

1 Q. On pages 9-10, Hydro explained that the approximately \$20 million balance in the Rural Rate
2 Adjustment (“RRA”) would result in an average end-consumer rate decrease of 2.6% in a future
3 July 1st Utility Rate adjustment, assuming all other items are kept constant. Due to the
4 Government’s rate mitigation plan target of 2.25%, Hydro noted that the Project Cost Recovery
5 Rider would increase to offset this potential rate decrease in order to achieve the 2.25% target
6 rate increase on July 1st.

7 a) Are there any other options that Hydro could consider to refund this balance to
8 Newfoundland Power to apply against its Rate Stabilization Account (“RSA”) instead of
9 flowing it through the July 1st Utility Rate Adjustment? Please provide details of
10 available options or why other options are not available.

11 b) Given the large RRA credit balance in the Supply Cost Variance Deferral Account that has
12 accumulated as a result of past rate increases to Hydro’s Rural Customers, please
13 address the considerations, including intergenerational equity, of transferring the
14 current RRA credit balance to the RSA of Newfoundland Power to reduce the July 1,
15 2025 rate increase required from Newfoundland Power customers.

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18 A. a) Newfoundland and Labrador Hydro (“Hydro”) could consider a refund of the Rural Rate
19 Alteration (“RRA”) balance to Newfoundland Power Inc. (“Newfoundland Power”)
20 through a one-time bill credit for application against its Rate Stabilization Account
21 (“RSA”) balance instead of flowing it through the July 1 Utility Rate Adjustment. This
22 approach has been utilized in the past to refund amounts to customers without
23 impacting the rates charged; however, considerations with respect to transferring the
24 RRA balance to Newfoundland Power’s RSA balance are outlined below, including the
25 Government of Newfoundland and Labrador’s (“Government”) directions regarding rate
26 increases, the implementation of the Government’s rate mitigation plan and the
27 amount of current and future rate mitigation funding required, as well as
28 intergenerational equity.

1 **b) Rate Adjustments in Advance of Rate Mitigation**

2 The RRA credit balance in the Supply Cost Variance Deferral Account (“SCVDA”) has
3 been accumulating since November 1, 2021, the effective date of the deferral account.
4 The deferral account was created to address the material changes in system costs once
5 payments were required to be made under the Muskrat Falls Power Purchase
6 Agreement (“PPA”) and the Transmission Funding Agreement.

7 Order in Council OC2013-343 permits Hydro to recover all costs associated with the
8 Muskrat Falls Project, without disallowance. In May 2022, the Government issued an
9 Order in Council OC2022-120 to amend the wording of Order in Council OC2013-343,
10 permitting Hydro to begin recovery of payments it is making pursuant to the Muskrat
11 Falls PPA.

12 In Hydro’s July 1 Utility Rate Adjustments applications filed in 2022 and 2023,
13 subsequent to the implementation of the SCVDA and the amended Order in Council but
14 in advance of the completion and announcement of the rate mitigation plan, the
15 Government provided direction to Hydro regarding the rate changes to be implemented
16 in each application.

17 **July 1, 2022 Utility Rate Adjustment**

18 The Government’s May 20, 2022 correspondence to Hydro’s Board of Directors
19 referenced its stated policy that electricity rates be maintained at a manageable level
20 and requested that Hydro file its application with a view to maintaining retail rates as
21 close to current levels as possible.

22 To comply with this request, while still recovering a portion of the Muskrat Falls Project
23 payments, Hydro proposed to implement a Project Cost Recovery Rider. Hydro
24 proposed a retail rate increase of 1.4% resulting from the change in the wholesale rate
25 to Newfoundland Power which, when combined with Newfoundland Power’s 1.7%
26 decrease, resulted in an average customer decrease of 0.3%.

1 **July 1, 2023 Utility Rate Adjustment**

2 The Government’s April 14, 2023 correspondence to Hydro’s President, Jennifer
3 Williams, asked Hydro to include no additional Lower Churchill Project (“LCP”) related
4 costs in the July 1, 2023 annual rate adjustment. The Government also indicated that
5 further LCP-related rate increases would be more appropriately addressed upon
6 implementation of the rate mitigation plan.

7 Hydro did not propose an increase in the Project Cost Recovery Rider for July 1, 2023,
8 given the calculation of a material increase of 6.9%¹ in customer rates without increased
9 recovery of LCP costs over 2022.

10 **Rate Mitigation Plan**

11 On May 16, 2024, the Government announced the finalization of the rate mitigation
12 plan. The plan, applying only to Island Interconnected System customers responsible for
13 the costs of the Muskrat Falls Project, was first implemented in Hydro’s Utility Rate
14 Adjustment effective August 1, 2024. As directed in Order in Council OC2024-062, Hydro
15 is to structure any application for utility rate increases such that retail rate increases to
16 domestic rate class customers attributable to Hydro’s costs are targeted at 2.25 per cent
17 per year annually up to and including 2030. The balance of costs is to be funded through
18 rate mitigation.

19 **Rate Mitigation Funding**

20 The Government has committed to fund rate mitigation to meet targeted rate increases
21 through both the agreements signed with the Government of Canada and the provision
22 of funding to pay down the balance due from customers in the SCVDA. Order in Council
23 OC2024-062 directed that any additional funds required for Hydro to mitigate the
24 Muskrat Falls Project costs be through Hydro’s sources, to the extent possible. In
25 addition to the Government of Canada convertible debenture funding, as of September
26 30, 2024, the Government has contributed or authorized Hydro/Nalcor Energy to
27 contribute in lieu of its dividends, \$280.4 million to mitigate rate increases with the

¹ The 6.9% increase reflects 3.9% for Hydro’s updated wholesale rate adjustments and 3.0% related to Newfoundland Power’s RSA balance and update to its Municipal Tax Adjustment factor.

1 commitment to fund future balances at an estimated \$2 billion up to and including
2 2030.

3 **Rural Rate Alteration**

4 The balance in the RRA as of September 30, 2024, is \$19.2 million. The RRA balance was
5 historically included in the Rate Stabilization Plan balance used to calculate the rate
6 change for Newfoundland Power on July 1.²

7 As previously described, since July 1, 2022, the Government has provided guidance to
8 Hydro on the level of rate increase taking into consideration recovery of Project costs,
9 the impact of other rate increases on customers and the impact of those directives on
10 rate mitigation. The rate increases since July 1, 2022, were implemented as per
11 Government direction and the resulting rates required at the time were set in
12 consideration of all costs to be recovered. The Government has not provided direction
13 for recovery of any additional costs incurred to serve customers in these years. The
14 Government has committed to funding the additional costs incurred in those years to
15 serve customers through rate mitigation.

16 There has been \$280.4 million of rate mitigation funding contributed to date, and an
17 estimated additional \$2.0 billion will be required to mitigate rates for customers
18 between 2025 and 2030.³ The refund of the \$19.2 million in the RRA would result in
19 additional rate mitigation when previous rate targets were achieved as directed, and
20 corresponding mitigation provided.

21 Customers have paid the rates required since July 1, 2022, with no direction from the
22 Government to increase recovery from Newfoundland Power for past amounts. As
23 customers paid the directed and required rates during the period that costs were
24 incurred, intergenerational equity is not a consideration.

² "Implementation of the Rate Mitigation Plan," Newfoundland and Labrador Hydro, October 22, 2024, sec. 2.3, p. 9.

³ "Implementation of the Rate Mitigation Plan," Newfoundland and Labrador Hydro, October 22, 2024, p. 5, Table 2.