders on MFP financing;
 - changes with respect to the treatment of revenues from export sales;
 - whether returns and dividends can and should be used as an offset to rate increases;
 - Government direction with respect to NLH’s return; and
 - whether there should be changes

Analysis:

- The preliminary information from the PUB and consultants provides Government with independent expert evidence to inform Government’s multi-departmental working group ongoing development of a plan to pay for the MFP.
- The Minister of NR will publicly release the PUB’s interim report on February 19, 2019. The Province will continue to review the PUB’s interim report, comments from stakeholders, as well as various policies and procedures, in its ongoing work on rate mitigation.

Prepared/ Approved by: L. MacDonald/R. Montague/C. Snook
Ministerial Approval:

February 19, 2019



Information Note
Department of Natural Resources

Title: Reference Question Issues List and Schedule

Issue: To provide information on the Board of Commissioners of Public Utilities' (PUB) Rate Mitigation Options and Impacts Reference – Issues List and Schedule.

Background and Current Status:

- On September 5, 2018, Government provided Reference Questions to the PUB to examine options to mitigate the electricity rate impact of the Muskrat Falls Project (MFP).
- The PUB was asked to deliver an interim report by February 15, 2019, and a final report by January 31, 2020. The Minister of Natural Resources (NR) committed to releasing the reports publicly and using the information to inform the final approach to mitigating the MFP.
- As part of this process, the PUB engaged two expert consultants to assist with the question: the Liberty Consulting Group and Synapse Energy Economics. Both consultants filed their interim reports with the PUB on December 31, 2018.
- The PUB's interim report sets out preliminary findings on the Reference Questions: 1) options to reduce the impact of the MFP costs on electricity rates up to 2030; and 2) the amount of energy and capacity from the MFP required to meet Island Interconnected System (IIS) load and the remaining surplus energy and capacity available for other uses such as export and load growth. (The Reference included Question 3 on rate impacts of the options but only requested preliminary findings on Questions 1 and 2 only.)
- Government released the PUB's interim report on February 19, 2019.
- On April 3, 2019, the PUB circulated a draft Issues List and Schedule to relevant parties (e.g. Nalcor, Newfoundland and Labrador Hydro, Newfoundland Power, the Consumer Advocate, the Island Industrial Customer Group and the Labrador Interconnected Customer Group).
- Following a review of comments, the PUB found parties appear to be generally of the view that the draft Issues are appropriate and cover the subjects necessary to respond to the Reference Questions. The PUB released a final Issues List and Schedule on April 24, 2019.
- The Issues List (Annex A) provides a list of issues to be reported on by the PUB in answering the Reference Questions. Core issues include: 1) potential cost savings; 2) revenue opportunities; 3) available capacity and energy; and 4) rate impacts of cost savings and revenue opportunities.
- The updated Schedule is as follows:
 - February 15, 2019 – Board's Interim Report;
 - February to August, 2019 – Information gathering and analysis continues;
 - March 10, 2019 – Requests for Standing;
 - March 28, 2019 – First technical conference;
 - June 3-5, 2019 – Second technical conference;
 - August 5-6, 2019 – Third technical conference;

- September 3, 2019 – Board experts' reports filed;
 - Mid-September, 2019 – Parties' expert and non-expert evidence filed;
 - October 3, 2019 – Public Hearing Begins;
 - November 1, 2019 – Written Submissions Filed;
 - January 31, 2020 – Board's Final Report.
- In its final Issues List and Schedule covering letter, the PUB noted Government had released a Rate Mitigation Plan on April 15, 2019 that included a commitment to work with the Government of Canada to undertake analysis of electricity rate increase issues and consider options including those in the PUB's Interim Report. The covering letter stated:

"In light of this, the Board has decided to suspend its review and analysis of the various options to mitigate rates that may arise from the Muskrat Falls project financing pending completion of these discussions. The issues that are affected by this are the following:

 - *Alterations to Muskrat Falls Project financing payment requirements, including sinking funds and interest payments*
 - *Alterations to Muskrat Falls Project financing requirements for the project debt structure*
 - *Rate of return included in the project financing and contractual arrangements for Nalcor and Hydro*
 - An April 25, 2019 letter from Board Chair Darlene Whalen to the Minister of NR also advised the minister of the Board's decision to suspend this aspect of its reference work.

Analysis

- This note is for information purposes only.

Action Being Taken:

- The Department of Natural Resources (NR) will continue to monitor and provide updates on the progress of PUB proceedings and developments related to the Reference Question.

Prepared/Reviewed by (For Divisional Purposes Only): L.MacDonald / K.Bradbury / C. Snook



April 26, 2019

Annex A: Issues List

REFERENCE - RATE MITIGATION OPTIONS AND IMPACTS MUSKRAT FALLS PROJECT

Issues List

1. Potential Cost Savings

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

2. Revenue Opportunities

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

3. Available Capacity and Energy

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

4. Rate Impacts of Cost Savings and Revenue Opportunities

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

*Work on these issues suspended until further notice.

2019-04-24