

1 **Q. What impact, if any, will the use of the retail rate for the annual settlement of**  
 2 **credits have on customers who are not participating in the Net Metering Service**  
 3 **Option compared to the rate Newfoundland Power has proposed?**  
 4

5 A. Conceptually, customers who are non-participants in a net metering service offering  
 6 benefit when annual settlement of excess energy credits is below the marginal system  
 7 energy cost and are disbenefited when annual settlement is based on an amount higher  
 8 than the marginal system energy cost. At the commencement of implementation of a net  
 9 metering service offering, the amount of the benefit or disbenefit likely to be experienced  
 10 by a non-participating customer can be expected to be immaterial for practical purposes.  
 11 This is because of the very low amounts of excess energy credits involved in the early  
 12 years of a net metering program. As a net metering regime matures, the amount of excess  
 13 energy credits can be expected to increase but it may take years before they become  
 14 material for practical purposes.  
 15

16 The evidence indicates that current customer energy rates range from 6.1¢/kWh to  
 17 9.7¢/kWh. The current 2<sup>nd</sup> block energy charge in Newfoundland and Labrador Hydro's  
 18 Utility Rate to Newfoundland Power (the "2<sup>nd</sup> Block Energy Charge") is 9.509¢/kWh.  
 19 The 2<sup>nd</sup> Block Energy Charge is a proxy for Newfoundland Power's marginal system  
 20 energy cost.  
 21

22 Based upon the evidence, the difference between current customer energy rates and the  
 23 2<sup>nd</sup> Block Energy Charge ranges from -3.4¢/kWh to +0.2¢/kWh.<sup>1</sup> Given this range of  
 24 differences and the low amounts of energy credits likely to arise early in the net metering  
 25 program, Newfoundland Power believes that non-participants will not be adversely  
 26 affected by use of the retail rate for annual settlement of energy credits at current  
 27 customer rates.  
 28

29 However, following the interconnection of Muskrat Falls, the difference between  
 30 customer energy rates and marginal system energy costs could increase considerably.  
 31 This difference could be as high as +17¢/kWh.<sup>2</sup> Conceptually, this amount would reflect  
 32 the amount of *additional supply costs* on a kWh basis which Newfoundland Power would  
 33 have to pay under a net metering service option which settled excess credits based upon  
 34 retail rates.  
 35

36 These additional supply costs are a measure of disbenefit for non-participating customers.  
 37 The practical impact, if any, on non-participating customers would depend upon the  
 38 amount of excess energy credits that Newfoundland Power would be required to purchase  
 39 under the net metering regime. It is possible that, at the time of the interconnection of  
 40 Muskrat Falls, the amount of excess energy credits may still not be material in terms of  
 41 impacts on non-participating customers' rates. However, given the high additional costs  
 42 on a kWh basis, the risk of material impacts on non-participating customers' rates will be

<sup>1</sup> See Company Evidence, page 18, line 1 to page 19, line 6.

<sup>2</sup> See Company Evidence, page 23, line 7 to page 24, line 2. (21¢ - 4¢ = 17¢)

1 increased.

2  
3 This increased risk of potential future rate discrimination presented by the Island  
4 Interconnected system cost outlook supports the use of the 2<sup>nd</sup> Block Energy Charge as a  
5 basis for compensation for excess energy credits under the Net Metering Service Option  
6 proposed by Newfoundland Power. Put another way, the use of the 2<sup>nd</sup> Block Energy  
7 Charge to pay for excess energy credits provides additional assurance that the Net  
8 Metering Service Option will not result in unjust rate discrimination following the  
9 interconnection of Muskrat Falls. This is consistent with Section 3(a) of the *Electrical*  
10 *Power Control Act, 1994*.

11  
12 In addition, annual settlement on a marginal cost basis ensures, following the  
13 interconnection of Muskrat Falls, net metering will not have the effect of increasing  
14 overall Newfoundland Power energy supply costs from what they otherwise would be.  
15 This ensures that the Net Metering Service Option proposed in the Application will  
16 continue to be consistent with the least cost principle as required by Section 3(b) of the  
17 *Electrical Power Control Act, 1994*.