<u>IN THE MATTER OF</u> the *Electrical Power Control Act, SNL 1994, Chapter E-5.1 (the "EPCA")* and the *Public Utilities Act,* RSNL 1990, Chapter P-47 (the "Act"), and regulations thereunder; and

<u>IN THE MATTER OF</u> an Application by Newfoundland and Labrador Hydro ("Hydro") pursuant to Section 58, 71, and 80 of the Act, for the approval of deferral accounts to address material changes in system costs as a result of the Muskrat Falls Project("Project") and the phasing out of the Holyrood Thermal Generating Station (Holyrood TGS") as a generating facility.

Hydro's Supply Cost Accounting Application - IIC Group RFIs

IIC-NLH-001 On page 1 of the cover letter for the Application Hydro states that the proposed deferral account "will also provide a mechanism to deal with rate mitigation funding and/or rate changes implemented solely to recover Project costs."

Please clarify if Hydro expects any other rate mitigation funding or contributions from federal or/and provincial governments not "implemented solely to recover Project costs". Please give examples of rate mitigation funding that would not qualify for treatment via the deferral account.

IIC-NLH-002 On page 1 of Schedule 1: Evidence of the Application Hydro notes that it "anticipates there may be a delay between when Hydro is required to begin making payments under the Project agreements and when rate mitigation and/or recovery through customer rates will occur."

Please discuss what happens to the deferred costs if no mitigation funds are provided or provided funds are lower than expected. Will this not compound the rate impacts at the time Muskrat Falls is added to rates in a GRA?

IIC-NLH-003 On page 1 of Schedule 1: Evidence of the Application Hydro notes that "on July 28, 2021, the provincial and federal governments announced an agreement in principle on a financial restructuring plan for the Project. The objective of the agreement is to reduce the customer rate impacts resulting from the Project."

Please provide copy of the announcement and agreement-in-principle for the record.

IIC-NLH-004 On page 3 of Schedule 1: Evidence of the Application Hydro notes that "Hydro proposes to file a future application with the Board of Commissioners of Public Utilities ("Board"), subsequent to the next GRA Order, to deal with allocation and recovery of the balance in the Supply Cost Variance Deferral Account that accumulates prior to the conclusion of the next GRA." On page 7 of the Application Hydro also notes that it "anticipates that its next GRA is not likely to conclude before 2023."

Please indicate why Hydro is proposing to apply a full weighted average cost of capital to the Project cost variances if Hydro is proposing recovery mechanism within the next couple of years. Would it be more appropriate to apply a short-term rate considering the financing period, and the cost pressures the customers will face?

IIC-NLH-005 On page 5 of Schedule 1: Evidence of the Application Hydro notes that "setting customer rates to recover the full cost of the Project will require residential rates to increase by approximately 70% in 2022 (i.e., from 13.4 cents per kWh to 22.7 cents per kWh) and Island Industrial rates to increase by approximately 90% (from 6.2 cents per kWh to 11.8 cents per kWh)."

Please provide details of how the above rate increases were estimated.

IIC-NLH-006 On page 9 of Schedule 1: Evidence of the Application Hydro notes that "Hydro will pay for sustaining capital under the TFA through its monthly bill payments which will include depreciation and financing costs associated with the sustaining capital."

What are the "financing" costs Hydro referred to? Do they include return on equity and cost of debt?

IIC-NLH-007 On page 11 of Schedule 1: Evidence of the Application Hydro notes that "the net impact of 78 MW as a result of the capacity additions, offset by capacity retirements. With the adjustment for a P90 forecast for system planning, the additional capacity available in the short-term is further reduced to a net change in capacity of only 18 MW." The footnote 26 on the same page notes that "60 MW reduction for P90 would be removed if the Board determines in the Resource and Reliability Adequacy Study proceeding that system planning can be based on a P50 load forecast."

Please confirm that with change from P90 to P50 the capacity surplus will increase, not decrease. If not confirmed, please explain. If confirmed, please revise Table 2 on page 11 of Schedule 1.

IIC-NLH-008 Table 2 on page 11 of Schedule 1: Evidence of the Application shows Holyrood TGS Retirement would reduce the available capacity by 490 MW, Hardwoods and Stephenville gas turbine retirements 50 MW each.

Please confirm that Hydro uses 490 MW for Holyrood and 50 MW for each gas turbines for capacity planning purposes.

IIC-NLH-009 On page 19 of Schedule 1: Evidence of the Application Hydro notes that "the Government of Newfoundland & Labrador's *Management of Greenhouse Gases Act* came into effect on January 1, 2019."

Hydro also notes that in 2020 "Hydro received 169,734 performance credits and sold 55,000 performance credits for $1.06 million. Hydro also sold 83,333 performance credits for approximately $2 million in early 2021. As credits do not expire until seven years after creation, unused performance credits are carried forward to apply to future compliance requirements or to be sold."

Please confirm that the performance credits for 2019 are still available for Hydro to use as per statement noted by Hydro as referenced above. Please provide a record of the full credits received and sold, per year, including forecast 2021 and 2022.

IIC-NLH-010 Further to IIC-NLH-9 please explain why Hydro is not proposing to include 2019-2021 revenues associated with the Greenhouse Gas Credits into the proposed deferral account.

IIC-NLH-011 On page 20 of Schedule 1: Evidence of the Application Hydro notes that it "anticipates the filing of an application in the near-term to approve the purchase of the Exploits assets from government. If this transfer proceeds, Hydro will no longer incur the Exploits purchase power cost and the cost of Exploits will be reflected in Hydro's internal costs."

Please explain if there is any impact from Exploits to the Muskrat Falls PPA Schedule 2 energy amounts. Please provide the assumptions used regarding Exploits to develop the Schedule 2 annual volumes. Please also provide a forecast of Schedule 2 volumes compared to Island requirements if Hydro did not have access to the Exploits generation.

IIC-NLH-012 Further to IIC-NLH-11 please discuss if Hydro explored options with Newfoundland Power (NP), such as the retirement of NP hydro units, to increase use and sales of Muskrat Falls generation to serve Island loads.

IIC-NLH-013 On page 25 of Schedule 1: Evidence of the Application Hydro notes that "as Hydro is not yet proposing an allocation and recovery approach for new transfers to the Supply Cost Variance Deferral Account, with the exception of the Rural Rate Alteration transfers which only apply to Newfoundland Power, no other transfers specific to the Utility balance and Industrial balance will occur until further approval is obtained by the Board."

Please discuss how the balances accumulated in the deferral account components will be allocated to the customer classes. Will Hydro use the energy ratio for each year separately? Or use the energy ratio applicable at the time of allocation?

IIC-NLH-014 On page 25 of Schedule 1: Evidence of the Application Hydro notes that "the Utility and the Industrial balances are used in computing the RSP Current Plan Adjustments to apply on an annual basis for each customer class. Hydro is proposing that for 2022, the normal rate updates previously required under the RSP (scheduled January for Island Industrial customers and July for Newfoundland Power) will reflect the discontinuance of the fuel riders and the recovery of the remaining current plan balances."

Please provide most recent RSP report and balances.

IIC-NLH-015 Further to IIC-NLH-14 please provide, if available, forecast RSP balances to December 31, 2021.

IIC-NLH-016 On page 26 of Schedule 1: Evidence of the Application Hydro notes that "there continues to be uncertainty as to whether a further extension of the Holyrood TGS as a fully available generation facility will be required beyond March 31, 2023. A review of the feasibility of the Holyrood TGS as a backup supply facility beyond its current planned retirement date is ongoing as part of the Resource and Reliability Adequacy Study."

Please explain why Hydro is proposing accelerated depreciation of Holyrood TGS assets if the future use is still uncertain and subject to the process before the Board.

IIC-NLH-017 On page 27 of Schedule 1: Evidence of the Application Hydro notes that it is "investing approximately $13.3 million in capital in 2021 and is proposing to invest $8.8 million in 2022 to ensure the Holyrood TGS will continue to operate reliably until March 31, 2023, (i.e., for two winter seasons after the planned commissioning of the Project late in 2021). Depreciation on these investments is required to be calculated on an accelerated basis (i.e., monthly depreciation = capital investment divided by remaining months of service life). For example, $13.3 million in capital investment put in service in the quarter of 2021 would be depreciated over 18 months and impact costs by $2.2 million in 2021, $8.9 million in 2022 and $2.2 million in 2023. The projected $8.8 million of capital investments required in 2022 would typically need to be treated as an operating cost as the expected service life would be less than 12 months."

Please provide copy of Hydro's capital asset accounting policy, indicating the tests used to determine if a cost is capital or operating.

IIC-NLH-018 Further to IIC-NLH-17 please explain if the incoming GRA will have 2022 as a test year. If confirmed, please explain why Hydro is proposing accelerated depreciation now instead of proposing it in the GRA.

IIC-NLH-019 Further to IIC-NLH-18 please provide a full schedule of Holyrood capital asset value, capitalized costs, disposals, and accelerated depreciation from 2019 to the end of the Holyrood accelerated depreciation period.

IIC-NLH-020 Further to IIC-NLH-19 please compare the accelerated depreciation proposed now to the accelerated depreciation proposed in the previous 2017 GRA (showing, by year, the assumptions for additions, disposal, net book value and terminal value for 2019-2022). Please include all intervening capital additions.

IIC-NLH-021 On page 26 of Schedule 1: Evidence of the Application Hydro notes that "To a large degree, the requirement to continue operation as a fully operational facility requires Hydro to continue to maintain its personnel, equipment inventory, fuel inventory, assets, contractor agreements, etc. to similar levels as required for the Holyrood TGS' full operation prior to Project commissioning. Hydro estimates an approximate staff decrease of 50 full-time equivalents upon transitioning to the post-steam operational mode."

Please explain why Hydro is not proposing to include Holyrood TGS non-fuel O&M savings into the deferral account.

DATED at St. John's, in the Province of Newfoundland and Labrador, this 17th day of August, 2021.

POOLE ALTHOUSE

for Per: ______________________
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COX & PALMER

for Per: ______________________
Denis J. Fleming

STEWART MCKELVEY

Per: ______________________
Paul L. Coxworthy

TO: The Board of Commissioners of Public Utilities
Attention: Board Secretary

TO: Newfoundland & Labrador Hydro
Attention: Shirley A. Walsh

TO: Office of Consumer Advocate
Attention: Dennis Browne, Q.C.

TO: Newfoundland Power Inc.
Attention: Dominic Foley

TO: Teck Resources Limited
Attention: Shawn Kinsella

TO: Labrador Interconnected Group
Attention: Senwung Luk

TO: Iron Ore Company of Canada
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