IN THE MATTER OF the *Electrical Power Control Act, 1994*, SNL 1994, Chapter E-5.1 ("EPCA") and the *Public Utilities Act*, RSN 1990, Chapter P-47 ("Act");

AND IN THE MATTER OF the Application by Newfoundland and Labrador Hydro for the approval of deferral accounts to address material changes in system costs as a result of the Muskrat Falls Project and phasing out of the Holyrood Thermal Generating Station as a generating facility, pursuant to section 58, 71, and 80 of the Act.

Requests for Information
by the Labrador Interconnected Group

Supply Cost Accounting Application

LAB-NLH-001 to LAB-NLH-09

August 18, 2021

Requests for Information Regarding the Supply Cost Accounting Application

LAB-NLH-1. **Re: Supply Cost Accounting Application, Evidence page 5 (p. 20 pdf)**

Citation:

> 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).[7] For the residential rate not to exceed 13.5 cents per kWh for 2022, rate mitigation funding of approximately $585 million will be required to be provided.[8] This estimate assumes no change in the existing Muskrat Falls PPA structure and that rate mitigation will be provided to all customers on the Island Interconnected System.
>
> Note 7: Derived based on Project cost estimates as of December 2020 and existing terms of Muskrat Falls PPA and TFA.
>
> Note 8: Approximately $65 million will be required for each 1 cent per kWh of rate mitigation provided to Domestic customers. This includes approximately $7 million per 1 cent per kWh of rate mitigation to be provided to Island Industrial customers.

a. Please provide detailed support (with spreadsheet) for the estimates of 22.7 cents/kWh (residential rates) and 11.8 cents/kWh (Island industrial rates) required to recover the full cost of the Project.

b. Please provide detailed support (with spreadsheet) for the statement that rate mitigation funding of approximately $585 million will be required for the residential rate not to exceed 13.5 cents/kWh in 2022.

c. Please provide detailed support (with spreadsheet) for the statement that approximately $65 million will be required for each 1 cents/kWh of rate mitigation provided to Domestic customers (Note 8).

d. Please provide the Project cost estimates as of December 2020 referred to in Note 7.

LAB-NLH-2. **Re: Supply Cost Accounting Application, Evidence page 6 (p. 21 pdf)**

Citation:

> The initial Muskrat Falls generation capital costs are collected by way of Base Block Capital Costs Recovery payments through the Muskrat Falls PPA.[11] These payment amounts do not provide for the recovery of operation and maintenance ("O&M") costs or the investment required for sustaining capital for the assets over the 50-year supply period reflected in the contract.[12] The Muskrat Falls PPA requires Hydro to contribute the funding for the sustaining capital costs for the Muskrat Falls generating facility

and the LTA as these costs are not reflected in the Base Block Capital Costs Recovery amounts.

Note 12: Schedule 1 of the Muskrat Falls PPA will be updated to reflect the costs as of the in-service date of the Muskrat Falls Project. The Generation Interconnection Agreement ("GIA") also includes a Schedule 1 providing the original capital cost recovery schedule for charges from LTA to Muskrat Falls Corporation for the LTA. The GIA, Schedule 1 will also be updated to reflect new cost information.

a. Please provide a copy of the Generation Interconnection Agreement.

b. Please provide Hydro's most recent estimate of the capital cost recovery schedule for the LTA.

LAB-NLH-3. **Re: Supply Cost Accounting Application, Evidence page 8 (p. 23 pdf)**

Citation:

The TFA recovers costs associated with the LIL facilities through payments by Hydro to the Labrador-Island Link Operating Corporation, the LIL operating entity. The payments to Labrador-Island Link Operating Corporation are based on a return on rate base approach in which the annual cost recovery amount is based on return on equity plus O&M costs, depreciation and taxes.

a. Please provide a copy of the Transmission Funding Agreement.

b. Is the LIL part of the transmission system managed by the NLSO? If so, please explain the NLSO's role in its management.

LAB-NLH-4. **Re: Supply Cost Accounting Application, Evidence page 6 (p. 21 pdf)**

Table 1 provides an illustrative comparison of Hydro's average embedded costs for the 2019 Test Year with a high level estimate of cost of supply in 2022 reflecting the inclusion of Project costs upon the first full year of commissioning and the removal of Holyrood TGS generation costs.[20]

a. Please provide detailed support (with spreadsheet) for the average embedded costs (NP and Island Industrial) provided in Table 1.

LAB-NLH-5. **Re: Supply Cost Accounting Application, Evidence page 10 (p. 25 pdf), Note 21**

Citation:

There is no explicit provision in legislation requiring the value of export sales by the Muskrat Falls Corporation to be credited back to ratepayers to offset the cost of

supply from Muskrat Falls. However, the current government has indicated that export sales will be used to mitigate potential increases in electricity rates. Source: Letter from the Premier to the Minister of Natural Resources dated December 14, 2015.

a. **Please provide a copy of the letter from the Premier dated December 14, 2015.**

b. **Please explain why Hydro attributes a commitment found in a letter from the Premier dated December 14, 2015 to the "current government".**

c. **Has the Furey government in any way confirmed the commitment made in the letter of December 14, 2015?**

d. **What formal instruments, if any, are required for Hydro to apply export sales as proposed in the Application?**

e. **"Credited back" to which ratepayers?**

LAB-NLH-6. **Re: Supply Cost Accounting Application, Evidence page 11 (p. 26 pdf), Table 2**

Citation:

Table 2: Island Interconnected System Capacity Additions and Retirements

Capacity Addition/Retirement	Capacity Impact (MW)
Muskrat Falls	824
Excess Recapture	72
Total Available on LIL[24]	896

a. **Please clarify if the 824 MW of capacity ascribed to Muskrat Falls is based on the actual generation available on demand, or on the Water Management Agreement. If the former, please explain how this capacity can be guaranteed when flows in the Churchill River are below design flows. If the latter, please justify this claim in light of the Quebec Court of Appeal decision ascribing all capacity from the Churchill Falls Generating Station to Hydro-Québec.**

b. **Please justify the capacity impact of 72 MW ascribed to Excess Recapture. What are the assumptions underlying this value? Are there scenarios that can be envisaged in which this recapture capacity is not available?**

LAB-NLH-7. **Re: Supply Cost Accounting Application, Evidence pages 23-24 (pp. 38-39 pdf)**

Citation:

> Hydro is proposing to expand the Rural Rate Adjustment, which currently transfers changes in rural revenues as a result of price changes, to also include changes in revenues for Hydro Rural Island Interconnected System customers resulting from sales variances from the test year load forecast. This modification is required to enable Hydro to recover the supply costs incurred to serve Hydro's Island Interconnected System Rural customers which do not vary with changes in customer usage.

a. Please confirm that, if this proposal is accepted, any reduction in consumption by Hydro's Island Interconnected System Rural customers would result in a rate increase.

LAB-NLH-8. **Re: Supply Cost Accounting Application, Evidence page 26 (p. 41 pdf)**

Citation:

> As previously introduced, the planned end of generation at the Holyrood TGS as of March 31, 2023 is projected to contribute to a material increase in depreciation expense in 2022.

a. Is any salvage value attributed to the generating equipment at Holyrood that is being decommissioned before the end of its useful life? If not, why not?

b. Please confirm that, under the proposal, the lost value resulting from the premature decommissioning of Units 1 and 2 of the Holyrood generating station will be borne by Island consumers, in the form of accelerated depreciation.

c. Please provide the justification for this treatment.

LAB-NLH-9. **Re: Supply Cost Accounting Application, Evidence page 26 (p. 41 pdf)**

Citation:

> 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.

a. Please provide a reference to the section of the Resource and Reliability Adequacy Study that addresses this question.