



AUG 12 2019

Government of Newfoundland and Labrador
Department of Natural Resources
Office of the Deputy Minister

Honourable Justice Richard LeBlanc, Commissioner
Commission of Inquiry Respecting the Muskrat Falls Project
Fifth Floor, Suite 502
Beothuck Building
20 Crosbie Place
St. John's, NL A1B 3Y8

Dear Commissioner LeBlanc:

Re: Responses to A.J. Goulding Report

I am writing in response to the recent request from Ms. Muzychka for comment on issues raised in Mr. A. J. Goulding's report entitled *Regulatory and Policy Issues of Interest to the Muskrat Falls Inquiry* (CIMFP Exhibit P-04457). I note that the report was forwarded to all Counsel and as such, I am responding to these issues only on behalf of the Department of Natural Resources. We understand from the email that other parties, in particular, Nalcor and the Consumer Advocate will respond separately and we look forward to seeing those comments.

Mr. Goulding's report offers a number of useful ideas for consideration. Having said this, these ideas will need to be examined in more detail, particularly in light of the pending outcomes of both the Commission of Inquiry Respecting the Muskrat Falls Project and the Board of Commissioners of Public Utilities (PUB) report in response to the reference questions provided to it in September 2018. We acknowledge that external consultants' perspectives can be useful in this transition period for the Newfoundland and Labrador electrical system, and thank Mr. Goulding for his input.

SALES TO RATEPAYERS

With respect to the adequacy of Newfoundland and Labrador's regulatory system to cover sales of electricity to ratepayers, Mr. Goulding points to the 2015 Power Advisory report and notes that a number of recommendations made by Power Advisory have not been implemented to date. Some of these recommendations have been effectively actioned through Newfoundland and Labrador Hydro's *Reliability and Resource Adequacy Study* that is currently before the PUB. In particular, this includes assessing the need for new facilities and the cost-effectiveness of alternatives. In addition, we have made efforts to reduce the Rural Deficit through strategies such as our recent call for Expressions of Interest for renewable energy solutions for coastal diesel-powered electricity systems and through encouraging the use of wood heat in isolated communities where appropriate.

Mr. Goulding goes on to recommend that any expenditure included in rate base should be subject to regulatory review. This government values the role of the PUB and independent oversight. Furthermore, we recognize Power Advisory's advice that circumventing oversight can erode public confidence. As such, this government has been reluctant to direct the PUB on matters of oversight.



SALES TO OTHERS

The Department of Natural Resources sees merit in Mr. Goulding's view that unless there is an adverse impact on ratepayers, regulatory oversight may not be required and normal commercial relations apply. However, taxpayer implication must be carefully considered to ensure appropriate oversight and risk assessment. Mr. Goulding further asserts that it is appropriate for Newfoundland and Labrador to charge exports an appropriate allocation of system costs using its Open Access Transmission Tariff (OATT). I note that Newfoundland and Labrador has an OATT in place with PUB oversight for this purpose since 2018. I would also like to point out that as part of the Reference Questions provided to the PUB in September 2018; the PUB is examining industry best practices related to external market purchases and sales of electricity. The PUB has retained consultants to provide expert advice on this topic.

CHALLENGES FROM INTERCONNECTION

Mr. Goulding highlights several challenges arising from interconnection. We agree that as a small jurisdiction integrated into the North American grid, Newfoundland and Labrador has limited influence over any external regulations. While we do not monitor developments at FERC, NERC and ISO-NE on a full-time basis, I must highlight that we are not adjacent to US states and as such are somewhat removed from the requirements of FERC and NERC. Nevertheless, Newfoundland and Labrador's OATT complies with FERC. With respect to system reliability, Newfoundland and Labrador Hydro submitted its *Reliability and Resource Adequacy Study* to the PUB for review in November 2018 which explains to the regulator the company's proposed approach to North American interconnection in relation to reliability standards and notes NL Hydro intentions to voluntarily comply with those standards and the related Northeast Power Coordinating Council operational requirements. The Department of Natural Resources also acknowledges Mr. Goulding's finding that Nalcor Energy Marketing must have strong risk management and compliance functions.

Insofar as greater participation in regional planning is concerned, I note that the Province participated in the Atlantic Regional Electricity Cooperation and Strategic Infrastructure (RECSI) initiative that analyzed the most promising generation and transmission infrastructure options for the Atlantic region. Newfoundland and Labrador is currently engaged in the subsequent Atlantic Clean Power Roadmap exercise with Atlantic and Federal government officials and utility representatives that will outline a collective vision for how jurisdictions will collaborate over coming decades to build a clean power network across Atlantic Canada.

ROLE OF ENVIRONMENTAL CONSIDERATIONS IN ENERGY POLICY

Environmental considerations and climate change are top of mind for this government and Minister Coady's mandate letter explicitly requires the department to encourage more diverse distributed energy generation by seeking opportunities to develop wind farms and small scale hydro, as well as prioritizing communities that are isolated from the primary power grid. In addition, the investment in Muskrat Falls will see the electricity grid producing 98 per cent clean, renewable energy once completed. Furthermore, the Department of Natural Resources is currently in the process of developing a renewable energy strategy that is focused on positioning the Province as an energy hub. At the same time, the Department of Municipal Affairs and Environment is offering programs designed to enhance energy efficiency in homes, increase the penetration of heat pumps and develop electric vehicle infrastructure. As well, as part of its work



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for the PUB, expert consultant Synapse is reviewing conservation and demand management efforts in Newfoundland and Labrador.

In conjunction with our interest in renewable energy and environmental goals, we must balance the core functions of providing least-cost power consistent with reliable service. We also must consider government's rate management plan released on April 15, 2019, as well as governance and oversight of Nalcor Energy and its subsidiaries. To the extent that these core functions intersect with environmental policy, we will make every effort to coordinate among them.

EFFECTIVENESS OF CURRENT ELECTRICITY PRICING MODEL

Our current pricing model is based on Cost of Service that has a number of important advantages. Most importantly, it is the most transparent and offers the administrative simplicity of the various models highlighted by Mr. Goulding. Reliability is a key criteria and our core function, as discussed above, is to provide least-cost power consistent with reliable service. With respect to the current electricity-pricing model, we are open to alternatives such as Performance-Based Ratemaking to the extent that it can enhance efficiency without negatively impacting reliability and cost of service. However, alternatives of this nature would be subject to full review by the PUB and include engagement with utilities, the consumer advocate, industrial customers and other stakeholders.

In conclusion, I would like to highlight some final points for your consideration. The electricity system in the Province is currently undergoing a fundamental transformation as we continue to work towards concluding the Muskrat Falls Project and finalizing interconnection to the North American grid. Important steps we have taken include establishing the Commission of Inquiry, providing Reference Questions to the PUB (leading to the reports from their expert consultants Liberty and Synapse), and releasing of our rate management plan. At the same time, as noted above, Newfoundland and Labrador Hydro submitted its *Reliability and Resource Adequacy Study* to the PUB in November 2018.

I look forward to seeing the outcome of both the PUB Reference Questions and Commission of Inquiry, as they will inform such crucial matters as how we maintain our commitment to providing reliable power at the least-cost and best practices with respect to oversight of our Crown Corporation. I trust my letter will provide some assistance as you continue your work towards conclusion of the Inquiry.

Sincerely,

A handwritten signature in blue ink, appearing to read "Ted Lomond".

Ted Lomond
Deputy Minister