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March 28, 2024

Board of Commissioners of Public Utilities  
Prince Charles Building  
120 Torbay Road, P.O. Box 21040  
St. John's, NL A1A 5B2

Attention: Jo-Anne Galarneau  
Executive Director and Board Secretary

**Re: Quarterly Update – Items Impacting the Delay of Hydro's Next General Rate Application**

In Order No. P.U. 15(2020), the Board of Commissioners of Public Utilities ("Board") approved Newfoundland and Labrador Hydro's ("Hydro") request to delay the filing of its next general rate application ("GRA").<sup>1</sup> The Board directed Hydro to file quarterly updates with respect to the filing of its next GRA beginning on September 30, 2020 and to include the following:

- (i) Information related to:
  - a. The timeframe for the commissioning of the Muskrat Falls Project ("Project");
  - b. The financial restructuring of the Muskrat Falls Power Purchase Agreement;
  - c. The completion of the Government of Newfoundland and Labrador's ("Government") rate mitigation plan; and
- (ii) Projected 2021 cost increases and Hydro's plans to address these increases.

**Muskrat Falls Project Schedule**

As part of its ongoing *Reliability and Resource Adequacy Study Review* proceeding, Hydro continues to provide updates on the status of the Labrador-Island Link ("LIL") and the Muskrat Falls Hydroelectric Generating Facility ("Muskrat Falls Facility"), as well as other relevant operational and commercial information.<sup>2</sup> The update provided herein reflects the information that was available as of the date of this correspondence.

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<sup>1</sup> As per Board Order No. P.U. 16(2019), the Board directed Hydro to file its next GRA no later than September 30, 2020 for rates based on a 2021 Test Year.

<sup>2</sup> Please refer to "*Reliability and Resource Adequacy Study Review – Labrador-Island Link Update for the Quarter Ended December 31, 2023*," Newfoundland and Labrador Hydro, January 11, 2024, for Hydro's most recent update.

### **Muskrat Falls Hydroelectric Generating Facility**

On November 22, 2021, Unit 4—the final of four units at the Muskrat Falls Facility—was released for service and accepted into commercial operation. As such, the Muskrat Falls Facility is considered commissioned pursuant to the commercial and financial agreements.<sup>3</sup>

### **Labrador-Island Link**

On April 14, 2023, the Independent Engineer issued a Confirmation of Commissioning Certificate and the lender's representative issued a Commissioning Confirmation acknowledging that all of the conditions required for commissioning of the LIL pursuant to the Project financing agreement were achieved, and that commissioning had occurred on April 14, 2023. As such, the LIL is officially commissioned in accordance with the Project financing and revenue agreements.<sup>4</sup>

### **Financial Restructuring of the Project Agreements and Government's Rate Mitigation Plan**

The finalization of the \$1 billion federal loan guarantee, the \$1 billion investment by the Government of Canada in the province's portion of the LIL, and capital restructuring for the Project agreements was announced by Hydro on March 31, 2022.<sup>5</sup>

Throughout 2023, a total of \$335.1 million dollars of rate mitigation funding was provided to Hydro and utilized to reduce the balance of the Supply Cost Variance Deferral Account ("SCVDA") owing from customers. In March, as part of initial steps of rate mitigation, the Government paid the remaining 2022 SCVDA balance of \$190.4 million.<sup>6</sup> In August 2023, the SCVDA balance was reduced by a further \$144.7 million through funding received from the Government of Canada.<sup>7,8</sup>

With the commissioning of the LIL, Hydro is continuing to actively and frequently engage with the Government on an ongoing basis regarding the finalization and implementation of the rate mitigation plan. As full project costs are known, the focus is on completing the details and mechanisms that comprise the rate mitigation plan, which is anticipated to occur in 2024.

### **Projected Supply Increases**

The SCVDA was approved effective as of November 1, 2021 and was put in place to address the cost impact of the contractual requirements related to the Project.<sup>9</sup> Hydro commenced recovery of Project

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<sup>3</sup> "Muskrat Falls Project Asset Update," Newfoundland and Labrador Hydro, November 29, 2021.

<sup>4</sup> "Reliability and Resource Adequacy Study Review – Labrador-Island Link Update," Newfoundland and Labrador Hydro, April 18, 2023.

<sup>5</sup> "Financial Restructuring Agreement for the Third Federal Loan Guarantee and LIL Investment Finalized," Newfoundland and Labrador Hydro, March 31, 2022,

<<https://nlhydro.com/financial-restructuring-agreement-for-third-federal-loan-guarantee-and-lil-investment-finalized/>>.

<sup>6</sup> "Implementing Initial Steps of Rate Mitigation," Government of Newfoundland and Labrador, March 31, 2023,

<<https://www.gov.nl.ca/releases/2023/iet/0331n03/>>.

<sup>7</sup> "Supply Cost Variance Deferral Account Report (Unaudited) – August 2023," Newfoundland and Labrador Hydro, September 25, 2023.

<sup>8</sup> The \$1 billion investment in the LIL by the Government of Canada was made in the form of a convertible debenture. On August 15, 2023, the first drawing on the convertible debenture of \$144.7 million was received by LIL (2021) Limited Partnership, and on August 28, 2023, the funds were transferred to Hydro for the purpose of rate mitigation, reducing the balance in the SCVDA.

<sup>9</sup> As per Board Order No. P.U. 4(2022).

costs and implemented a Project Cost Recovery Rider effective July 1, 2022.<sup>10</sup> The Board most recently approved the Project Cost Recovery Rider for Hydro's Utility customer in 2023<sup>11,12</sup> and Industrial customers in 2024.<sup>13,14</sup>

### **Proposed Timing of Hydro's Next GRA**

Contingent on the details of the Government's rate mitigation plan, Hydro continues to expect to file its next GRA in 2025. Without having the required information on the final rate mitigation plan, Hydro does not have adequate certainty to develop test year forecast revenue requirements for use in its GRA filing. Hydro is cognizant of the regulatory inefficiencies that would result if its GRA proposals are not reflective of the final rate mitigation plan.

Hydro will continue to provide quarterly updates to the Board on the timing of its next GRA and will confirm a more defined timeframe for the filing of its GRA when further information is available.

Should you have any questions or comments about any of the enclosed, please contact the undersigned.

Yours truly,

### **NEWFOUNDLAND AND LABRADOR HYDRO**



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Senior Legal Counsel, Regulatory  
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<sup>10</sup> As per Board Order No. P.U. 19(2022).

<sup>11</sup> The Board approved the continuation of the Utility Project Cost Recovery Rider at 0.798 cents per kWh in Board Order No. P.U. 15(2023).

<sup>12</sup> Payments are credited to the Project Cost Recovery – Utility component of the SCVDA.

<sup>13</sup> The Board approved the implementation of the Industrial Project Cost Recovery Rider of 0.888 cents per kWh in Board Order No. P.U. 4(2024).

<sup>14</sup> Payments are credited to the Project Cost Recovery Rider – Industrial component of the SCVDA.