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July 2, 2024

Board of Commissioners of Public Utilities
Prince Charles Building
120 Torbay Road, P.O. Box 21040
St. John's, NL A1A 5B2

Attention: Jo-Anne Galarneau
Executive Director and Board Secretary

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 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 timeframe for the commissioning of the Muskrat Falls Project ("Project");
- b. The financial restructuring of the Muskrat Falls Power Purchase Agreement;
- 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 updates on the status of the Labrador-Island Link ("LIL") and the Muskrat Falls Hydroelectric Generating Station ("Muskrat Falls"), as well as other relevant operational and commercial information.² The update provided herein reflects the information that was available as of the date of this correspondence.

Muskrat Falls Hydroelectric Generating Station

On November 22, 2021, Unit 4—the final of four units at Muskrat Falls—was released for service and accepted into commercial operation. As such, Muskrat Falls is considered commissioned pursuant to the commercial and financial agreements.³

¹ As per Board Order No. P.U. 16(2019), the Board directed Hydro to file its next GRA no later than September 30, 2020, for rates based on a 2021 Test Year.

² Please refer to "*Reliability and Resource Adequacy Study Review – Labrador-Island Link Update for the Quarter Ended March 31, 2024*," Newfoundland and Labrador Hydro, April 4, 2024, for Hydro's most recent update.

³ "Muskrat Falls Project Asset Update," Newfoundland and Labrador Hydro, November 29, 2021.

Labrador-Island Link

On April 14, 2023, the Independent Engineer issued a Confirmation of Commissioning Certificate and the lender's representative issued a Commissioning Confirmation acknowledging that all of the conditions required for commissioning of the LIL pursuant to the Project financing agreement were achieved and that commissioning had occurred on April 14, 2023. As such, the LIL is officially commissioned in accordance with the Project financing and revenue agreements.⁴

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

The finalization of the \$1 billion federal loan guarantee, the \$1 billion investment by the Government of Canada in the province's portion of the LIL, and capital restructuring for the Project agreements were announced by Hydro on March 31, 2022.⁵

On May 16, 2024, the Government announced the finalization of the rate mitigation plan with Hydro. The plan, applying only to Island Interconnected System customers paying for the Project, is effective as of July 1, 2024, and will ensure domestic residential rate increases attributable to Hydro's costs are targeted at 2.25% annually up to and including 2030. The rate mitigation plan, as directed in OC2024-062,⁶ requires that any additional funding required to reduce the balance in the Supply Cost Variance Deferral Account ("SCVDA") and achieve the 2.25% targeted rate increase come from Hydro's own sources and for Hydro to retire the 2023 SCVDA balance of \$271 million over the 2024–2026 period.

Order in Council OC2024-063,⁷ issued on the same date, directed the Board of Directors of Nalcor Energy ("Nalcor") that any additional rate mitigation funding required by Hydro, including that required to retire the 2023 SCVDA balance of \$271 million, be through Nalcor's own sources.

Projected Supply Increases

The SCVDA was approved effective as of November 1, 2021 and was put in place to address the cost impact of the contractual requirements related to the Project.⁸ Hydro commenced recovery of Project costs and implemented a Project Cost Recovery Rider effective July 1, 2022.⁹ The Board most recently approved the Project Cost Recovery Rider for Hydro's Utility customer in 2023¹⁰ and Industrial customers in 2024.¹¹ In its 2024 Utility Rate Adjustments application,¹² which is currently before the Board for approval,¹³ Hydro proposed a further increase to the Project Cost Recovery Rider in accordance with OC2024-062 and the Government's rate mitigation plan.

⁴ "Reliability and Resource Adequacy Study Review – Labrador-Island Link Update," Newfoundland and Labrador Hydro, April 18, 2023.

⁵ "Financial Restructuring Agreement for the Third Federal Loan Guarantee and LIL Investment Finalized," Newfoundland and Labrador Hydro, March 31, 2022.

<https://nlhydro.com/financial-restructuring-agreement-for-third-federal-loan-guarantee-and-lil-investment-finalized/>

⁶ OC2024-062, <<https://www.exec-oic.gov.nl.ca/public/oic/details?order-id=21851>>.

⁷ OC2024-063, <<https://www.exec-oic.gov.nl.ca/public/oic/details?order-id=21852>>.

⁸ As per Board Order No. P.U. 4(2022).

⁹ As per Board Order No. P.U. 19(2022).

¹⁰ The Board approved the continuation of Project Cost Recovery Rider at 0.798 cents per kWh in Board Order No. P.U. 15(2023). Payments are credited to the Project Cost Recovery – Utility component of the SCVDA.

¹¹ The Board approved the implementation of the Industrial Project Cost Recovery Rider of 0.888 cents per kWh in Board Order No. P.U. 4(2024). Payments are credited to the Project Cost Recovery – Utility component of the SCVDA.

¹² "2024 Utility Rate Adjustments – Effective July 1, 2024," Newfoundland and Labrador Hydro, May 28, 2024.

¹³ The Board indicated in "Newfoundland Power Inc. – Application for July 1, 2024 Customer Rates – Direction," Board of Commissioners of Public Utilities, June 21, 2024, that to allow for an orderly implementation of rate changes related to Hydro's 2024 Utility Rate Adjustments application and Newfoundland Power's Application for July 1, 2024 Customer Rates, the Board will target an implementation date for these applications of August 1, 2024.

Throughout 2023, a total of \$335.1 million of rate mitigation funding was provided to Hydro and utilized to reduce the balance of the SCVDA owing from customers. In March 2023, as part of the initial steps of rate mitigation, the Government paid the remaining 2022 SCVDA balance of \$190.4 million.¹⁴ In August 2023, the SCVDA balance was reduced by a further \$144.7 million through funding received from the Government of Canada.^{15,16}

In accordance with OC2024-062, supply costs which are not recovered through customer rates in accordance with the Government's targeted annual increase of 2.25% up to and including 2030 will be funded by Hydro through its own sources. On June 28, 2024, Hydro further reduced the balance of the SCVDA by \$90 million in accordance with the direction provided in OC2024-062 to retire the 2023 SCVDA balance of \$271 million over the 2024–2026 period.

Proposed Timing of Hydro's Next GRA

With the details of the Government's rate mitigation plan finalized, Hydro continues to prepare to file its next GRA in the second half of 2025. Hydro will continue to provide quarterly updates to the Board and will confirm a more specific date for the filing in a subsequent update.

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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SAW/kd

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¹⁴ "Implementing Initial Steps of Rate Mitigation," Government of Newfoundland and Labrador, March 31, 2023.

<https://www.gov.nl.ca/releases/2023/iet/0331n03/>

¹⁵ "Supply Cost Variance Deferral Account Report (Unaudited) – August 2023," Newfoundland and Labrador Hydro, September 25, 2023.

¹⁶ The \$1 billion investment in the LIL by the Government of Canada was made in the form of a convertible debenture. On August 15, 2023, the first drawing on the convertible debenture of \$144.7 million was received by LIL (2021) Limited Partnership, and on August 28, 2023, the funds were transferred to Hydro for the purpose of rate mitigation, reducing the balance in the SCVDA.