Re: Your request for access to information under Part II of the Access to Information and Protection of Privacy Act (File # NR-25-2019)

On March 4, 2019, the Department of Natural Resources received your request for access to the following records/information:

Liberty Consulting Group Phase 1 report on MF Information Note from January 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 records are attached.

Please be advised that you may ask the Information and Privacy Commissioner to review the processing of your access request, as set out in section 42 of the Access to Information and Protection of Privacy Act (the Act). 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.

The address and contact information of 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
You may also appeal directly to the Supreme Court Trial Division within 15 business days after you receive the decision of the public body, pursuant to section 52 of the Act.

Please be advised that this letter will be published following a 72 hour period after it 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 letter posted to the Office of Public Engagement's website within one business day following the applicable period of time.

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

Sincerely,

Rod Hynes

Rod Hynes
ATIPP Coordinator
Title: Liberty Consulting Group December 31, 2018 Phase 1 Report on Muskrat Falls Project Potential Rate Mitigation Opportunities

Issue: Liberty Consulting Group’s (Liberty) report to the Board of Commissioners of Public Utilities’ (PUB) on Muskrat Falls Project Potential Rate Mitigation Opportunities

Background and Current Status:
- The PUB engaged Liberty to assist with the review required for the Reference Question issued by the Government of Newfoundland & Labrador on September 5, 2018 on options to reduce the impact of the Muskrat Falls Project (MFP) on electricity rates through to the year 2030.
- The PUB asked Liberty to perform the following tasks:
  - Determine the total revenue requirements to recover the costs of the MFP with no rate mitigation options included (Base Revenue Requirement)
  - Examine the structure of Nalcor Energy Corporation and its subsidiaries and affiliated companies (Nalcor) and identify cost savings opportunities associated with Nalcor activities
  - Identify cost savings and opportunities related to the operations and maintenance of the MFP
  - Identify the impacts on the Base Revenue Requirement of various alternative cost savings initiatives and rate mitigation approaches.
- Liberty submitted its Phase 1 final report (Report) to the PUB on December 31, 2018. The report describes the work undertaken and results obtained, particularly; identifying those areas that Liberty believed would provide rate mitigation opportunities and warrant more detailed evaluation in phase 2.
- Liberty has identified a number of cost savings and revenue enhancement opportunities, which can contribute to reducing the electricity rate impacts for customers from the MFP. The report notes that the identified opportunities will require detailed analysis in phase 2 to determine their effectiveness. These opportunities include; (1) export sales, (2) Nalcor’s equity return on MFP financing, (3) MFP debt financing, (4) combining Nalcor functions and organizations, (5) improving hydro efficiency, and (6) operation & maintenance (O&M) costs at generation facilities.
- Liberty finds that Nalcor’s does what any vertically integrated utility would do – generate, transmit and distribute electricity. However, it assigns the costs of utility facilities to NLH (and in turn, customers through rates without also providing NLH any offsetting export sales revenue from those facilities.
- Liberty also finds that Nalcor return on MFP financing is largely equivalent to what an investor owned utility might expect even though costs are much lower due to the loans being at much lower rates than what an investor-owned utility can secure and the fact that no outside equity providers have to be compensated in the form of equity returns. Applying payments NLH makes under agreements for purchases from MFP assets include a substantial return and Nalcor receives any profits from out-of-province sales with no rate offset to NLH customers.
• Liberty finds that a source of potential rate mitigation arises from changes in the MFP financing agreements. Reducing or removing sinking fund payments related to the Federal loan Guarantee could lower NLH revenue requirements and in turn reduce rates. This option, however, requires agreement from the Federal Government.

• The report also contemplates that changing the capital structure (debt equity ratio) by issuing new debt could also facilitate rate reduction. It would do this by reducing financing payments in the earlier years when sources of mitigation are lower in magnitude and reducing the equity level should the province elect not to forego a portion of returns on equity.

• Liberty does not see a need to maintain separate Nalcor and NLH functions once the MFP is complete. Nalcor identifies a total complement of approximately 1,700 full-time equivalent positions including temporary personnel. Liberty illustrates that a five percent cut in these resources would reduce revenue requirements in the range of $15 million per year.

• Liberty suggests that NLH could improve efficiency through examining the transfer of some or all of its retail operations to Newfoundland Power (NP). Other areas of efficiency gains could be found by economically optimizing the balance between employee and contractor use and through identifying opportunities for common NLH/NP field work.

• Liberty has made a preliminary finding that there is limited opportunity to reduce O&M costs at Churchill Falls however O&M costs at Muskrat Falls appear to be above those of a peer group of similarly sized hydroelectric projects. In addition, significant growth is expected in MFP O&M costs and Liberty indicates that it will study this further in Phase Two. Other smaller hydro facilities show competitive costs.

Analysis
• Although Liberty has provided a number of potential opportunities for mitigation, it has not quantified much of this. Liberty indicates that this more detailed analysis is to follow in Phase Two of its work.

Action to be taken
• The PUB will provide its interim report on February 15, 2019 and public hearings will commence in fall of 2019. The PUB will provide its final report to government on January 31, 2020.
• NR will monitor the progress and provide further update on the issue.

Ministerial Approval:

January 3, 2019