

December 17, 2020

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

Attention: Ms. Cheryl Blundon  
Director of Corporate Services & Board Secretary

Dear Ms. Blundon:

**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>1,2</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 time frame for the commissioning of the Muskrat Falls Project;
  - b. The financial restructuring of the Muskrat Falls Power Purchase Agreement ("PPA");
  - c. The completion of 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**

The Muskrat Falls Project remains on schedule for full power to be delivered by the end of September 2021.

**Financial Restructuring of Muskrat Falls PPA and Government's Rate Mitigation Plan**

At this time, Hydro does not have any updates to provide regarding the status of the financial restructuring of the Muskrat Falls PPA or the completion of Government's rate mitigation plan.

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<sup>1</sup> "Application to Delay the Filing of Newfoundland and Labrador Hydro's Next General Rate Application," Newfoundland and Labrador Hydro, April 15, 2020.

<sup>2</sup> Board Order No. P.U. 16(2020) directed Hydro to file its next GRA no later than September 30, 2020 for rates based on a 2021 Test Year.

### Projected 2021 Cost Increases

In its September 30, 2020 update to the Board, Hydro advised that it expected previously forecast 2021 cost increases to be partially offset by reduced depreciation expense associated with the extension of the Holyrood Thermal Generating Station (“Holyrood TGS”) as a generating facility for an additional year.<sup>3</sup> Since then, Hydro filed an update on its Efficiency and Effectiveness Plan<sup>4</sup> (“EEP”) indicating that Hydro expects to achieve additional operating savings of \$3.7 million<sup>5</sup> in 2021,<sup>6</sup> further offsetting 2021 forecast cost increases.

In 2021, Hydro anticipates filing an application for approval to defer the net increase in 2021 costs as a result of the commissioning of the Muskrat Falls Project. On the basis that Hydro is permitted to defer these costs, Hydro estimates that its forecast 2021 earnings will be slightly below the lower end of the approved range of return on rate base.<sup>7</sup>

Upon commissioning of the Muskrat Falls Project, the Island Interconnected System marginal energy cost will transition from the Holyrood TGS fuel price to the market value of exports. This change has implications on the operation of Hydro's supply cost deferral accounts. Therefore, Hydro anticipates filing an application in 2021 to propose modifications to its supply cost deferral accounts to address the financial impacts of this change.

Hydro will provide a further update on the preceding matters in its first quarter 2021 update, which is scheduled to be filed on March 31, 2021.

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

Yours truly,

### NEWFOUNDLAND AND LABRADOR HYDRO



Shirley A. Walsh  
Senior Legal Counsel, Regulatory  
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<sup>3</sup> “The Liberty Consulting Group Eighth Quarterly Monitoring Report on the Integration of Power Supply Facilities to the Island Interconnected System – Monthly Update,” Newfoundland and Labrador Hydro, September 28, 2020.

<sup>4</sup> “Efficiency and Effectiveness Plan – Fall 2020 Update,” Newfoundland and Labrador Hydro, November 12, 2020.

<sup>5</sup> \$3.7 million is the total of \$3.1 million from regulated operations and \$0.6 million from Exploits.

<sup>6</sup> Relative to the 2019 Test Year.

<sup>7</sup> Hydro’s 2019 Test Year rate of return on average rate base of 5.43% in a range of 5.23% to 5.63% was approved in Board Order No. P.U. 30(2019).

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