

September 10, 2019

The Board of Commissioners of Public Utilities
Prince Charles Building
120 Torbay Road, P.O. Box 21040
St. John's, NL A1A 5B2

Attention: Ms. Cheryl Blundon
Director Corporate Services & Board Secretary

Dear Ms. Blundon:

Re: 2017 GRA Compliance Application – Hydro's Reply

On September 10, 2019, Newfoundland and Labrador Hydro ("Hydro") received correspondence from the Labrador Interconnected Group ("LIG") including its submissions regarding the "2017 GRA Compliance Application." In the submissions, the LIG referenced the Muskrat Falls to Happy Valley Interconnection Project and posited that the Labrador Settlement Agreement "... intended to identify the completion of the MFHVI in its entirety as a condition precedent for the inclusion of any MFHVI costs in rate base."¹ The LIG submitted that the Labrador Settlement Agreement did not contemplate inclusion of partial costs in rate base; rather it was to be all the costs or none. In the alternative, the LIG argued that Hydro should update the Board of Commissioners of Public Utilities ("Board") and the Parties of the status of the Muskrat Falls to Happy Valley Interconnection Project as of December 31, 2019. If the first portion of the Muskrat Falls to Happy Valley Interconnection Project has not been completed as forecast, the LIG submits that the related costs in rate base be removed from the 2019 Rate Base and Rates.

In Board Order No. P.U. 9(2019) the Board accepted the Muskrat Falls to Happy Valley Interconnection Project as a multi-year project with expenditures contemplated in both 2019 and 2020. As noted by the Board in Board Order No. P.U. 16(2019), and consistent with regulatory principles, the project would be included in the 2019 Test Year rate base upon meeting the test of being used and useful by the end of 2019. As noted in Hydro's response to Request for Information LAB-NLH-007, the work regarding the transmission line extension and Muskrat Falls Terminal Station Two is scheduled for completion by December 2019, at which time the transmission interconnection can be energized, providing increased capacity to Labrador East. As this aspect of the project will be completed and used and useful before the end of 2019, it has been included in rate base as contemplated by the Board, and in Hydro's submission, in the Labrador Settlement Agreement.

As Hydro noted in LAB-NLH-006, rates are established based on test year load forecasts and test year costs. Actual loads and/or actual costs can be higher or lower than the approved test year forecast. The impact of actual revenues and actual costs varying from test year revenues and test year costs are reflected in Hydro's financial results. Once the Board issues its decision on the "2017 GRA Compliance Application" and rates are set, a revision to the 2019 Rate Base and Rates based on actual end of year results could constitute impermissible retroactive ratemaking.

¹ MFHVI refers to Muskrat Falls to Happy Valley Interconnection Project.

Ms. C. Blundon
Public Utilities Board

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Hydro respectfully requests that the Board approve Hydro's "2017 GRA Compliance Application" as submitted.

Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



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