

January 18, 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: Newfoundland and Labrador Hydro – 2018 Capital Budget Application – Revised
Information pursuant to Board Order P.U. 43(2017)
Hydro's Reply re: Muskrat Falls to Happy Valley Interconnection Project**

Procedural History

Newfoundland and Labrador Hydro ("Hydro") filed the Muskrat Falls to Happy Valley Interconnection Project (the "Project") as part of the 2018 Capital Budget Application ("CBA"). As per Board Order No. P.U. 43(2017), the Board of Commissioners of Public Utilities (the "Board") deferred a decision on the Project pending submission of further information from Hydro. Additional information was filed between January 29, 2018 and March 16, 2018. On March 23, 2018, the Board issued P.U. 9(2018) ordering Hydro to file a proposed plan in relation to the provision of reliable service in Labrador East in 2018-2019 and a proposal for the process and timelines to enable further consideration of the Project. In response, Hydro has filed monthly status reports on the provision of reliable service in Labrador East since June 15, 2018. Additionally, a review of Hydro's "Network Addition Policy" was filed on October 1, 2018, with the final draft policy for the Labrador Interconnected System ("LIS") submitted for consideration on December 14, 2018. Hydro also filed the "Labrador Interconnected Transmission Expansion Study" on October 31, 2018. On November 21, 2018, the Board provided a revised review schedule for the Project. Hydro filed an updated Project proposal on November 30, 2018 and responded to requests for information on January 9, 2018.

On January 16, 2019, Hydro received comments regarding the Project from Newfoundland Power, the Town of Happy Valley-Goose Bay ("Town"), the towns of Labrador City and Wabush in a joint submission, and the Iron Ore Company of Canada ("IOC"). Newfoundland Power indicated it had no further comment on the Project and has previously stated that it was

satisfied that the project should proceed¹. The Town, which had previously been represented as part of the Labrador Interconnected Group² (“LIG”), indicated its support for the Project. In particular, the Town noted that *“the interconnection with Muskrat Falls will provide the Upper Lake Melville area with a considerable enhanced reliable source of power with increased capacity as compared to the marginal capacity presently available with the possibility of frequent and extended power outages.”*³ The towns of Labrador City and Wabush, in a joint submission, objected to the project.⁴ No other submissions were received from the LIG. IOC’s submission reiterated its opposition to the Project.

Submission of Labrador City and Wabush

The towns of Labrador City and Wabush opposed the application based on a lack of information and also suggested a need for additional time due to its current position of being without legal counsel on the issue. Hydro reiterates that there is more than adequate information on file, and notes that Labrador City and Wabush had been represented by counsel for the last year on this Project. Hydro also notes that the reliability and capacity improvements that the Project will bring to Labrador East are relevant to the LIS, but not directly relevant to Labrador West. While all customers of the LIS will experience rate impacts, as per existing, prescribed cost of service methodology, the impacts have been demonstrated to be minimal. For clarity, the rate impacts for Domestic Rural Customers once the full project is in service is 3.3%, equating to an average bill impact of \$2.88 per month.

Hydro also notes that the \$12 million cost incurred in 2015 to complete the distribution line portion of the voltage conversion in Labrador City is being recovered from customers in both Labrador West and Labrador East. Hydro does not agree with an objection if it is based strictly on the fact that the Project cost must be recovered from all customers on the LIS.

Submissions of IOC

Single Labrador Interconnected System

IOC objects to the Project on the basis that, should the Board approve the Project, it will become part of the LIS rate base yet *“would not serve any Industrial transmission customers.”* Hydro does not dispute the assertion that the Project will not serve any Industrial Customers in Labrador or any customers in Labrador West at all. However, this argument by IOC is irrelevant as it seeks to reopen a long closed debate as to the use of a single cost of service study on the LIS. In Board Order P.U. 14(2004),⁵ the Board accepted Hydro’s proposed five-year plan to implement uniform rates for common transmission assets for LIS customers and found that Hydro’s proposal was not unjustly discriminatory. The concept of separate cost of service

¹ Newfoundland Power’s reply on February 16, 2018 was reconfirmed on March 15, 2018. On January 16, 2019, Newfoundland Power advised it does *“not have any further submissions.”*

² The Labrador Interconnected Group represented the communities of Sheshatshiu, Happy Valley-Goose Bay, Wabush, and Labrador City.

³ Submission by the Town of Happy Valley -Goose Bay, received January 15, 2019.

⁴ Submission by the town of Labrador City and Wabush, received January 18, 2019.

⁵ Application for leave to appeal this aspect of the Board’s Order was dismissed by the Newfoundland and Labrador Court of Appeal.

regions and rate design in Labrador West and Labrador East is simply not the cost recovery approach that has been in place for the last 15 years and such arguments, accordingly, have no merit as related to the Project.

Common transmission costs are allocated among all customer classes on the LIS based on a single coincident peak allocation method. There is one LIS and all least-cost, reliable common transmission investments, such as the Project, are allocated for cost recovery amongst all customers. Barring a material change in the historically approved cost of service methodology, any future least-cost transmission reliability upgrades for the LIS will be dealt with following the same cost of service approach.

Reliability Justification

In addition to IOC's objections to the cost impacts of the Project, IOC continues to claim that the primary driver for Hydro's proposal of the Project is increasing load in Labrador East. These claims are inaccurate. Hydro has provided evidence demonstrating that the primary driver for the Project is service reliability and the Project would have been included in the 2018 Capital Budget Application ("CBA") in the absence of the recent data centre load requests. Hydro included the first formal identification of the Project in Hydro's 2017 CBA,⁶ indicating that a new interconnection point would be available with the in-service of Muskrat Falls, providing an opportunity to improve reliability to Labrador East in response to the significant operational risk associated with the existing system. At the time the Project was included in the Five-Year Capital Plan, load forecasts were exclusive of the data centre load requests that materialized in 2017, as the capital plan was submitted in July 2016.

Although discussions surrounding the increasing load in Labrador East are relevant to the Project, load growth concerns have been properly addressed at length by Hydro as part of its various filings and responses to requests for information.

Overturing of Board Orders

IOC asserts that *"it does (sic) without saying that Order P.U. 9(2018) will be rendered meaningless if the Board accepts the request by NLH to approve the proposed MFA-HVY Interconnection before the parties have a chance to consider the requested Labrador Expansion Study and Network Addition Policy."* Hydro states that this position is not correct and is a mischaracterization of P.U. 9(2018). As stated in P.U. 9(2018) *"The Board is persuaded by the arguments of the Labrador Interconnected Group, representing the majority of the communities in Labrador East, and IOC that this project should be deferred until further information is provided by Hydro."* [Hydro's emphasis]

Hydro filed the "Labrador Interconnected Transmission Expansion Study" and the proposed "Network Addition Policy" as requested by the Board. Hydro submits that neither filing was submitted to provide further justification for the Project. The "Network Addition Policy" was proposed to ensure reasonable cost recovery from future customers concerning available

⁶ 2017 Capital Budget Application, 2017-2021 Five-year Capital Plan, page A9.

capacity and accelerating future transmission investments. The proposed “Network Addition Policy” is not applicable to the Project as the Project is not an addition that can be attributed to a single customer; it is the least-cost alternative to meet current customer reliability and capacity concerns in Labrador East and benefits all customers in Labrador East. The management of the additional capacity provided by this Project will be addressed through the “Network Addition Policy.” The “Labrador Interconnected Transmission Expansion Study” sets out future projects to deal with load growth scenarios. Results of the “Labrador Interconnected Transmission Expansion Study” reiterated that the Project is the least-cost alternative to meet current customer reliability and capacity concerns in Labrador East. Order P.U. 9(2018) was intended to advance the discussion of expansion plans for Labrador generally and that requirement has now been met. Nowhere in Order P.U. 9(2018) does it state that the merits of the Project should be considered based on the information or analysis contained in those two filings. Hydro submits that the Project should be evaluated on whether it meets the requirement of least-cost, reliable service for the long-term.

In addition, the Board has indicated in the correspondence received on November 20, 2018, that there will be a separate process to consider the “Network Additions Policy” and the “Labrador Interconnected Transmission Expansion Study.”

Least-Cost Alternative

IOC asserts that there is no evidence on the record that suggests that the Project is the least-cost alternative. This is grossly inaccurate. Hydro has provided a wealth of information and justification in support of the Project being the least-cost alternative to the reliability and load constraints on the Labrador East system. Hydro believes it unnecessary to continuously repeat this information, which has been debated and is contained in the record. Hydro submits that the reliability issues on the Labrador East system alone justify the project.

IOC, in this section of its submission, also inaccurately suggests that Hydro has not entertained the possibility of shorter term solutions or lower cost load management programs that may be preferred by customers when, in fact, the Town, which represents the largest customer base in Labrador East, has written in support of the Project. Hydro has proposed the least-cost solution to provide reliable service and meet the load requirements of existing customers. In addition, Hydro considers the estimates provided by IOC regarding temporary diesel generation to be low and exclusive of the capacity requirement for reliable service, installation costs, and fuel storage and delivery requirements, to name a few. It is Hydro’s position that investing in temporary solutions to delay the Project is not consistent with the least-cost provision of reliable service. This is evident in the net present value calculations for the alternatives to the Project that are on the record.

Load Forecast and Duration

IOC in this section asserts that the load growth seen in Labrador East is not a certainty, nor is it of sufficient magnitude to warrant the Project. Hydro’s base load forecast for the 2018-2019 winter, which is based on current customers of Hydro, exceeds the transfer capacity of the Labrador East system. The capacity shortfall is clearly demonstrated. Furthermore, this

argument ignores the main justification for the Project, which is reliability for the existing customer base.

IOC asserts that the increase in peak demand on the Labrador East System is solely as a result of data centres and that those businesses represent the only evidence of growth in the region. This is incorrect. Hydro, in response to RFI LAB-NLH-038(b), confirmed that it has received a formal request from the Department of National Defense. For privacy reasons, Hydro cannot divulge the amount of the request, but can confirm that it is of sufficient magnitude to surpass the combined demand of all known data centres currently in operation.

IOC, without any evidence, claims that *“there is great doubt that such data centre load will materialize”* and *“more importantly, the cryptocurrency hype is over.”* Hydro through its response to LAB-NLH -047 confirmed that it has not seen any decrease in the known data centre loads in Labrador East; this is the only empirical evidence on the record. IOC also misleadingly states that the Bitcoin *“has plummeted to a mere 3,500 USD in a single year.”* It fails to mention that the current 2019 Bitcoin price remains substantially higher than it was for the majority of 2017, based on IOC’s own provided evidence. In addition, Hydro continues to receive requests to provide service to data centres in Labrador.

IOC also asserts that Hydro has admitted it can manage the expected load through lesser cost alternatives, including the Interruptible Service contract with Labrador Lynx Ltd. as approved by the Board.⁷ Hydro entered into this contract as a short-term measure to provide reliable service to Labrador East for the 2018-2019 season. IOC suggests that all data centre customers could be put on similar contracts to alleviate load constraints and avoid capital upgrades. It is Hydro’s position that IOC is seeking to place restrictions on a subset of general service customers based on those customers end use. Hydro submits that IOC itself would not accept such restrictions. Approval of the Project provides a long-term solution at a reasonable cost, which will enable Hydro to provide consistency in the provision of service to both existing customers and new customers.

Labrador Settlement Agreement

IOC has argued that *“It is IOC’s view that the intent of the bargain struck by the parties require that the whole project be commissioned to be included in the 2019 closing rate base.”* This argument is a part of the 2017 GRA, and should remain there, for future discussion. Resolution of this point is not relevant for the approval of the Project. Hydro notes it is consistent with historical regulatory practice that assets are included in rate base upon meeting the test of being used and useful. Multi-year projects are often brought into service in stages. This Project is no different.

Rate Impacts for Labrador Industrial Customers

IOC has claimed that the Project may create rate shock for Labrador Industrial Customers. As stated in LAB-NLH-041, the revenue requirement impact for the Project is \$1.6 million once

⁷ P.U. 37(2018).

fully in service. For the Labrador Industrial Customers, this equates to a 17.7% increase in the regulated transmission charge. However, in terms of impact on IOC's overall billings, there will be a 1.7% increase. It is inaccurate to characterize this amount as rate shock.

Conclusion

Hydro submits that IOC's submission does not provide adequate justification to claim that the project should be rejected. Hydro has demonstrated that the Project is not only prudent from a least-cost, reliable service standpoint, but urgently required to avoid a reliability issue in Labrador East for the long-term. Hydro emphasizes that, in its view, all parties have been amply informed of the importance of the Project proceeding and the risks to the Labrador East system should it be denied. Hydro believes that it has provided the required justification to enable approval of this Project to fulfil its obligation to provide least-cost, reliable service to its current customers of Labrador East who have been subjected to a materially higher risk of unserved energy as compared to the vast majority of all other Hydro customers in the Province.

Hydro respectfully submits that the Muskrat Falls to Happy Valley Interconnection Project should be approved.

Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



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Legal Counsel and Assistant Corporate Secretary
MSL/sk

cc: Gerard Hayes – Newfoundland Power
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