

March 31, 2021

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").^{1,2} 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

As noted in Hydro's March 30, 2021 correspondence to the Board,³ the overall Muskrat Falls Project completion date is currently November 15, 2021. Further information regarding the Muskrat Falls Project schedule will be provided in Hydro's next Labrador-Island Link Monthly Update which is scheduled to be filed on April 8, 2021.

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

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

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

² 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.

³ "Reliability and Resource Adequacy Study Review – Labrador-Island Link Monthly Update – March 2021 – Board Questions – Hydro's Response," Newfoundland and Labrador Hydro, March 30, 2021.

Projected 2021 Cost Increases

In its previous quarterly updates to the Board, Hydro noted that it expected forecast 2021 cost increases to be partially offset by (i) reduced depreciation expense associated with the extension of the Holyrood Thermal Generating Station ("Holyrood TGS") as a generating facility for an additional year, and (ii) savings in operating costs⁴ associated with its Efficiency and Effectiveness Plan.

Hydro intends to file an application in the second quarter of 2021 related to a number of matters required to enable Hydro to properly recover costs following commissioning of the Muskrat Falls Project. The application will include requests for the following:

- i. Deferral of net 2021 costs associated with the Muskrat Falls Project for future recovery;
- ii. Adjustments to Hydro's existing supply cost deferral accounts, including the Rate Stabilization Plan, to ensure they operate properly in the context of system changes resulting from commissioning of the Muskrat Falls Project; and
- iii. Deviation from IFRS⁵ accounting standards to require recognition of costs consistent with generally accepted regulatory accounting practice, effective upon commissioning of the Muskrat Falls Project.⁶

Additionally, Hydro is evaluating whether a deferral account to address potential non-fuel cost variability associated with the remaining term and mode of operation of Holyrood TGS will be required.⁷

On the basis that Hydro's above-noted requests are approved, Hydro estimates that its forecast 2021 earnings will be slightly below the lower end of the approved range of return on rate base.⁸

Proposed Timing of Hydro's Next GRA

Although the financial restructuring of the Muskrat Falls PPA and Government's rate mitigation plan are not yet complete, the filing of Hydro's next GRA before the end of 2021 is necessary to enable the recovery of post-commissioning Muskrat Falls Project costs in customer rates. As such, Hydro is planning to file its next GRA in October 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
SAW/kd

⁴ Relative to the 2019 Test Year.

⁵ International Financial Reporting Standards ("IFRS").

⁶ Board Order No. P.U. 9(2021) approved Hydro's proposal to deviate from IFRS to allow recognition of expenses related to the purchase of pre-commissioning energy in accordance with the terms of the Muskrat Falls PPA. The application Hydro intends to file in the second quarter of 2021 will address post-commissioning costs.

⁷ As noted in Hydro's March 4, 2021 Labrador-Island Link Monthly Update, Hydro is proceeding with an assessment to determine the potential viability of the Holyrood TGS in the longer term.

⁸ 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).

ecc: **Board of Commissioners of Public Utilities**

Jacqui Glynn
PUB Official Email

Newfoundland Power

Gerard M. Hayes
Kelly C. Hopkins
Regulatory Email

Consumer Advocate

Dennis M. Browne, Q.C., Browne Fitzgerald Morgan & Avis
Stephen F. Fitzgerald, Browne Fitzgerald Morgan & Avis
Sarah G. Fitzgerald, Browne Fitzgerald Morgan & Avis
Bernice Bailey, Browne Fitzgerald Morgan & Avis

Industrial Customer Group

Paul L. Coxworthy, Stewart McKelvey
Denis J. Fleming, Cox & Palmer
Dean A. Porter, Poole Althouse

Praxair Canada Inc.

Sheryl E. Nisenbaum
Peter Strong

Iron Ore Company of Canada

Gregory A.C. Moores, Stewart McKelvey

Labrador Interconnected Group

Senwung Luk, Olthuis Kleer Townshend LLP
Julia Brown, Olthuis Kleer Townshend LLP

Teck Resources Limited

Shawn Kinsella