

Office of the Consumer Advocate

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August 17, 2023

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 Application for Non-Firm Rates

On March 29, 2023 Newfoundland and Labrador Hydro (“Hydro”) submitted to the Public Utilities Board (the “Board”) an Application for Non-Firm Rates – Revision 1 (the “Application”). In the Application Hydro is seeking Board approval for the following:

- (i) The discontinuance of Rate No. 5.1L, Secondary Energy;
- (ii) Rate No. 5.1L, Non-Firm Energy;
- (iii) The modification of the IIC Rate Sheets; and
- (iv) The revisions to the Supply Cost Variance Deferral Account.

all to become effective on the first day of the month that is at least two months subsequent to the date of the Board’s approval of the rate design.

The Board has requested comments on the Application from the parties by August 18, 2023. This document conveys the comments of the Consumer Advocate.

COMMENTS OF THE CONSUMER ADVOCATE

The Consumer Advocate supports the Application. By offering surplus energy from non-carbon sources to customers within the province in lieu of entities in other provinces and the United States, the economic benefits deriving from the sales will remain within the province. This makes economic sense provided that, as proposed, the revenues remain with the customers who are required to pay for the source of the surplus energy. Hydro proposes to accomplish this by crediting revenues from sales of surplus energy to the Supply Cost Variance Deferral Account.

The Consumer Advocate makes the following observations with respect to the Application:

- First, as noted in the Application, the available surplus energy may be significantly over-subscribed. Table 1 of Schedule 1, Attachment 1 shows applications for 7919 MW. This is more than 4 times the current peak demand on the Island Interconnected System. Further, government zero-carbon initiatives are expected to drive significant increases in demand owing to electrification. Supply is complicated by Labrador transmission limitations and uncertainties relating to LIL availability. So, while we support the Application, the availability of surplus energy could be limited and short-lived.
- Second, the price of surplus energy will be based on a blend of the futures prices in the New England and New York markets (net of delivery costs) for peak and off-peak periods. The price will be updated monthly. The Consumer Advocate would like to see a shorter update period, such as weekly, or even daily, to better track the value of energy in these markets. We understand the concern about price certainty and rate stability for customers but note that customers on firm rates pay for such price certainty and stability; non-firm customers availing of discounted rates for surplus energy do not. The non-firm customers should be both responsible and capable of managing price uncertainty and instability; otherwise, they should buy firm power at firm rates. Both New York and New England make their forward market price forecasts publicly available (Schedule 1, page 7). Further, we understand that NB Power and BC Hydro update prices for their non-firm sales daily, and Manitoba Hydro updates its prices weekly (Schedule 1, Attachment 2, Table 1). Prices should be updated more frequently in this province as well.
- Third, a similar program might be offered to other large customers in the province, for example, Memorial University, Newfoundland Power's largest customer.
- Fourth, although there is little that can be done at this stage, transmission pricing for sales into the United States has multiple layers, commonly referred to as rate pancaking. According to Footnote 24 (Schedule 1, page 11):

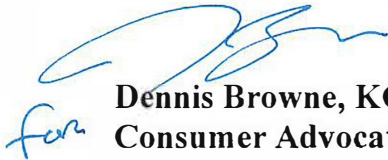
New England Net Back Price = (((Mass Hub Price x Foreign Exchange Rate) – (Cost of New Brunswick System Operator Transmission)) x New Brunswick System Operator Transmission Loss Factor) – Cost of Nova Scotia System Operator Transmission) x Nova Scotia System Operator Transmission Loss Factor x Maritime Link Loss Factor

This is rate pancaking at its worst. It is a deterrent to trade and government net-zero carbon initiatives. Transmission pricing should not present a barrier to trade of renewable forms of electric energy that offset energy produced from carbon sources. Europe recognizes this barrier and has eliminated cross-border transmission charges except in cases when congestion arises on cross-border interconnections. Given that this has been recognized and accomplished among a large group of diverse countries in Europe, it should be possible to attain such an agreement among a few provinces in Eastern Canada that all reside in the same country. We understand that this would take significant time and effort, but perhaps the issue could be raised as a component of government net-zero carbon initiatives in Eastern Canada.

In summary, the Consumer Advocate supports the application, but is hopeful that it can be further developed over time to improve efficiency consistent with environmental objectives.

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

Yours truly,


Dennis Browne, KC
Consumer Advocate

/bb

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