

# Office of the Consumer Advocate

PO Box 23135  
Terrace on the Square  
St. John's, NL Canada  
A1B 4J9

Tel: 709-724-3800  
Fax: 709-754-3800

October 15, 2021

Board of Commissions of Public Utilities  
120 Torbay Road, P.O. Box 2140  
St. John's, NL A1A 5B2

**Attention: G. Cheryl Blundon, Director of  
Corporate Services / Board Secretary**

Dear Ms. Blundon:

**Re: Newfoundland and Labrador Hydro – Supply Cost Accounting Application**

On July 29, 2021 Newfoundland and Labrador Hydro (“Hydro”) submitted to the Public Utilities Board (the “Board”) an “*application for approval of deferral account proposals to address material changes in system costs associated with the integration of the Muskrat Falls Project (“Project”) assets to the provincial electricity system.*” Hydro staff explained the proposal to the Consumer Advocate during a virtual presentation on July 28, 2021. The Consumer Advocate did not participate directly in the RFI process but has reviewed information on the record pertaining to the application.

The Consumer Advocate understands the following:

- Hydro is required by law to incorporate Muskrat Falls Project costs in rates upon commissioning which is expected by year-end;
- There remains significant uncertainty about the actual costs of the project and government rate mitigation plans;
- Muskrat Falls Project cost uncertainty leads to uncertainties in a number of other costs associated with electricity supply such as costs driven by elasticity effects on load and load profiles. Owing to these uncertainties Hydro is not in a position to file its next General Rate Application (“GRA”) until the second quarter of 2022.<sup>1</sup>
- Newfoundland Power has its 2022-2023 GRA before the Board proposing an increase in return on equity from 8.5% to 9.8%. This would result in a direct rate increase of 1.5% for Newfoundland Power customers (Newfoundland Power 2022-2023 GRA, page 1-8). However, an increase in Newfoundland Power’s return also has a flow through effect on the costs of the Muskrat Falls

---

<sup>1</sup> The Consumer Advocate opines that neither is Newfoundland Power in a position to submit a GRA, but it chose to file its 2022-2023 GRA anyway arguing “A general rate application is therefore required to afford the Company an opportunity to earn a just and reasonable return over the forecast period” (CA-NP-180 from Newfoundland Power’s 2022-2023 GRA).

Project and the amounts recovered from customers. The Board has scheduled a hearing on Newfoundland Power's GRA beginning in late November 2022.

- In PUB-NLH-022 Hydro estimates that they have enough borrowing capacity to meet about five months of Muskrat Falls payments without additional revenues from customers or funding through rate mitigation. The former is unlikely to occur in the next five months given that Hydro does not intend to file its next GRA until the second quarter of 2022. In PUB-NLH-042(a) Hydro indicates that it *“anticipates having confirmation of the timing of the availability of the rate mitigation funding to assist with these monthly payments by late November.”* Further, in part (c) Hydro states that there are *“ongoing discussions with the provincial government on the development and implementation of a rate mitigation plan”* and in part (d) Hydro states *“If the development and implementation of a rate mitigation plan are delayed such that rate mitigation funding and rate relief are not in place, Hydro would work with the provincial government, its shareholders, and financial institutions to increase Hydro's borrowing capacity and establish additional financing options.”*

### **Consumer Advocate's Position**

The Consumer Advocate is not opposed to Hydro's application to establish a deferral account to accumulate Muskrat Falls Project costs until its next General Rate Application when the Board will determine the appropriateness of cost recovery and the distribution of the costs among Hydro's customers. However, there remains numerous uncertainties stemming from the Muskrat Falls Project including the commissioning date (for generation and transmission assets) and the timing when project costs will be recovered in rates, the final project costs, the return on equity granted Newfoundland Power which will flow through to other utilities, the government rate mitigation plan timing and funding amounts, and the impacts of the project on other costs associated with electricity supply in the Province.

Finally, a month from now Hydro expects to know more about the government's rate mitigation plan, the Muskrat Falls commissioning date and final project costs. In terms of regulatory efficiency, it might be prudent if the Board were to delay a decision on this Application by at least a month until Hydro is in receipt of this additional information as it will have a profound impact on Hydro's financial position and its proposed method of cost recovery. However, the timing of any such delay we leave to the Board's discretion.

Please contact the undersigned if you have any questions on this submission.

Yours truly,



**Dennis Browne**  
**Consumer Advocate**

/bb

cc

**Newfoundland and Labrador Hydro**NLH Regulatory ([NLHRegulatory@nlh.nl.ca](mailto:NLHRegulatory@nlh.nl.ca))Shirley Walsh ([shirleywalsh@nlh.nl.ca](mailto:shirleywalsh@nlh.nl.ca))**Newfoundland Power Inc.**NP Regulatory ([regulatory@newfoundlandpower.com](mailto:regulatory@newfoundlandpower.com))Dominic Foley ([dfoley@newfoundlandpower.com](mailto:dfoley@newfoundlandpower.com))Lindsay Hollett ([lholllett@newfoundlandpower.com](mailto:lholllett@newfoundlandpower.com))**Industrial Customer Group**Paul Coxworthy ([pcoxworthy@stewartmckelvey.com](mailto:pcoxworthy@stewartmckelvey.com))Dean Porter ([dporter@poolealthouse.ca](mailto:dporter@poolealthouse.ca))Denis Fleming ([dfleming@coxandpalmer.com](mailto:dfleming@coxandpalmer.com))**Board of Commissioners of Public Utilities**Jacqui Glynn ([jglynn@pub.nl.ca](mailto:jglynn@pub.nl.ca))Colleen Sutton ([csutton@pub.nl.ca](mailto:csutton@pub.nl.ca))PUB Official Email ([ito@pub.nl.ca](mailto:ito@pub.nl.ca))**Iron Ore Company of Canada**Greg Moores ([gmoores@stewartmckelvey.com](mailto:gmoores@stewartmckelvey.com))**Labrador Interconnected Group**Senwung Luk ([sluk@oktlaw.com](mailto:sluk@oktlaw.com))Julia Brown ([jbrown@oktlaw.com](mailto:jbrown@oktlaw.com))**Teck Resources Limited**Shawn Kinsella ([shawn.kinsella@teck.com](mailto:shawn.kinsella@teck.com))**Praxair Canada Inc.**Sheryl Nisenbaum ([sheryl\\_nisenbaum@praxair.com](mailto:sheryl_nisenbaum@praxair.com))Peter Strong ([peter.strong@linde.com](mailto:peter.strong@linde.com))