Q. (PUB-NP-9) It is *stated "The Director, Revenue and Supply was repositioned to include a focus on the transitioning of the Company to a post-Muskrat Falls power system in the province."* What is involved in transitioning a distribution utility such as NP to a *"post-Muskrat Falls power system"*?

A. In addition to owning and operating approximately 10,400 kilometres of distribution lines, Newfoundland Power owns and operates approximately 2,100 kilometres of transmission lines, 130 substations and 28 small generators. All of these electrical system assets are operated in conjunction with Newfoundland and Labrador Hydro's ("Hydro") electrical system assets and will eventually operate in conjunction with the assets that form part of the Muskrat Falls Project.

The transition to a post-Muskrat Falls power system in the province will affect Newfoundland Power's electrical system assets in a variety of ways.

For example, Newfoundland Power's System Control Centre monitors and controls the Company's electrical system. This includes managing the reliable operation of its transmission and distribution systems, and dispatching the Company's generation. It also requires coordinating activities and restoration efforts with Hydro's Energy Control Centre to manage both planned and unplanned outages on the Island Interconnected System. The impending changes to Hydro's electricity supply will necessitate a full review of coordination and restoration activities between the 2 companies. This includes both the impact of new reliability standards and requirements of open access to the transmission system.[1]

Similarly, it is expected that integration of the assets that form part of the Muskrat Falls Project will alter how the overall electrical system, including Newfoundland Power's electrical system assets, performs. These changes need to be fully analyzed and understood to ensure operating stability is maintained throughout the overall electrical system.

Currently, Newfoundland Power's under-frequency load shedding system is a key component in maintaining overall electrical system stability. The system responds to sudden disturbances on the Island Interconnected System by automatically disconnecting distribution customers. It is expected that, following integration of the Muskrat Falls Project assets, the risk of sudden losses of supply to Newfoundland Power's customers will change. Any changes have the potential to affect the reliability of distribution service that the Company provides its customers.

[1] Market access to sell Muskrat Falls power requires open access to the transmission system in compliance with United States Federal Energy Regulatory Commission requirements ("FERC"). Hydro is also developing reliability standards for operating the system in conjunction with neighbouring electricity systems. These standards are generally based on standards developed by the North American Electric Reliability Corporation ("NERC").

The transition to a post-Muskrat Falls power system in the province will also affect Newfoundland Power's wholesale supply costs in a variety of ways. This, in turn, will impact the rates Newfoundland Power charges its customers for service.

For example, the cost of the Muskrat Falls Project is currently projected to be approximately $12.7 billion. While it is currently uncertain how much of these costs will be collected from Newfoundland Power's customers, it is expected that significant time and effort will be required on the Company's part to ensure that its customers' interests are reasonably protected.[2]

Similarly, it is expected that the commissioning and integration of the Muskrat Falls Project will alter wholesale supply cost dynamics for Newfoundland Power. These changing dynamics can affect Newfoundland Power's customer rates and customer conservation programming.[3]

The interconnection of the Muskrat Falls Project will have very significant impacts on (i) the operation of the provincial electrical system, including Newfoundland Power's electrical system, and (ii) the rates that the Company's customers will pay. As a matter of due diligence, Newfoundland Power repositioned the position of Director, Revenue and Supply to monitor and manage these impacts.

[2] These efforts have already begun. See Order Nos. P.U. 16 (2017) and P.U. 23 (2017), where the Board rejected a proposed rate increase to customers of 18.6%, effective July 1, 2017, which was justified by Hydro, in part, as necessary in light of "…*the possibility of future rate increases*…" in favour of an 8.5% increase proposed by Newfoundland Power. In Hydro's *2017 General Rate Application*, an Off-Island Purchases Deferral Account was proposed to collect approximately $280 million from customers over the 2018 through 2020 period to offset future charges associated with the Muskrat Falls Project. Hydro withdrew the proposed account as a result of intervener opposition, including that of Newfoundland Power.

[3] A significant feature of these changing cost dynamics is reduced system marginal costs. System marginal costs can be complex in their estimation. System marginal costs can also have a material impact on the design of Newfoundland Power's customer rates and customer conservation programming.