August 16, 2023

Via E-Mail

Newfoundland and Labrador Board
of Commissioners of Public Utilities
120 Torbay Road
P.O. Box 21040
St. John's, NL A1A 5B2

Attention: Ms. G. Cheryl Blundon, Director of Corporate Services and Board Secretary

Dear Ms. Blundon:

Re: Newfoundland and Labrador Hydro Application for Non-Firm Rates

These are the comments of the Island Industrial Customer (IIC) Group (Braya Renewable Fuels (Newfoundland) LP (formerly NARL Refining Limited Partnership), Corner Brook Pulp and Paper Limited, and Vale Newfoundland and Labrador Limited) on the above referenced Application.

The Application and Scope of Comments

In the within Application, Hydro is primarily seeking approval of the following items:

1. A Non-Firm Rate for the Labrador Interconnected System;
2. An Island Industrial Non Firm Rate; and
3. An Order to Amend the Supply Cost Variance Deferral Account.

The IIC Group will comment on each of these issues.

Non-Firm Rate for the Labrador Interconnected System

In respect of Non-Firm Labrador Rates, Hydro's revised Application filed on March 29, 2023 primarily seeks approval for rates to service Labrador customers who are looking for and/or can accept interruptible service. This offering is extremely valuable to the cryptocurrency mining customers seeking power in Labrador. While Hydro relies on peer utility offerings to establish and support the rate requested in the Application, the IIC Group understand that the comparison between Hydro's situation and its peers is not analogous. In particular, the peer utilities are typically offering additional low cost power to existing firm demand customers. The peer utilities are not typically offering low value interruptible power to customers who are not already established firm power customers.

While Hydro may be unable to charge a premium to new customers seeking large amounts of interruptible power in comparison to the firm power they will require, the IIC Group's position is that Hydro's existing high firm demand customers should be given access to the same favourable rates and should have a priority over new customers seeking primarily the interruptible rate. While these issues are outside of the scope of the current Application, the IIC Group submit that issues of power distribution and priority should be considered at the next general rate application.

With respect to the design of the rate, the IIC Group provides the following comments on the interconnection/curtailment requirements requested by Hydro, the proposed pricing for the rate, and the lack of an administrative fee.

Interconnection/Curtailment Requirements

The IIC Group has no comment with respect to the interconnection/curtailment requirements for the Labrador system and supports the approval of same. However, it is important to acknowledge that the requirements necessary for the Labrador system may not be necessary for the Island system. As such, as new rate designs for the Island system are considered in the next general rate application, the IIC Group submits that Hydro should be required to consult with the IIC Group's members on the design of the interconnection/curtailment requirements included in such rates.

Month Ahead Pricing

The IIC Group also have no immediate objection to the month-ahead pricing requested by Hydro in the Application. However, with month ahead as opposed to a more granular or real time pricing, there is a risk to Hydro. In particular, month ahead pricing creates a risk that Hydro, and the customers who should benefit from the revenues collected from the rates, could be negatively impacted as the rates set by the month ahead pricing model could be different than the prevailing energy market rates at the time of the non-firm energy usage (i.e., the revenues they could have received had this energy gone to market). For this reason, the IIC Group requests that the rates be set as interim until the next general rate application and that Hydro be ordered to track and report quarterly on the how month-ahead price estimates are tracking with actual export prices or prices on a more granular basis (e.g., weekly).

10% Administrative Rate

As stated in the Application, Hydro has historically applied a 10% administrative overhead rate to Island Industrial Customer non-firm pricing but, for the reasons stated in its evidence, does not believe that the 10% administrative rate should be applied to the Labrador Non-Firm Service rate offering. The IIC Group supports the decision not to include a 10% administrative overhead rate in the pricing for the reasons outlined in Hydro's evidence on the assumption that the administrative rate will not be applied to non-firm energy rates charged to Island Industrial Customers. The IIC Group asks that Hydro confirm that this assumption is correct, or if it is not correct, provide a full justification as to why the overhead rate should still apply to IICs and how would such treatment constitute fair and equitable treatment of the IIC class.

<u>Island Industrial Non-Firm Rate</u>

The IIC Group supports Hydro's efforts to update the non-firm rate charged to Island Industrial Customers to bring it in line with the proposed Labrador rates and to account for the changing system. However, the IIC Group see this as a first step in a process that could help Hydro achieve its electrification objectives for the Island System.

While the rate being proposed addresses the inequality that would result if the Island rate was not changed to bring it in line with the rate proposed for Labrador non-firm customers, the proposed non-firm energy rate for Island Industrial Customers would not maximize the potential for Island Industrial Customer electrification. For example, A broader offering of a non-firm rate offering for Island Industrial Customers should consider:

- more granular pricing than the current offering contains. While the current offering uses only monthly pricing with an on-peak/off-peak distinction, there is regulatory precedent for using weekly pricing and 3 time periods (on/off/shoulder). For customers that have flexibility (i.e. the ability to quickly curtail) and prioritize savings over energy availability, more granular pricing may be preferred and could, in turn, encourage electrification;

- necessary adjustments to the current contractual limits on non-firm power, that should be expanded post Muskrat Falls integration; and

- whether the current linkage to Holyrood pricing when marginal supply on the Island is from oil should be eliminated once Muskrat Falls integration is complete/stable. If the linkage to Holyrood pricing is not eliminated, at a minimum, its applicability to the Island Industrial Customer non-firm rate must be better particularized. This must include the systems particularized in PUB-NLH-13 providing notice equal to or greater than the curtailment period before Holyrood pricing would apply. While Hydro should provide as much notice as possible with the current proposed system, this will gain greater importance should the availability and usage of non-firm energy increase.

The IIC Group requests that Hydro undertake to continue consultation with IIC Group members in advance of the next general rate application and to include non-firm energy rate offerings as an issue for consideration in the next general rate application.

Use of Revenues

Hydro proposes all revenues from the non-firm rates be applied to the supply cost variation deferral account. The IIC Group support this request.

We trust these comments will be found to be in order.

Yours very truly,

Denis J. Fleming

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