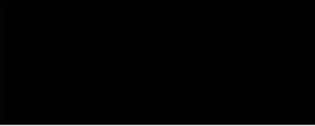


August 20, 2018



Dear :

Re: Your request for access to information under Part II of the *Access to Information and Protection of Privacy Act* (File # NR-98-2017)

On July 23, 2018, the Department of Natural Resources received your request for access to the following records/information:

Request NR/93/2018 lists the briefing notes provided to the Minister in May 2018. I am requesting the Information Note "Overview of the proposed Off Island Purchases Deferral Account".

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 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: Overview of the proposed Off Island Purchases Deferral Account

Issue: To provide an overview of Newfoundland Hydro's (NLH) proposed Off Island Purchases Deferral Account as a tool for Rate Management

Background and Current Status:

- Nalcor estimates the Muskrat Falls Project (MFP) will increase residential electricity rates from 11.7¢/kWh in 2017 to 22.89¢/kWh in 2020. Given negative impact on ratepayers, efforts are underway to identify and implement methods to reduce this increase.
- NLH's ongoing 2017 General Rate Application (GRA) to the Board of Commissioners of Public Utilities (PUB) proposes a rate management mechanism referred to as the Off-Island Purchases Deferral Account. (The PUB oversees the independent regulatory process for setting electricity rates.)

The Off Island Purchases Deferral Account

- NLH anticipates that the Labrador-Island Link (LIL) and the Maritime Link (ML) will be available in 2018 and 2019 to provide off-island power purchases and surplus recapture power from Churchill Falls to reduce the generation required from the Holyrood Thermal Generating Station. This presents an opportunity to reduce the use of costly Holyrood generation by using lower-cost off-island supply in 2018, 2019, and 2020. The estimated value of this approach, as presented by NLH is appended as Annex 1.
- NLH has proposed to establish the Deferral Account as a means to manage future rate increases. Through the proposed Deferral Account, NLH proposes to continue charging customers rates based on Holyrood generation costs, but to actually source cheaper off-island electricity, in part, via the LIL/LTA to serve a portion of customer electricity demand that would otherwise be served by Holyrood. The difference between the higher price that customers would pay and the lower cost NLH would actually incur would fund the proposed Deferral Account, which would be used later to fund rate management efforts when MFP comes online, and its costs become payable by island electricity ratepayers.

Regulatory Precedent

- In expert evidence submitted in support of its 2017 GRA, NLH indicated that Manitoba Hydro had recently used a similar deferral account. In Order 73/15, Manitoba's Public Utilities Board approved an interim rate increase for Manitoba Hydro of 3.95%. The revenues from 2.15% of that rate increase are to be placed in a deferral account to mitigate expected rate increases from the Bipole III Project.

Analysis:

- Intervenors in the 2017 GRA hearing have broadly opposed the deferral account. The Consumer Advocate (CA) argues that the mechanics of Manitoba Hydro's deferral account, presented as regulatory precedent, are different than the NLH proposed Deferral Account.
- The CA has argued that OC2013-343, the Muskrat Falls Exemption Order, may preclude the proposed Deferral Account, given that the account, in the CA's view, is accumulating funds before the commissioning of the MFP that will ultimately be used to pay MFP costs.

- It is unknown how the PUB may rule on the proposed off-island purchases deferral account. While the PUB has indicated it is sympathetic to the challenges of preparing cost of service studies that reflect the use off-island power, it is also clear that the PUB expects NLH to be able to supply such information based on 'reasonable assumptions'.
- If the PUB ultimately does not approve the proposed Deferral Account, any savings realized through off-island supplies would likely be passed on to rate payers in the year in which the savings are realized. This would cause electricity prices actually drop before MFP costs come to affect rates in 2021, if indeed the off island purchase scenario is less costly than Holyrood. In this case, the savings would not be available to assist with future rate increases and there would be an even wider gap between rates pre- and post-MFP entering service.

Key Messages:

- The proposed Deferral Account has been a publicly announced part of the Nalcor's plan for rate management.
- Government is satisfied that this proposal is being fully tested and examined by the PUB, the Consumer Advocate, and other intervenors.
- This is an appropriate process for matters that affect electricity rates.
- Whether or not the proposed Deferral Account is appropriate and useful for its intended purpose is an important question for the PUB to consider.

Action Being Taken:

- This note has been provided for information purposes only.

Prepared/Reviewed by: Y. Khan / M. Janes / C. Snook / J. Cowan
Approved by: Received from Hon. Siobhan Coady

May 11, 2018

Annex 1

Table 1: Off Island Purchase Deferral Account (OIPDA) Estimated Net Credit & Balance 2018 through 2020 (\$,000) ⁱ

Year	2018	2019	2020
Fuel Cost Savings	40,454	129,934	109,601
Impact on Return From Lower Fuel Inventory	43	169	2,541
Total	40,497	130,103	112,142
Cost of Off-Island Purchases			
Recapture Power	886	1,946	260
OpEx LTA/LIL	27,300	52,900	35,700
Total	28,186	54,846	35,960
	12,311	75,257	76,182
Return on Average Balance	407	2,860	7,323
Net Credit to OPDA	12,717	78,117	83,504
Net Balance in OPDA	12,717	90,834	174,338

ⁱ Newfoundland and Labrador Hydro Off Island Purchases Deferral Account Expert Evidence by John T, Brown Consulting