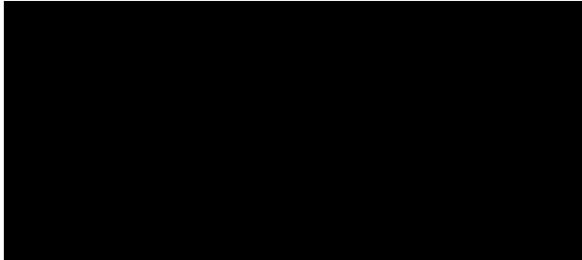




Government of Newfoundland and Labrador
Department of Natural Resources

October 21, 2019



Re: Your request for access to information under Part II of the *Access to Information and Protection of Privacy Act* (File # NR-216-2019)

On October 18, 2019, the Department of Natural Resources received your request for access to the following records/information:

RE: NR-200-2019 ATIPP Response please provide Information Note on Liberty Phase 2 Report to the PUB

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: Liberty Phase Two Report to the PUB Reference

Issue: To provide an overview of Liberty Consulting Group's Phase Two final report to the Board of Commissioners of Public Utilities (PUB) Reference released September 3, 2019.

Background and Current Status:

- On September 5, 2018, Government provided a reference question to the PUB to examine options to mitigate the impact of the Muskrat Falls Project. The PUB engaged two expert consultants to assist with the question: Liberty Consulting Group and Synapse Energy Economics. Both consultants' interim reports were released on January 2, 2019. Final reports (phase two) were released on September 3, 2019.
- In Phase One, Liberty identified a number of financial opportunities to reduce revenue requirements. Studying these further in Phase Two, Liberty has quantified these opportunities as beginning at \$165 million in 2021, growing to over \$500 million by 2030 and reaching more than \$700 million by 2039.
- Contributions to these amounts include:
 - MFP Equity Returns – Applying the Province's share of equity-based returns to reduce rates would generate a reduction in revenue requirements of \$90 million per year in 2021, rising to \$569 million in 2039.
 - MFP Surplus Energy Sales – Applying the Province's share of MFP export revenues to offset customer rates can provide another \$35-\$45 million annually to customers. This was estimated at \$49.1 million in the Province's rate management plan released in April 2019.
 - NLH Equity Returns – Maintaining a 25% level of equity in (Newfoundland and Labrador Hydro (NLH) would provide dividends of approximately \$35 million beginning in 2026. Taking a more aggressive financial approach of a 20% equity level would make an additional \$110 million available between 2021 and 2025 with later decreases.
 - Water Rental Payments – Annual payments to the Province for water use for generation at Churchill Falls and Muskrat Falls amount to \$20 million.
 - Preferred Dividends (Churchill Falls) – \$6 million is available annually in preferred dividends from Churchill Falls.
 - HST – Liberty notes that it did not study tax policy as part of its engagement but that domestic customers of NLH and Newfoundland Power (NP) will make more than \$50 million annually in HST payments on bills.
- Liberty also studied a number of organizational opportunities for rate mitigation. These included:
 - Integrating Nalcor Power Supply and NLH – Liberty found no significant barrier to combining Power Supply and NLH organizations to produce a unified operating entity. This would allow for the reduction 113 full-time equivalent personnel, many at higher compensation levels. The reductions would generate \$12.7 million in annual savings initially and \$21 million beginning in 2023.
 - Combining operations between NLH and NP – Liberty studied scenarios including the transfer to NP of NLH's distribution and retail operations as well as lower voltage transmission. Analysis showed negative rate consequences for customers and thus it was ruled out. Other options, such as transfer of operating responsibilities showed some synergies but modest savings. Liberty did note that it was "striking" that NLH and NP combined had nearly \$0.5 billion planned in five-year capital spending. It suggested that some savings could be found by reducing capital spending but did not quantify the level of savings possible.

- Liberty further noted that estimates of LCP Operations and Maintenance (O&M) costs have fluctuated significantly. Liberty believes that time to reach steady-state operations can be shortened from the current three to five year estimate to two to three years and that a reduction of \$12.0 million from the current \$97.4 million estimate is realistic.
- Overall, Liberty concludes that a significant rate increase of up to 35% is possible, even after applying all the mitigation potential identified in its report.
- Liberty acknowledges that after phase one it suspended examination of further measures under the project financing arrangements to bring forward some of the value of mitigation sources that provide greater value in the second decade. It did so pending the continued discussion on these points between federal and provincial authorities.
- Liberty notes NLH and customers will pay LCP capital and operating expenses in rates, however the PUB has no authority to examine them. Furthermore, Liberty argues that Nalcor's incentive to generate revenues from off-system sales compounds this "...departure from widely applicable regulatory norms." Liberty believes that the PUB should be empowered to exercise, with respect to the LCP, the same authority it has to review other utility activities including capital and operating costs and O&M methods and practices. This would provide a more unified basis for ensuring optimization of costs and reliability.
- Liberty does not see justification for giving the PUB authority to review LCP design and construction. It notes that LCP purchase agreement obligations will not permit avoidance of costs regardless of whether they are judged imprudent or not. Liberty further believes that doing so would unnecessarily complicate a process that can be addressed through appropriate mitigation measures as discussed in its report.
- In terms of external sales from Muskrat Falls, Liberty notes that these can form an important source of reducing rate increases and the current Nalcor model does not match the nearly universal practice in both Canada and the US in which external revenues are applied directly to offset utility revenue requirements. Liberty also suggests the PUB should regulate Nalcor's Muskrat Falls generation and transmission expenditures for ongoing capital, operating and maintenance once operations commence. Liberty suggests PUB regulation of energy marketing operations with NLH controlling water management and hydro production scheduling rather than Nalcor Energy Marketing.
- Liberty also states that contracting marketing expertise as opposed to staffing it internally should be considered an option.

Analysis:

- Note is provided for information purposes only.

Action Being Taken:

- NR officials will further analyze Liberty's findings.

Prepared by/Reviewed by: R. Bates/K. Bradbury/ C. Snook

Approved by:



September 3, 2019