

1 **Section 1: Introduction**

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3 **Q. (Section 1, page 1-8) It is stated “The Company has effectively no control over its**
4 **power supply costs, including the wholesale rate charged by Hydro to Newfoundland**
5 **Power.” How might the regulatory system be changed to provide Newfoundland**
6 **Power a meaningful measure of control over its power supply costs?**

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8 A. Newfoundland Power’s supply costs are largely dependent on the wholesale electricity
9 rate charged by Newfoundland and Labrador Hydro (“Hydro”), who has the exclusive
10 right to sell electricity to the Company by virtue of the *Electrical Power Control Act*.¹ As
11 such, any changes in the measure of control that Newfoundland Power has over its power
12 supply costs would require legislative amendments.

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14 The wholesale electricity rate charged by Hydro is subject to Board approval.²
15 Mechanisms that permit full recovery of supply costs by investor-owned distribution
16 utilities are commonplace in Canadian regulatory practice.³ See the response to Request
17 for Information PUB-NP-071 for further information.

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19 The supply cost mechanisms currently utilized by Newfoundland Power to recover its
20 power supply costs incurred from purchasing electricity from Hydro include: (i) the Rate
21 Stabilization Account; (ii) the Demand Management Incentive Account; (iii) the Energy
22 Supply Cost Variance Clause; and (iv) the Weather Normalization Reserve.⁴

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24 The Company submits that to date these regulatory mechanisms have functioned so as to
25 allow Newfoundland Power the ability to recover its supply costs, in a manner that is
26 consistent with current Canadian regulatory practice. However, the Company notes that
27 the Muskrat Falls Project, including future operating costs and sustaining capital, is
28 exempt from regulatory oversight.⁵

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30 At present, sustaining capital, operating and maintenance costs related to the Muskrat
31 Falls Project are approved to flow through Hydro’s supply cost deferral account. There is
32 no indication as to whether these costs are subject to disallowance, which limits the
33 oversight of the Board in determining whether the costs are reasonable. This could cause
34 rate pressures to persist long after the Muskrat Falls Project construction costs are
35 reflected in customer rates.

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¹ See section 14.1 of the *Electrical Power Control Act, 1994*.

² Most recently, the Board approved Hydro’s wholesale rate adjustments in Order No. P.U. 15 (2023) as part of the annual July 1st rate adjustment.

³ Such regulatory mechanisms also appear to be commonplace in the U.S. See the *2025/2026 General Rate Application, Volume 2: Supporting Materials, Expert Evidence, Cost of Capital, Comparison to U.S. Electric Utility Proxy Group*, page 80, lines 21 to 25.

⁴ Newfoundland Power’s *2025/2026 General Rate Application* proposes changes to the Company’s Demand Management Incentive (“DMI”) Account definition to replace the calculation of the threshold from $\pm 1\%$ of test year wholesale demand charges to $\pm \$500,000$. See the *2025/2026 General Rate Application, Volume 1, Application, Company Evidence and Exhibits, Section 3.4.2 Demand Management Incentive*.

⁵ See OC 2013-342.

1 Newfoundland Power submits that all future costs to be borne by ratepayers should be
2 subject to regulatory oversight, including all future operating and sustaining capital
3 related to the Muskrat Falls Project. This is consistent with the Board’s recommendation
4 from the Reference on Muskrat Falls Project Rate Mitigation that Government should
5 consider its options to implement independent oversight of sustaining capital and
6 operating costs of the Muskrat Falls Project.⁶

⁶ See the Board’s *Final Report on Muskrat Falls Project Rate Mitigation Options and Impacts*, page iii.