

September 5, 2018

Ms. Darlene Whalen  
Chair - Board of Commissioners of Public Utilities  
Prince Charles Building, Suite E-210  
120 Torbay Road  
St. John's, NL A1A 5B2

**Re: Reference to the Board of Commissioners of Public Utilities**

Dear Ms. Whalen:

Pursuant to section 5 of the *Electrical Power Control Act, 1994*, the Government of Newfoundland and Labrador hereby provides the attached reference (the "Reference") to the Board of Commissioners of Public Utilities (PUB) seeking its input on options to mitigate the impact of Muskrat Falls on electricity rates. As this Government has stated and demonstrated consistently since taking office, we value and respect the independence, transparency, and expertise of the PUB with respect to our Province's electricity system and look forward to hearing from the PUB on the critically-important issues detailed in the Reference.

As you are aware, with the exception of Newfoundland and Labrador Hydro's activities, the electricity-related activities of Nalcor Energy, including its subsidiaries, are not presently regulated by the PUB. To ensure clarity for the PUB, Nalcor, and all electricity system stakeholders, our Government has directed Nalcor to cooperate fully with the PUB in its Reference work and we remain confident in Nalcor leadership's desire and readiness to address the challenges the Muskrat Falls Project presents for the Province's electricity system and electricity rates.

If you have any questions or concerns in relation to this or any other electricity system matter, please feel free to contact my officials at NR who remain available at the convenience of the PUB.

Sincerely,



**SIOBHAN COADY, MHA**  
St. John's West  
Minister

- c. Honourable Dwight Ball, Premier  
Mr. Stan Marshall, President and CEO, Nalcor Energy  
Mr. Brendan Paddick, Chair, Nalcor Energy Board of Director

**Reference Questions to the  
Board of Commissioners of Public Utilities  
Rate Mitigation Options and Impacts**

The June 23, 2017 update on the Muskrat Falls Project by Nalcor Energy indicates the capital cost and during-construction financing costs of the Muskrat Falls Project have risen to \$12.7 billion, which is more than double the estimated costs submitted to the Board of Commissioners of Public Utilities (the “**Board**”) in the 2011 reference question, when the Board was asked to compare the Muskrat Falls Project and an isolated-island alternative. The obligations under the Federal Loan Guarantee, dated November 30, 2012, place the financial burden of the Muskrat Falls Project on Newfoundland and Labrador ratepayers. As a result, the June 23, 2017 update forecasts that, without taking mitigating actions, rates for domestic customers on the Island of Newfoundland will increase to 22.89 cents per kilowatt hour in 2021, and related increases are expected for other Island rate classes. This rate increase is primarily attributable to the impact of cost recovery required for the Muskrat Falls Generating Station, Labrador Transmission Assets, and the Labrador Island Link projects, collectively known as the Muskrat Falls Project (the “**MFP**”), which was exempted from oversight by the Board on November 29, 2013.

Government’s position is that the projected rate increases associated with Muskrat Falls Project costs are not acceptable. Without intervention, these projected rate increases would likely cause financial hardship for customers in all rate classes on the island portion of Newfoundland and Labrador (“**Ratepayers**”). With the assistance of the Board, the Government of Newfoundland and Labrador wishes to examine options to reduce the impact of the Muskrat Falls Project on rates.

To assist with Government’s approach to this issue, pursuant to section 5 of the *Electrical Power Control Act, 1994*, the Government of Newfoundland and Labrador hereby refers the following matter to the Board:

**The Reference Questions**

The Board shall review and report to the Minister of Natural Resources on:

- 1) Options to reduce the impact of MFP costs on electricity rates up to the year 2030, or such shorter period as the Board sees fit, including cost savings and revenue opportunities with respect to electricity, including generation, transmission, distribution, sales, and marketing assets and activities of Nalcor Energy and its Subsidiaries, including NLH, Labrador Island Link Holding Corporation, LIL General Partner Corporation, LIL Operating Corporation, Lower Churchill Management Corporation, Muskrat Falls Corporation, Labrador Transmission Corporation, Nalcor Energy Marketing Corporation, and the Gull Island Power Company (together the “**Subsidiaries**”, and collectively with Nalcor Energy, “**Nalcor**”);
- 2) The amount of energy and capacity from the MFP required to meet Island interconnected load and the remaining surplus energy and capacity available for other uses such as export and load growth; and

- 3) The potential electricity rate impacts of the options identified in Question 1, based on the most recent MFP cost estimates.

These questions are the “**Reference Questions**”. In answering the Reference Questions, the Board shall consider the power policy of the province, as set out in the *Electrical Power Control Act, 1994*, and the following:

- new and existing sources of Nalcor income that could be put towards reducing rate increases, including income from:
  - Nalcor power exports, including those from generation assets it owns or controls, the MFP, and Churchill Falls recapture power, taking into account any export-related costs such as those relating to Nalcor Energy Marketing; and
  - any other effective opportunities to find synergies, efficiencies and reduce duplication and costs within Nalcor and its subsidiaries.
- whether it is more advantageous to Ratepayers to maximize domestic load or maximize exports. Depending on the Board’s recommendation, provide options for:
  - increasing domestic load, such as:
    - The electrification of industrial facilities and oil-fueled boilers in heating plants; and
    - Incentives for increased electrification and usage by NL ratepayers, including increasing number of ratepayers, electric vehicles and electric heating; or
  - increasing exports, such as:
    - Incentives for energy conservation, including for lowering system peak demand to maximize system capacity reserves, in order to increase availability of energy and capacity for export.
- forward-looking cost savings and opportunities for increased efficiency related to operating and maintenance of MFP.
- what are industry best practices related to external market purchases and sales of electricity.

On November 20, 2017, the Government of Newfoundland and Labrador issued the *Commission of Inquiry Respecting the Muskrat Falls Project Order* under the *Public Inquiries Act, 2006*. As part of its mandate, the Commission of Inquiry is required to examine the sanction and execution of the MFP. Therefore, to avoid duplicating the work of the Commission of Inquiry, the Board shall not review MFP construction costs in answering the Reference Questions.

Where the Board determines that information required by the Board for this review is commercially sensitive information, as defined in the *Energy Corporation Act*, and the Board also determines that the release of such information would significantly harm the competitive position of, interfere significantly with the negotiating position of, or result in financial harm to

Nalcor or a third party, the Board and its experts and consultants may use such information for this review but shall not release such information to any party.

For the purposes of this review, a consumer advocate shall be appointed pursuant to section 117 of the *Public Utilities Act*.

Any costs of the Board in respect of this review, shall be paid by Nalcor Energy, and shall not be considered MFP costs.

The Board shall provide an interim report to the Minister of Natural Resources by February 15, 2019. The interim report shall include the Board's preliminary findings from Questions 1 and 2 with respect to reasonably-anticipated cost savings, and reasonable-anticipated revenue from surplus energy and capacity.

The Board's final report shall be provided to the Minister of Natural Resources by January 31, 2020.

The Minister shall make the reports public.