

December 17, 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),¹ 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").^{2,3} 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 ("Project");
 - b. The financial restructuring of the Muskrat Falls Power Purchase Agreement ("Muskrat Falls PPA");
 - 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 monthly updates on the status of the Labrador-Island Link and the Muskrat Falls Hydroelectric Generating Facility, as well as other relevant operational and commercial information.⁴ The update provided herein reflects the information which was available as of the date of this correspondence.

Muskrat Falls Hydroelectric Generating Facility

On November 22, 2021, Unit 4, the final of four units at the Muskrat Falls Hydroelectric Generating Facility, was released for service and was accepted into commercial operation. As such, the Muskrat

¹ *Public Utilities Act*, RSNL 1990, c P-47, Board Order No. P.U. 15(2020), Board of Commissioners of Public Utilities, May 27, 2020.

² "Application to Delay the Filing of Newfoundland and Labrador Hydro's Next General Rate Application," Newfoundland and Labrador Hydro, April 15, 2020.

³ As per *Public Utilities Act*, RSNL 1990, c P-47, Board Order No. P.U. 16(2019), Board of Commissioners of Public Utilities, May 7, 2019, the Board directed Hydro to file its next GRA no later than September 30, 2020 for rates based on a 2021 Test Year.

⁴ Please refer to "*Reliability and Resource Adequacy Study Review – Labrador-Island Link Monthly Update – November 2021*," Newfoundland and Labrador Hydro, December 2, 2021, for Hydro's most recent update.

Falls Hydroelectric Generating Facility is now considered commissioned as per the commercial and financial agreements.

Labrador-Island Link

General Electric's ("GE") testing of the Full Function Bipole ("FFB") software identified critical bugs which must be corrected in advance of Trial Operations. GE has provided a version which resolves some, but not all, of the critical software bugs. The latest version provides increased reliability compared to the previous version and is intended to permit increased power transfer over the Labrador-Island Link; however, it remains unsuitable for Trial Operations and commissioning. GE has not yet provided a schedule for the version of the FFB software for Trial Operations. Hydro will advise of any updates in its next monthly update on the status of the Labrador-Island Link and the Muskrat Falls Hydroelectric Generating Facility, scheduled to be filed with the Board on January 14, 2022.

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

On July 28, 2021, the Government announced an agreement in principle for the financial restructuring of the Project and the timelines associated with the restructuring plan. The agreement in principle and the Government's technical briefing information were provided to the Board and parties in correspondence dated August 27, 2021.⁵ The process to complete the financial restructuring of the Project agreements and Government's rate-mitigation plan remain ongoing.

Projected 2021 Cost Increases

Hydro was required to commence payments under the Muskrat Falls PPA upon commissioning of the Muskrat Falls Hydroelectric Generating Facility on Thursday, November 25, 2021.⁶ Order in Council OC2013-343⁷ requires the full Project to be commissioned or nearing commissioning before Hydro can be permitted to recover Project costs through customer rates.

To address the cost impact of these contractual requirements, Hydro filed an application on July 29, 2021⁸ to revise its supply cost deferral accounts to allow for the transfer of cost variances associated with the commissioning of the Muskrat Falls Project assets. In Board Order No. P.U. 33(2021),⁹ the Board approved Hydro's request to defer the required payments and allow a decision as to how the payments should be recovered from customers to be made through a separate application at the conclusion of Hydro's next GRA.

Proposed Timing of Hydro's Next GRA

Hydro believes it unlikely that it will be able to file its next GRA in the second quarter of 2022 as previously contemplated given that financial restructuring of the Project remains ongoing and details regarding rate mitigation have not yet been finalized. Hydro will require adequate time to prepare its GRA filing once the final details are available and is cognizant of the regulatory inefficiencies that would result if its GRA proposals were not reflective of the financial restructuring of the Project and final rate mitigation.

⁵ "Items Impacting the Delay of Hydro's Next General Rate Application – Further Update," Newfoundland and Labrador Hydro, August 27, 2021.

⁶ "Muskrat Falls Project Asset Update," Newfoundland and Labrador Hydro, November 29, 2021.

⁷ OC2013-343, (2013), (*Electrical Power Control Act, 1994*).

⁸ "Supply Cost Accounting Application," Newfoundland and Labrador Hydro, July 29, 2021.

⁹ *Public Utilities Act*, RSNL 1990, c P-47, Board Order No. P.U. 33(2021), Board of Commissioners of Public Utilities, December 8, 2021.

Hydro will continue to provide quarterly updates to the Board on the timing of its next GRA and will confirm a more defined time frame for 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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