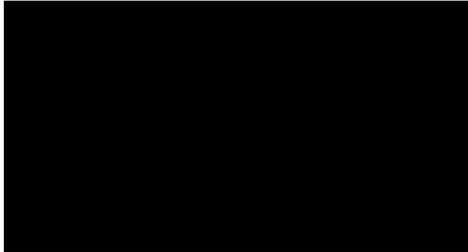




Government of Newfoundland and Labrador
Department of Natural Resources

January 3, 2020



Re: Your request for access to information under Part II of the *Access to Information and Protection of Privacy Act* (File # NR-264-2019)

On December 17, 2019, the Department of Natural Resources received your request for access to the following records/information:

The Information Note "CONSUMER ADVOCATE'S SUBMISSION ON RATE MITIGATION OPTIONS AND IMPACTS" from November 2019

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 responsive records are 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: Consumer Advocate's submission on Rate Mitigation Options and Impacts

Issue: To summarize Consumer Advocate's (CA) submission to the Board of Commissioners of Public Utilities' (PUB) on Reference on Rate Mitigation Options and Impacts.

Background and Current Status

- The Government requested the PUB to undertake a review of electricity rate mitigation options and impacts in relation to the Muskrat Falls Project (MFP) in accordance with the reference. On November 1, 2019, the CA filed his submission (the Report) to the PUB outlining his observation of the MFP and recommendations for rate mitigation.
- The CA has identified the following issues for consideration by the PUB in its report to Government and made recommendations based on these identified issues and PUB's public hearing related to rate mitigation.

Issues

- *Funding Rate Mitigation:* The CA suggests that the financial impact of the MFP should be the responsibility of Nalcor and its shareholder and Nalcor profits from all sources including Greenhouse Gas Credits and Oil and gas should be diverted to rates.
- *Establishing Island Interconnected Customer Rates:* The CA argues that IIS rates should not be set by government but rather should adhere to recognized regulatory principles. Therefore, the rates should be based on the cost of service and IIS customers should only pay for that off-island power they actually consume.
- *The Muskrat Falls Project and its Impact on Supply Costs, Adequacy and Reliability:* Delays have been experienced in the MFP commissioning (particularly the Labrador Island Link (LIL) software issues) and concerns have been raised about system reliability and ability of the Maritime Link to provide reliable power during a LIL bipole loss. The report notes that unavailability, late in-service dates and questionable reliability of its various components may add significantly to the cost of supply to IIS customers even before any energy is delivered to the IIS.
- *Reorganization of NLH and Nalcor Power Supply:* Liberty has recommended staff reductions and has recommended NLH and Power Supply integration.
- *Nalcor Energy Marketing (NEM):* The Consumer Advocate asserts while NEM does provide value to IIS customers, the market should be tested to see if other entities could handle this role. If NEM is found to be the best value, the CA contends that it should be subject to some "light-handed" regulation such as annual audits within NLH.
- *Revenue from Export Sale:* The CA referred to Liberty's statement that if IIS customers are required to pay all costs of the MFP, they should likewise receive all benefits of export sales from the MFP. However, if IIS customer rates are based on the cost of supply including purchases of power from off-island sources at market prices, Nalcor, and its shareholder can choose to manage power sales from the MFP in any way it desires and costs and revenues can be handled outside of the regulatory process similar to Churchill Falls generation.
- *Legal Framework of Provincial Electricity System:* There has been significant Government intervention in the electricity sector, in particular relating to the MFP and OC 2009-063 establishing NLH's return at the same level as Newfoundland Power's (NP) return. The CA suggests a review is required with reduced government intervention.
- *Capital Spending:* The CA states that Both NLH and NP have continued to plan capital budget expenditures without regard to the purpose of the Reference or the Liberty's comments, or to the reality in which ratepayers find themselves following MF commissioning.

Key Recommendations

- The CA recommends that Nalcor Oilco dividends present a potential valuable opportunity (\$2.4 billion) which should be utilized for rate mitigation and if necessary, privatizing Oilco should be considered by Government.
- The CA also suggested the Federal Government could also assist in rate mitigation by eliminating sinking funds requirements and cancelling its loan guarantee fees.
- The CA said that the rates should be set according to the normal process, which is cost-of-service regulation meaning that only electricity and services from the MFP actually consumed by IIS customers, with that electricity costed at the export market prices, should be included as a cost. The resulting rates are unlikely to generate sufficient revenue for Hydro to satisfy the OC 2013-343. That revenue gap would determine the amount of funding needed for rate mitigation.
- NEM should be moved to a unit/subsidiary within Hydro and be subject to "light-handed" regulatory oversight by the PUB.
- Nalcor revenues from Off-island purchases should serve as a source for funding rate mitigation
- OC 2009-063 should be rescinded and the PUB, based on the merits of its General Rate Application (GRA), should determine NLH's return. In addition, NLH's debt-equity ratio should be reviewed in the normal GRA process
- Upon commissioning of the MFP, the structure of the Province's power sector should be subject to a detailed review.
- The PUB establish a cap on capital spending until after the MFP is fully commissioned and until a rate mitigation plan has been fully implemented.
- It is recommended that in 2020 a performance-based regulatory scheme be designed and implemented for Newfoundland Power as approved by the PUB following due process. The CA does not support performance-based regulation for Hydro.
- The CA recommends the rural rate subsidy be funded by government rather than ratepayers.

Analysis

- The CA has indicated that he would like to discuss Performance-Based Regulation (PBR) with NR. He supports consideration of PBR for Newfoundland Power but does not support PBR for NLH due to its role as a Crown corporation with less profit motive. In its testimony at the PUB rate mitigation hearings, Liberty stated that it liked PBR conceptually but was skeptical as to the actual benefits that could be achieved.
- The CA has also indicated that he would like to discuss an annual cap on capital spending for NLH and Newfoundland Power. He points out that this capital spending has often been approved without having a hearing or technical conference. The CA feels that this is inappropriate and has requested a technical conference for both NLH and Newfoundland Power capital budget applications for this year, which together exceed \$200 million.
- The CA, as with Newfoundland Power in its presentation to the PUB at the rate mitigation hearing, contends that after MFP commissioning, there should be a full review of the structure of the Province power sector, including the exclusive right of NLH to sell power in the Province, with a view to restructuring the market to incorporate an element of wholesale competition.

Action to be taken

- NR to meet with the CA to discuss his recommendations.

Prepared/Approved by: Y. Khan, R. Bates, C. Snook / C. Martin





November 15, 2019