

1 Q. P.U. 16(2019), p. 45

2

3 Citation :

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5 In its submission Hydro advised that the customer impact of the inclusion of the
6 Muskrat Falls to Happy Valley Interconnection project would not be known until its
7 compliance application pending the Board’s determination on the approval of the
8 project. Hydro also advised that it intends to reflect an updated forecast of capital
9 assets to be included in its forecast 2018 and 2019 test year average rate base in its
10 compliance application.

11

12 The Board accepts the proposals in the Settlement Agreements with respect to the
13 exclusion of the Muskrat Falls to Happy Valley Interconnection project in the
14 forecast 2018 test year rate base. The project was approved in Board Order No.
15 P.U. 9(2019) as a multi-year project with expenditures contemplated in both 2019
16 and 2020. Consistent with regulatory principles this project should only be included
17 in the 2019 test year rate base upon meeting the test of being used and useful by
18 the end of 2019. As part of its compliance filing Hydro should set out clearly the
19 basis on which it has assessed whether the Muskrat Falls to Happy Valley
20 Interconnection project should be included in the 2019 test year rate base. The
21 2018 and 2019 test year average rate base should also be revised to reflect
22 subsequent Board orders since the Application as well as updated information for
23 capital expenditures incurred in 2018 and forecast for 2019.

24

25 **Citation: Labrador Settlement Agreement, art.7:**

26

27 7. The Parties agree to the following in relation to the Muskrat Falls to Happy Valley
28 Interconnection Capital Project (the “MF-HV Project”):

29 a. Exclusion of the MF-HV Project from Hydro’s rate base in the 2018 Test Year and
30 in the calculation of depreciation expense for the 2018 Test Year;

- 1 b. Inclusion of the MF-HV Project in Hydro’s closing rate base for the 2019 Test
2 Year, if approved by the Board for construction to be completed in 2019 prior to
3 Hydro’s 2017 GRA Compliance filing;
4
- 5 c. If, at the time of Hydro’s 2017 GRA Compliance filing, the MF-HV Project is not
6 approved by the Board for construction to be completed in 2019, the Parties agree
7 that the MF-HV Project will be excluded from the 2019 Test Year rate base; and
8
- 9 d. Exclusion of depreciation associated with the MF-HV Project in the calculation of
10 2019 Test Year revenue Requirement
11
- 12 a) Please indicate where in the Compliance Application Hydro has “set out clearly
13 the basis on which it has assessed whether the Muskrat Falls to Happy Valley
14 Interconnection project should be included in the 2019 test year rate base”.
15
- 16 b) Please indicate clearly whether or not any elements of the MFHVI project have
17 been included in its 2019 rate base and, if so, how much, and why.
18
- 19 c) If any such amounts are included in the 2019, please provide support
20 demonstrating that the elements they represent will be in service by the end of
21 2019.
22
- 23 d) Please describe the progress of the construction of the MFHVI at the time of
24 the filing of the Compliance Application.
25
- 26 e) Please describe Hydro’s current best estimate of when the MFHVI will be
27 commissioned.
28
- 29
- 30 A. a) While certain elements of the Muskrat Falls to Happy Valley Project (“Project”) were
31 included in the 2019 rate base (please refer to part b of this response), the basis was
32 inadvertently omitted from the 2017 GRA Compliance Application. Details regarding the

1 aspects included in the 2019 rate base and an update on project execution are provided in
2 parts c through e of this response.

3

4 b) Table 1 below details the elements of the Muskrat Falls to Happy Valley Project that are
5 projected to be completed in December 2019 and included in the 2019 Year End Rate
6 Base.¹

Table 1: Details of the Muskrat Falls to Happy Valley Project

Unit of Property	Ending 2019 Rate Base (\$)	Average Rate Base (\$)
Circuit Breakers and Bus Work	6,000,000	3,000,000
Transmission Line and Towers	4,000,000	2,000,000

7 These amounts are forecast to be in service on December 15, 2019 and therefore included
8 in closing rate base as they will be used and useful in the provision of service to customers
9 on the Labrador Interconnected System on or before December 31, 2019.

10

11 c) On November 30, 2018, Newfoundland and Labrador Hydro (“Hydro”) filed the Muskrat
12 Falls to Happy Valley Interconnection Update Letter (“Letter”). In the Letter Hydro noted
13 that “the transmission line extension and Muskrat Falls TS2² work is scheduled for
14 completion by December 2019, and the Happy Valley work will continue into 2020 and be
15 complete by December 2020.” There are three primary aspects to the Project:

- 16 • Extension of Muskrat Falls TS2 including 138 kV ring bus configuration;
- 17 • Construction of a 6 km section of 138 kV transmission line linking L1302 and
18 Muskrat Falls TS2; and
- 19 • Upgrades to the Happy Valley Terminal Station

20

21 The interconnection aspect of the Project requires construction and commissioning of the
22 Extension of Muskrat Falls TS2 and the transmission line extension. Once these two aspects
23 of the Project are complete, the transmission interconnection can be energized, thereby
24 increasing the capacity to Labrador East to 104 MW. This aspect of the Project, estimated

¹ See Exhibit 14, p.1 of 107, for the total Average Net Book Value allocated to Interconnected Labrador.

² Muskrat Falls Terminal Station 2

1 at \$10 million will be complete and in-service by December 15, 2019, and will be used and
2 useful at that time. It has therefore been included in the rate base.

3
4 Hydro commenced execution of the Project upon approval by the Board of Commissioners
5 of Public Utilities (“Board”).³ As noted in the project schedule in the Letter, construction
6 and commissioning of the transmission line and Muskrat Falls TS2 expansion was scheduled
7 for December 2019.

8
9 Table 2 reflects a summary of the Project schedule and status at the time of filing the 2017
10 GRA Compliance Application.

Table 2: Summary of the Project Schedule and Status

Project Schedule Item	Progress
Project Approval from the Board of Commissioners of Public Utilities	March 2019
Tendered and Awarded Terminal Station Engineering Contract	April 2019
Electrical Equipment Procurement	March - October 2019
Protection and Control Equipment Procurement	May - October 2019
Transmission Line Material Procurement	March - August 2019
MFATS2 Terminal Station Engineering Substantially Complete	July 2019
Tendered and Awarded Terminal Station Construction Contract (Muskrat Falls TS2)	July 2019
Awarded Transmission Line Construction Contract	July 2019

11 The Project is proceeding as planned with a forecasted completion date of December 15,
12 2019 for the interconnection described in part c. The remaining Happy Valley Terminal
13 Station work will be completed in 2020 as planned.

14
15 d) Please refer to part c.

16

17 e) Please refer to part c.

³ Board Order No. P.U. 9(2019)