Q. (Reference Application Volume 1, page 1.11) It is stated (lines 6 – 9): *"Nalcor's June 23, 2017 project update stated that average island residential electricity rates are expected to increase to 22.89 cents (¢) (plus HST) per kilowatt hour (kWh) in 2021 as a result of the Muskrat Falls Project. The present average rate for these customers is 11.7 ¢ per kWh (plus HST), a gap of 11.19 ¢ per kWh."* With such a large increase in rates, is Hydro concerned about the possibility of a "rate death spiral", or with respect to itself and Newfoundland Power, a "utility death spiral"? Please explain.

A. Hydro assumes the question is implying that large rate increases would prompt reduced electricity consumption by customers. This could occur if customers converted to an alternate heating source or if customers invested in their own generation source. Reduced customer load requirements could then drive a further increase in customer rates to recover the fixed costs of supplying customers. Through this cycle, the continued escalation of customer rates would increase the attractiveness of supply alternatives and decreases the ability of the utilities to recover the investments already made to supply electricity to customers.

Hydro is concerned about the potential impacts of the material increases required in customer rates to provide recovery of the costs of the Muskrat Falls Project on its customers, the provincial economy, and the province's electrical utilities. Hydro believes that rate mitigation will be necessary to limit the rate increases to customers. Hydro also believes that the approval of the Off-Island Purchases Deferral Account as proposed in this Application would contribute to the mitigation of future customer rate impacts associated with the Muskrat Falls Project.