

1 Q. **Reference: Application, para. 24**

2 It is stated that “Approval by the Board of the proposed RSP Current Plan Adjustment for the
3 Utility Rate, the proposed CDM Cost Recovery Adjustment for the Utility Rate, and the Project
4 Cost Recovery Rider, continued without change, for the Utility Rate all effective July 1, 2023, will
5 provide a reasonable recovery of prudently incurred costs that will contribute to rate stability
6 for customers.”

7 a) Please provide Hydro’s definition of “*prudently incurred costs*.”

8 b) The Project Cost Recovery Rider is for the Muskrat Falls Project. (i) What evidence has
9 Hydro provided to the Board that the costs of that project were prudently incurred? (ii)
10 What is Hydro’s current estimate of that project’s final cost and the estimate in 2011?

11 c) Please confirm that the Muskrat Falls Project was neither approved by the Board nor
12 subject to Board oversight, and that the Muskrat Falls Project does not fall in Hydro’s
13 regulated business segment.

14 d) Please explain how Hydro’s proposal to increase wholesale rates by 5.5% is consistent
15 with the objective of contributing to rate stability for customers.

16

17

18 A. a) Newfoundland and Labrador Hydro (“Hydro”) interprets “prudently incurred costs” to be,
19 generally, reasonable costs, incurred through the exercise of good judgment in making
20 decisions that are reasonable at the time they are made, based on information known at the
21 time the decision was made. This is consistent with the decision of the Supreme Court of
22 Canada in *ATCO Gas and Pipelines Ltd. v. Alberta (Utilities Commission)*, 2015 SCC 45, as well
23 as the decision of the Board of Commissioners of Public Utilities (“Board”) in Board Order
24 No. P.U. 13(2016),¹ pertaining to a prudence review by the Board.

¹ *Public Utilities Act*, RSNL 1990, c P-47, Board Order No. P.U. 13(2016), Board of Commissioners of Public Utilities, April 26, 2016.

- 1 **b)** (i) Hydro has not provided submissions to the Board regarding the prudence of the costs of
2 the Muskrat Falls Project (“Project”). Order in Council OC2013-343 directs that the Project
3 costs shall be included as costs, expenses or allowances, without disallowance, reduction or
4 alteration of those amounts, in Hydro’s costs of service calculation in any rate application
5 and rate setting process, so that those costs, expenses, or allowances shall be recovered in
6 full by Hydro in Island Interconnected rates charged to the appropriate classes of
7 ratepayers.
- 8 (ii) The estimated cost of the Project, as provided by Hydro in a public update provided on
9 July 17, 2022, was \$13.37 billion.² Hydro has advised that an update of the final cost will be
10 provided in the coming months. The estimated cost as of Government of Newfoundland and
11 Labrador’s November 2010 announcement was \$6.2 billion.³
- 12 **c)** The Project is exempt from the *Public Utilities Act* and the *Electrical Power Control Act, 1994*
13 and was not subject to review or approval by the Board. The costs incurred by Hydro are, as
14 per Order in Council OC2013-343, included in Hydro’s cost of service calculation in any rate
15 application and rate setting process, to be recovered from Island Interconnected rates
16 charged to the appropriate ratepayers.
- 17 **d)** Please refer to Hydro’s response to PUB-NLH-001 of this proceeding.

² “News Release: Project Cost Updated as Progress is Made on the Labrador Island Link,” Newfoundland and Labrador Hydro, June 17, 2022 <<https://nlhydro.com/news-release-project-cost-updated-as-progress-is-made-on-the-labrador-island-link/>>.

³ “Lower Churchill Project to Become a Reality: Province Signs Partnership with Emera Inc. for Development of Muskrat Falls,” Government of Newfoundland and Labrador, November 18, 2010 <<https://www.releases.gov.nl.ca/releases/2010/exec/1118n06.htm>>.