

June 30, 2022

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 ("LIL") and the Muskrat Falls Hydroelectric Generating Facility, as well as other relevant operational and commercial information.⁴

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 – May 2022 – Revision 1*," Newfoundland and Labrador Hydro, June 2, 2022, for Hydro's most recent update.

The update provided herein reflects the information that was available as of the date of this correspondence.

Muskrat Falls Hydroelectric Generating Facility

Unit 4, the final of four units at the Muskrat Falls Hydroelectric Generating Facility, was released for service on November 22, 2021, and was accepted into commercial operation. As such, the Muskrat Falls Hydroelectric Generating Facility is considered commissioned pursuant to the commercial and financial agreements Hydro was required to commence payments under the Muskrat Falls PPA on November 25, 2021.⁵

Labrador-Island Link

Hydro continues to work with General Electric Canada (“GE”) to advance the software required to reliably operate the Labrador-Island Link (“LIL”) at varying levels. GE completed Factory Acceptance Testing (“FAT”) of the bipole software in the simulation laboratory on June 8, 2022. After completion of FAT, the results were reviewed by Hydro and the Lower Churchill Project who determined the software was acceptable to release to site. That version of the software was loaded onto the system for the next testing phase, Dynamic Commissioning.

Dynamic Commissioning started on June 14, 2022 and was expected to take two to three weeks to complete. Partway through testing on the provincial electricity system, GE discovered issues with the software. GE will provide a report on the issues found, which would include recommendations to address the findings. Once concluded, the report will be reviewed for acceptance by Hydro's team. Hydro will then have detail around the schedule for when the software will be ready to test again. To protect system reliability, Hydro will ensure appropriate testing will be complete before placing the software onto the operating provincial grid.

In the interim, Hydro is utilizing the previous version of the software to transfer power over the LIL. Hydro will advise of any updates in its next monthly update on the status of the LIL and the Muskrat Falls Hydroelectric Generating Facility, scheduled for filing with the Board on July 7, 2022.

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

The finalization of the \$1 billion federal loan guarantee and capital restructuring for the Muskrat Falls Project agreements was announced by Hydro on March 31, 2022.⁶ The finalization of the Government’s rate mitigation plan is ongoing. The outstanding actions related to the finalization of the details of the rate mitigation plan include confirmation of the mechanism by which rate mitigation will be provided to customers and confirmation of the timing of those payments by the Government to Hydro.

⁵ “Muskrat Falls Project Asset Update,” Newfoundland and Labrador Hydro, November 29, 2021.

⁶ “Financial Restructuring Agreement for the Third Federal Loan Guarantee and LIL Investment Finalized,” March 31, 2022, <<https://nlhydro.com/financial-restructuring-agreement-for-third-federal-loan-guarantee-and-lil-investment-finalized/>>.

Projected 2021 Cost Increases

The approved Supply Cost Variance Deferral Account was put in place to address the cost impact of the contractual requirements related to the Muskrat Falls Project⁷ and was effective as of November 1, 2021.⁸ In Order No. P.U. 19(2022), the Board approved Hydro's proposal to commence recovery of Muskrat Falls Project costs and implement a Project Cost Recovery Rider effective July 1, 2022, with payments to be credited to the Project Cost Recovery - Utility component of the Supply Cost Variance Deferral Account.⁹ The Project Cost Recovery Rider, in combination with the other Utility Adjustments¹⁰ and with Newfoundland Power Inc.'s subsequent application to update its Rate Stabilization Account and Municipal Tax Adjustment factor,¹¹ will result in retail electricity rates continuing to be close to their current levels after July 1, 2022.

Proposed Timing of Hydro's Next GRA

Hydro continues to estimate that it would require approximately nine months to prepare its next GRA.

With the restructuring of the Muskrat Falls Project agreements now finalized, this timeline would begin once Hydro has certainty related to the commissioning of the LIL and the finalization of the details of the Government's rate mitigation plan. Hydro is cognizant of the regulatory inefficiencies that would result if its GRA proposals are not reflective of the timing of when payments under the Transmission Funding Agreement will begin, and the final rate mitigation plan. Without having the required information, Hydro does not have adequate certainty to develop a test year forecast revenue requirement for use in its GRA filing. As a result, the time frame for filing Hydro's next GRA is unknown at this time.

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



Shirley A. Walsh
Senior Legal Counsel, Regulatory
SAW/sk

Encl.

⁷ *Public Utilities Act*, RSNL 1990, c P-47, Board Order No. P.U. 33(2021), Board of Commissioners of Public Utilities, December 8, 2021.

⁸ *Public Utilities Act*, RSNL 1990, c P-47, Board Order No. P.U. 4(2022), Board of Commissioners of Public Utilities, February 21, 2022.

⁹ *Public Utilities Act*, RSNL 1990, c P-47, Board Order No. P.U. 19(2022), Board of Commissioners of Public Utilities, June 21, 2022.

¹⁰ Rate Stabilization Plan Current Plan Adjustment and the Utility Conservation and Demand Management Cost Recovery Adjustment.

¹¹ "Application for July 1, 2022 Customer Rates," Newfoundland Power Inc., June 14, 2022 was approved in *Public Utilities Act*, RSNL 1990, c P-47, Board Order No. P.U. 20(2022), Board of Commissioners of Public Utilities, June 29, 2022.

ecc:

Board of Commissioners of Public Utilities

Jacqui H. Glynn
PUB Official Email

Consumer Advocate

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