Q. In the Executive Summary to the Proposed Net Metering Program, at page (ii) Hydro states that after the Muskrat Falls Project, costs are reflected on customer rates.

(a) What year does Hydro maintain will be "after" Muskrat Falls?

(b) What costs does Hydro propose for customer rates "after" Muskrat Falls?

(c) Has the Public Utilities Board approved the closure of Holyrood "after" Muskrat Falls?

(d) Please advise if the Net Metering Program, as proposed (without any regard to Muskrat Falls), is in fact a cross-subsidization by non-participants, and estimate the cost of the cross-subsidization.

A. (a) The most recent forecast provided to Hydro for the commissioning of the Muskrat Falls Project is mid-2020.

(b) Upon the commissioning of the Muskrat Falls Project, supply cost payments from Hydro will commence under the Transmission Funding Agreement and the Muskrat Falls Power Purchase Agreement, and the Holyrood thermal generation will be phased-out.[1]

[1] The Holyrood Thermal Generating Station will function as a fully capable standby facility during the early years of operation of the Muskrat Falls Generating Plant and the Labrador-Island Link between Labrador and the Island. Thereafter, some equipment at the Holyrood facility will continue to be used as a synchronous condenser.

As Hydro has done in the past with the recovery of Holyrood fuel costs, Hydro will be proposing to recover all supply costs that it incurs as a result of these agreements through customer rates. The proposed recovery of supply costs resulting from the commissioning of the Muskrat Falls Project will be dealt with in a public process before the Board.

(c) No, the Board of Commissioners of Public Utilities has not approved the closure of Holyrood after commissioning of Muskrat Falls. The abandonment of plant by a utility is governed by section 38 of the *Public Utilities Act*, RSNL 1990 c. P-47, which states:

> *A public utility shall not abandon a part of its line, or works, after they have been operated, or discontinue a service without notice to the board, and without the written consent of the board, which consent shall only be given after notice to an incorporated municipal body interested, and after there has been an inquiry.*

Hydro will apply to the Board to abandon the Holyrood Thermal Generating Station when it is appropriate to do so.

(d) Without any regard for the commissioning of the Muskrat Falls Project, implementation of a net metering program creates concerns with cross-subsidization of participants by non-participants. In general, net metering customers that materially reduce their energy requirements do not pay their reasonable share of the cost of the electrical system that remains available to meet their needs.

However, the potential for cross-subsidation will increase after commissioning of the Muskrat Falls Project. The potential for cross-subsidization of net metering customers is greater in jurisdictions where the marginal rates paid by retail customers are materially higher than the marginal generation costs of supplying customers. This has not historically been the marginal rate/marginal cost relationship on the Island Interconnected System as the cost of Holyrood fuel was comparable to the average retail rate. However, after the Muskrat Falls Project costs are reflected in customer rates, rates on the Island Interconnected System are forecast to increase and the marginal cost of supply is forecast to decrease creating a high marginal rate to low marginal cost relationship.

After commissioning of the Muskrat Falls Project, the marginal cost of energy for increased load requirements by Hydro will be based on market prices, which are forecast to be approximately 4¢ per kWh.[2] Domestic rates are forecast to exceed 20¢ per kWh to provide full recovery of the cost of serving customers including Muskrat Falls Project costs. A net metering customer that reduces usage under this scenario will save 20¢ per kWh. The savings to Hydro for reduced supply is only 4¢ per kWh. The net loss to Hydro of 16¢ per kWh remains a cost incurred by Hydro in serving net metering customers and must be allocated for recovery from other customers.

If the 5 MW cap is fully utilized and net metering customers have on average a 30% capacity factor, the net metering program would result in $2.1 million being reallocated to non-participants of the net metering program.

[2] Table 1 on page 4 of Marginal Cost Report, Part II: prepared by Christensen Associates Energy Consulting for Hydro and filed on February 26, 2016.

With respect to the payout for net excess generation on the customer's Annual Review Date, Hydro proposes the use of a payout rate reflective of system marginal generation costs to apply to net excess generation instead of the use of the retail rate. Hydro has proposed this deviation from the Framework to limit the risk of subsidization of the net metering program by non-participants and remove any incentive for customers to install generation in excess of their own requirements.