

1 Q. With reference to IC-NLH-003 and paragraph 16 of the Application, are there any costs that
2 would be incurred by Hydro in 2021, other than power purchase costs associated with the
3 Muskrat Falls PPA, which would also arise as a result of the commissioning of the Muskrat Falls
4 Project in 2021? If the answer to the foregoing question is “yes”, please provide details of those
5 other associated 2021 costs, including their estimated magnitude as compared to the
6 anticipated 2021 power purchase costs.

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9 A. The power purchase costs associated with the Muskrat Falls Power Purchase Agreement (“PPA”)
10 can result in a material impact to Newfoundland and Labrador Hydro’s (“Hydro”) financing costs.
11 However, the extent of the impact will not be known until the finalization of the Muskrat Falls
12 PPA and the release of the Government of Newfoundland and Labrador’s rate mitigation plan. In
13 addition, the existing payment terms of the Muskrat Falls Project contracts require Hydro to
14 make monthly payments in advance of receiving service which will result in an increase to
15 Hydro's required working capital.

16 Hydro has not yet completed a working capital lead/lag analysis associated with the Muskrat
17 Falls PPA and as a result the revenue requirement impact is not yet available. Muskrat Falls
18 Project commissioning would also be expected to reduce fuel costs and, over time, labor costs at
19 the Holyrood Thermal Generating Station, the amount of which would depend on the timing of
20 Muskrat Falls Project commissioning. Under the current supply cost deferral accounts, fuel
21 savings would flow to customers and not offset Hydro’s increased purchased power costs
22 related to the Muskrat Falls Project. Hydro will propose changes to its supply cost deferral
23 accounts to be implemented during the GRA process to address this issue.

24 Additional supply costs in 2021 resulting from the commissioning of the Muskrat Falls Project
25 (approximately \$60 million per month based on the existing agreements) would be expected to
26 result in Hydro reporting financial losses in 2021 without revenue relief. In addition, without the
27 consideration of Muskrat Falls Project costs, Hydro is projecting its 2021 earnings will be below
28 the lower end of the range of its allowed rate of return on rate base primarily as a result of
29 increased capital investments and increased borrowings since 2019.