September 12, 2018

Dear [Redacted]

Re: Your request for access to information under Part II of the Access to Information and Protection of Privacy Act (File # NR-134-2017)

On August 31, 2018, the Department of Natural Resources received your request for access to the following records/information:

Please provide a copy of the information note entitled "To provide an overview of the supplemental settlement agreement among parties to Newfoundland and Labrador Hydro's (NLH) 2017 General Rate Application (GRA)" as included in the list of briefing notes in NR-108-2018.

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 record. 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 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,

Rod Hynes
ATIPP Coordinator
Title: Supplemental Settlement Agreement – 2017 General Rate Application

Issue: To provide an overview of the supplemental settlement agreement among parties to Newfoundland and Labrador Hydro’s (NLH) 2017 General Rate Application (GRA).

Background and Current Status:

- The GRA process establishes base electricity rates that utilities can charge their customers to recover costs. Utilities typically submit GRAs every 2-5 years as significant costs change. NLH filed its 2017 GRA with the Board of Commissioners of Public Utilities (PUB) on July 28, 2017. Since that time, NLH has filed five revisions to its GRA, most recently on July 4, 2018.

- NLH’s 2017 GRA proposed to source off-island power to displace more expensive production at Holyrood, while continuing to charge rates based on Holyrood costs. NLH proposed that any savings would accumulate in an Off-Island Purchases Deferral Account to manage rate increases when Muskrat Falls costs enter rates in 2021.

- The Consumer Advocate (CA) criticized the proposal and noted NLH was asking the PUB to approve rates based on a “fictitious” cost of service. While NLH submitted expert evidence supporting the use of regulatory deferral accounts for rate management purposes, the CA noted that there was no precedent for charging rates based on a cost of service scenario that was not actually expected to occur, noting further that other jurisdictions used rate riders (a set percentage rate addition) where there was an identified need for rate management/smoothing.

- On July 16, 2018, parties to the GRA reached a supplemental settlement agreement, in which certain issues pertaining to the 2017 GRA were settled. Most notably, in this settlement agreement NLH abandoned the proposal to establish an Off-Island Purchases Deferral Account. Instead, it was agreed to base the GRA on what is referred to as the “expected supply scenario”, which is costs that reflect the use of off-island power, and rates that immediately reflect the use of that power.

- On July 20, 2018, following the settlement agreement, NLH filed additional evidence outlining the rate impact of the settlement scenario. In its application for interim rates that was approved by the PUB on May 28, 2018, NLH received a rate increase of 7.5% effective July 1, 2018. NLH’s interim rates application also indicated an additional 9.4% increase would be required January 1, 2019 under the now-abandoned Off-Island Purchases Deferral Account. NLH’s settlement evidence now indicates that the projected January 1, 2019 average increase to Newfoundland Power (NP) residential customers will be 1.2%.

- NLH noted in its supplemental evidence that it believes the PUB should consider, as an alternative to the Off-Island Purchases Deferral Account, implementation of a rate stability rider at the time of implementing 2017 GRA final rates as such a rider could prove beneficial in managing the rate increases arising from Muskrat Falls. The rider was not mentioned in the settlement.
With regard to rate management efforts, NLH noted, “Government has indicated that rate mitigation will occur to reduce the customer rate impacts. However, no defined plan has been released to inform customers on either the projected cost of electricity or the pace at which electricity rates will increase. Government has stated that it wants to be competitive with Atlantic Canadian rates, which it targets to be between 16-18¢ per kWh. Therefore, for illustrative purposes, Hydro has assumed that Government will provide rate mitigation relief for residential rates beyond 18¢ per kWh”

NLH’s supplemental evidence notes that, in recent years, the PUB has approved rate relief measures to limit customer rate increases to 10% for any one increase. NLH notes that continuation of this practice will require “several years” to enable customer rates to increase to the illustrated rate mitigation target of 18¢ per kWh.

Analysis:

To date, the Off-Island Purchases Deferral Account has been the only measure formally undertaken by Nalcor and/or NLH intended to achieve rate management. Government was not consulted on NLH’s abandonment of the Off-Island Purchases Deferral Account.

On July 23, 2018, NLH provided the following high-level rationales for abandoning its GRA Deferral Account proposal:
- customer rate increases forecast to occur under the Deferral Account Scenario had increased substantially;
- delays in receiving PUB approval for interim rate increases, and lower-than-requested rate increases, resulted in lower-than-anticipated revenue in 2018; thus making up the shortfall would require very large customer rate increases in 2019;
- in order for NLH to accumulate the $170M originally forecast in savings under the Deferral Account Scenario, 2019 customer rates increases of “21.3% for Newfoundland Power (13.7% for residential customers) and 27.8% for Island Industrial Customers” would have to be implemented; and,
- in addition to revised rate impacts, continued pursuit of the Off-Island Purchases Deferral Account would likely result in a protracted 2017 GRA, additional external hearing costs for Hydro and ratepayers, and a delay in NLH’s future filings required before the in-service of Muskrat Falls.

NLH advises that PUB approval of a rate stability rider could result in an additional rate increase of 6.5% (7.7% total) on January 1, 2019. NLH also notes it has filed information with the PUB identifying the potential stepped rate increases that would be required in future if such a rider was applied during the transition to post-Muskrat Falls rates.

On April 5, 2018 the filed an application with the PUB outlining the CA’s position that OC2013-342 and OC2013-343 “purged the Board of its legislated jurisdiction” related to Muskrat Falls related costs, and that these OCs prohibit Muskrat Falls cost before commission or near-commissioning of the project. NLH advises that the CA has maintained this position in recent settlement discussions, and is thus unlikely to support a rate rider.

Action Being Taken:
• The Department of Natural Resources (NR) is seeking further clarification and explanation from NLH on its rationale for settlement and the implications for rate payers and 2020 rate management.

Prepared by/Approved by: M. Janes / C. Snook / J. Cowan
Ministerial Approval: Received from Hon. Siobhan Coady

July 23, 2018