



Newfoundland and Labrador Hydro  
Hydro Place, 500 Columbus Drive  
P.O. Box 12400, St. John's, NL  
Canada A1B 4K7  
t. 709.737.1400 | f. 709.737.1800  
nlhydro.com

May 13, 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 and Board Secretary

Dear Ms. Blundon:

**Re: Supply Cost Variance Deferral Account Monthly Report– Board Questions – Hydro's Response**

On May 10, 2022, Newfoundland and Labrador Hydro ("Hydro") received correspondence from the Board of Commissioners of Public Utilities ("Board") in response to Hydro's Supply Cost Variance Deferral Account ("SCVDA") report for the month of March 2022.<sup>1</sup>

In its correspondence, the Board requested that Hydro provide clarification on certain points. Hydro's responses are as follows:

**1. Based on the Board's understanding, Hydro is required to pay approximately \$32 million per month in accordance with the Muskrat Falls Power Purchase Agreement. Please explain why there is only approximately \$17.3 million included in the Muskrat Falls Project Cost Variance component of the SCVDA for the month of March, 2022.**

*Response:*

In March, the payments for the Muskrat Falls Power Purchase Agreement ("Muskrat Falls PPA") were adjusted to reflect the financial restructuring of the project resulting in a revised amount to be transferred to the deferral account of approximately \$20.7 million. The amount for March was further reduced by \$3.4 million primarily due to the adjustment of billed operating costs to actual from November 23, 2021 to March 31, 2022 resulting in a total transfer to the deferral account of \$17.3 million in March.

In April, Hydro received a credit for \$30.4 million adjusting the payments made under the agreement from November 23, 2021 to February 28, 2022. Monthly amounts recorded in the SCVDA for the remainder of the year are expected to be between \$20 million and \$22 million for the Muskrat Falls PPA.

Deferred amounts for the Labrador-Island Link ("LIL") will be transferred to this account upon commencement of payments.

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<sup>1</sup> "Supply Cost Variance Deferral Account Monthly Report," Newfoundland and Labrador Hydro, April 25, 2022.

**2. Please explain the activity that occurred in March 2022 to create a debit balance of \$11,038,375 in the Holyrood TGS Fuel Cost Variance component of the SCVDA.**

*Response:*

The debit activity for the month of March (Actual Costs of \$29,958,681 - 2019 Test Year Costs of \$18,920,306) is primarily due to an outage on the LIL from February 25, 2022 to March 24, 2022 resulting in increased production requirements from the Holyrood Thermal Generating Station. Also, in March the cost of fuel was \$122.51/bbl compared to \$105.90/bbl in the 2019 Test Year.

**3. The definition of the "Transmission Tariff Revenue Variance" component of the SCVDA is defined as:**

***"For the purpose of this deferral account, Transmission Tariff Revenues reflect the transmission revenues paid by third parties to enable exports."***

**Please explain why there are no export revenues included in the "Net Revenue from Exports Variance" component to the SCVDA as of December 31, 2021 and for the month of January, 2022, even though there is activity in the "Transmission Tariff Revenue Variance" component for the time periods noted.**

*Response:*

Amounts reflected in the "Transmission Tariff Revenue Variance" reflects payments from parties other than Hydro for exporting energy through the Newfoundland and Labrador Transmission System. The revenue recorded to date is primarily from Energy Marketing for the delivery of the Nova Scotia Block.

Should you have any questions, please contact the undersigned.

Yours truly,

**NEWFOUNDLAND AND LABRADOR HYDRO**



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

ecc:

**Board of Commissioners of Public Utilities**

Jacqui H. Glynn  
PUB Official Email

**Consumer Advocate**

Dennis M. Browne, QC, Browne Fitzgerald Morgan & Avis  
Stephen F. Fitzgerald, Browne Fitzgerald Morgan & Avis  
Sarah G. Fitzgerald, Browne Fitzgerald Morgan & Avis  
Bernice Bailey, Browne Fitzgerald Morgan & Avis  
Bernard M. Coffey, QC

**Iron Ore Company of Canada**

Gregory A.C. Moores, Stewart McKelvey

**Labrador Interconnected Group**

Senwung F. Luk, Olthuis Kleer Townshend LLP  
Joshua H. Favel, Olthuis Kleer Townshend LLP

**Newfoundland Power Inc.**

Dominic J. Foley  
Lindsay S.A. Hollett  
Regulatory Email

**Teck Resources Limited**

Shawn Kinsella

**Praxair Canada Inc.**

Sheryl E. Nisenbaum  
Peter Strong

**Island Industrial Customer Group**

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