

1 Q. **Reference: Application, 2025 Capital Budget Overview, page 37.**

2 It is stated *“As a result of the finalization of the Government’s rate mitigation plan, announced*  
3 *on May 16, 2024, rate increases at the wholesale level on the Island Interconnected System will*  
4 *be limited to target domestic rate increases of 2.25% annually, attributable to Hydro’s costs, up*  
5 *to and including 2030, regardless of the increase in revenue requirement.”*

- 6 a) Does the rate mitigation cap relate to all Hydro costs including capital-related, operation  
7 and maintenance, fuel, deferral accounts, and the rural deficit?
- 8 b) How are the costs of non-regulated assets treated under the rate mitigation cap?
- 9 c) How does the rate mitigation plan influence rates for Labrador customers, and Island  
10 rural and isolated customers?
- 11 d) How does the rate mitigation plan influence rates for Island Industrial Customers?
- 12 e) Does the rate mitigation plan impact recovery of specifically-assigned costs, or do these  
13 costs fall outside the cap?
- 14 f) Is it conceivable that annual wholesale rate increases will come in under the 2.25% cap?
- 15 g) Is the rate mitigation plan effectively an annual revenue cap on *“all”* Hydro costs to  
16 provide service to its customers through to, and including, 2030?
- 17 h) Does the rate mitigation plan effectively transfer regulation of Hydro’s costs to its owner  
18 and away from the Public Utilities Board?

19

20

21 A. a) Order in Council OC2024-062 stipulates that:

22 ...up to and including the year 2030, Newfoundland and Labrador Hydro shall  
23 structure any application for utility rate increases such that retail rate increases  
24 to domestic rate class customers attributable to Hydro shall be targeted at 2.25  
25 per cent per year.<sup>1</sup>

---

<sup>1</sup> OC2024-062 (Hydro Corporation Act, 2007, SNL 2007, c H-17), <https://www.exec-oic.gov.nl.ca/public/oic/details?order-id=21851>.

1 All of Newfoundland and Labrador Hydro's ("Hydro") regulated costs continue to be subject  
2 to the review and approval of the Newfoundland and Labrador Board of Commissioners of  
3 Public Utilities ("Board") for approval for recovery from customers. Approved, recoverable  
4 costs are then allocated to Hydro's customers through its cost of service. The Government  
5 of Newfoundland and Labrador's ("Government") rate mitigation plan limits the amount of  
6 recovery from domestic customers on the Island Interconnected System towards these  
7 approved, recoverable costs and prescribes the source for the remaining balance for the  
8 period up to and including 2030.

9 **b)** Rates are derived based on regulated costs only; therefore, the concept of rate mitigation is  
10 not applicable to Hydro's non-regulated assets.

11 **c)** The rate mitigation plan applies to customers on the Island Interconnected System who are  
12 responsible for paying Muskrat Falls Project costs.

13 Rates for Labrador Interconnected customers will not be impacted by the rate mitigation  
14 plan.

15 Any change in the rate for Newfoundland Power Inc.'s ("Newfoundland Power") customers  
16 impacts the rate for Hydro's Rural and Isolated customers with the exception of Rural  
17 Labrador Interconnected customers. Section 16 of Newfoundland and Labrador Hydro's  
18 Rules and Regulations, Policies for Automatic Rate Changes, requires Hydro to adjust its  
19 rates as Newfoundland Power changes its rates. More specifically, section 16 requires the  
20 following:

21 **i.** As Newfoundland Power changes its rates, Hydro will automatically adjust all Hydro  
22 Rural rates on the Island Interconnected System and the L'Anse-au-Loup System  
23 such that these customers pay the same rates as Newfoundland Power customers;

24 **ii.** Rates for the Burgeo School and Library will increase or decrease by the average  
25 rate of change granted to Newfoundland Power from time to time, excluding  
26 Newfoundland Power's changes for the August 1st Municipal Tax and Rate  
27 Stabilization Adjustments and any fuel rider adjustments;

28 **iii.** Isolated Rural Domestic customers, excluding government departments, pay the  
29 same rates as Newfoundland Power for the basic customer charge and First Block

- 1 consumption (outlined in Rate 1.2D). Rates charged for consumption above this  
2 block will be automatically adjusted by the average rate of change granted  
3 Newfoundland Power;
- 4 **iv.** Rates for Isolated Rural General Service customers, excluding government  
5 departments, will increase or decrease by the average rate of change granted  
6 Newfoundland Power from time to time; and
- 7 **v.** As Newfoundland Power changes its rates, Hydro will automatically adjust Rural  
8 Isolated Street and Area Lighting rates, excluding those for government  
9 departments, such that these rates are the same as those charged to Newfoundland  
10 Power customers.
- 11 **d)** Order in Council OC2024-062 also directs that rate increases be structured for other  
12 customers subject to Island Interconnected rates in a manner that is compatible with the  
13 domestic rate class increase of 2.25 per cent per year (“Hydro Target Rate Increase”). Rate  
14 increases for Island Industrial customers will be consistent with the wholesale rate change  
15 required to meet the Hydro Target Rate Increase.
- 16 **e)** The rate mitigation plan does not impact the recovery of specifically-assigned costs.
- 17 **f)** No, it is not conceivable that the annual wholesale rate increase will come under the 2.25%  
18 cap.
- 19 **g)** The rate mitigation plan limits the rate increase to domestic customers on the Island  
20 Interconnected System attributable to Hydro’s costs to 2.25 per cent per year. This limits the  
21 Island Interconnected costs recovered through rates but is not an annual revenue cap on all  
22 Hydro costs to provide service to its customers.
- 23 **h)** The rate mitigation plan does not effectively transfer regulation of Hydro’s costs to its  
24 owner and away from the Board. Hydro’s costs, including its capital, operating and supply  
25 costs, continue to be regulated and subject to review and approval by the Board as to  
26 whether these costs are recoverable through customer rates.<sup>2</sup> The Government’s rate  
27 mitigation plan limits the portion of these approved, recoverable costs which will ultimately

---

<sup>2</sup> Except as otherwise directed in Order in Council OC2013-343 (*Electrical Power Control Act, 1994*, SNL 1994, c E-5.1), <https://www.exec-oic.gov.nl.ca/public/oic/details?order-id=844>.

- 1 be paid by Domestic customers on the Island Interconnected System and directs how the
- 2 remaining balance is funded.