

1 Q. In Order No. P.U. 19(2022) the Board approved the implementation of a Project Cost Recovery
2 Rider. The Application stated that the Project Cost Recovery Rider was proposed to address rate
3 stability concerns and, in combination with the update of the Rate Stabilization Plan
4 adjustments and the Conservation and Demand Management Cost Recovery Adjustment, would
5 avoid a projected 6.4% customer rate decrease while the Government of Newfoundland and
6 Labrador's rate mitigation plan was being finalized.

7 The preliminary estimate of the overall average customer rate impact resulting from Hydro's
8 proposed rate adjustments and Newfoundland Power's projected rate adjustments is material,
9 an increase of approximately 6.9% effective July 1, 2023. At the request of the Government of
10 Newfoundland and Labrador, Hydro has not included any additional LCP-related costs in the
11 upcoming July 1, 2023 rate adjustments.

12 Did Hydro consider reducing or eliminating the Project Cost Recovery Rider in the calculation of
13 the July 1, 2023 rates to lessen the projected rate impact? Please explain the considerations
14 associated with reducing the Project Cost Recovery Rider to lessen the rate increase.

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17 A. Newfoundland and Labrador Hydro's ("Hydro") did not consider it consistent with regulatory
18 principles to propose a reduction in the Project Cost Recovery Rider to lessen the projected
19 customer rate impact of the new rates to become effective July 1, 2023. In Hydro's view, the
20 proposal to maintain a Project Cost Recovery Rider at this time is consistent with the regulatory
21 principles of cost of service, rate stability, and intergenerational equity.

22 **Cost of Service**

23 Under this principle, a utility is permitted to set rates that allow the recovery of costs for
24 regulated operations. Order in Council OC2013-343 requires Hydro to recover the costs of the
25 Muskrat Falls Project ("Project") from customers on the Island Interconnected System. With the
26 recent commissioning of the Labrador-Island Link, as of April 14, 2023, Hydro is required to pay
27 the monthly charges under both the Muskrat Falls Power Purchase Agreement and the
28 Transmission Funding Agreement. As a result, the monthly charges to Hydro associated with the

1 Project will increase from slightly greater than \$20 million per month to greater than \$60 million
2 per month.

3 Hydro's proposal to implement a Project Cost Recovery Rider on July 1, 2022 provided Hydro the
4 opportunity to begin to recover supply costs associated with the Project. The costs of the Project
5 currently being recovered from customers is slightly greater than \$3.7 million per month.

6 While the Government of Newfoundland and Labrador ("Government") has provided funding to
7 offset the 2022 year-end balance in the Supply Cost Variance Deferral Account, this funding
8 does not offset any future charges to be paid by Hydro under the Project agreements. As the
9 costs Hydro is required to recover from customers associated with the Project are materially
10 increasing as a result of the commissioning of the Project, Hydro did not consider it reasonable
11 at this time to propose a reduction in the recovery of the costs of the Project through customer
12 rates.

13 **Rate Stability**

14 In consideration of the fact that the Government provided funding does not offset future
15 charges Hydro is required to pay, and because these charges are materially increasing post
16 commissioning, Hydro would have proposed an increase in the Project Cost Recovery Rider if
17 not for the projected material customer rate increase (i.e., an average of 6.9%) resulting from
18 the combined outcome of the normal operation of the Rate Stabilization Plan and
19 Newfoundland Power Inc.'s Rate Stabilization Adjustment. An increase in the Project Cost
20 Recovery Rider would be consistent with Hydro's obligation to recover Project costs from
21 customers on the Island Interconnected System.

22 The implementation of the Project Cost Recovery Rider in July 2022 enabled Hydro to begin
23 recovering Project costs without imposing a material increase in customer rates, consistent with
24 the principle of rate stability. Hydro's proposal in this application to maintain the existing Project
25 Cost Recovery Rider is also consistent with the provision of rate stability as Hydro's proposal
26 considers the potential for customer rate shock if increased Project cost recovery was proposed
27 at this time. Hydro believes rate stability is an important consideration, but one which must be
28 balanced with Hydro's obligation to recover the Project costs from customers.

1 **Intergenerational Equity**

2 As indicated above, the current Project Cost Recovery Rider is recovering slightly greater than
3 6% of the projected Project monthly charges to Hydro beginning in May 2023. Reducing the
4 Project Cost Recovery Rider at this time would contribute to higher costs to be recovered from
5 future customers. The power purchases from the Project to customers on the Island
6 Interconnected System have and will continue to lower the amount of No. 6 fuel oil consumed
7 at the Holyrood Thermal Generating Station to serve existing customers. To grant current
8 customers a decrease in the Project Cost Recovery Rider would not recognize the costs incurred
9 by Hydro to achieve these fuel savings and would contribute to future customers bearing the
10 costs incurred to provide benefits to current customers. Such an approach would not be
11 consistent with the principle of intergenerational equity.

12 Hydro's proposal seeks to balance the fuel savings benefit with the cost required to achieve
13 these savings, thereby promoting intergenerational equity amongst customers.