

1 **Section 5: Customer Rates**

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3 **Q. Please confirm that the potential for an additional rate increase resulting from**
4 **Newfoundland Power’s General Rate Application in excess of the 5.5% proposed by**
5 **Newfoundland Power is not a result of the costs being incurred by Newfoundland**
6 **and Labrador Hydro for the Muskrat Falls Project, under the existing contractual**
7 **arrangements. If not confirmed, please provide an explanation.**

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9 A. Newfoundland Power can confirm that the potential additional rate increase from
10 rebasing power supply energy costs is not the direct result of additional costs being
11 charged by Hydro associated with the Muskrat Falls Project.

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13 As described in the responses to Requests for Information PUB-NP-004 and
14 PUB-NP-007, sales growth beyond 2023 levels will be costed at 18.165¢ per kWh until a
15 new wholesale rate is implemented.

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17 The Muskrat Falls Project was fully commissioned in April 2023. Since Newfoundland
18 and Labrador is now interconnected to the North American grid, Hydro has the ability to
19 import energy from, and sell energy to, other jurisdictions. Therefore, opportunity costs
20 associated with importing and exporting energy to these jurisdictions is now considered
21 Hydro’s marginal cost of energy.¹ These opportunity costs are significantly lower than
22 the marginal cost of fuel at Holyrood, which is the basis of the current wholesale end
23 block rate of 18.165¢ per kWh. As an example, Hydro’s realized export electricity price
24 for the nine months ending September 30, 2023 was approximately 4¢ per kWh.²

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26 It is Newfoundland Power’s understanding that differences in the amount charged by
27 Hydro to Newfoundland Power through the wholesale end block rate and the actual cost
28 of that supply are captured in Hydro’s Supply Cost Variance Deferral Account
29 (“SCVDA”). Hydro’s SCVDA also includes the costs associated with the Muskrat Falls
30 Project.

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32 Based on the current difference between the wholesale end block rate of 18.165¢ per
33 kWh and the opportunity cost of energy exports of 4¢ per kWh, there may be a net credit
34 in Hydro’s SCVDA related to higher energy purchases from Newfoundland Power that
35 practically serve to partially offset costs associated with the Muskrat Falls Project.

¹ See Newfoundland and Labrador Hydro’s *Marginal Cost Study Update – 2021, Summary Report*,
March 7, 2022, page 3, lines 7-16.

² See Hydro’s *Interim Management and Discussion Analysis* for the third quarter of 2023.