

October 1, 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), 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").^{1,2} 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

The following Project schedule information reflects that which was recently provided through Hydro's responses to requests for information as part of the *Reliability and Resource Adequacy Study Review* proceeding.

Muskrat Falls Hydroelectric Generating Facility

The schedule for the Muskrat Falls Hydroelectric Generating Facility is provided in Table 1.

¹ "Application to Delay the Filing of Newfoundland and Labrador Hydro's Next General Rate Application," Newfoundland and Labrador Hydro, April 15, 2020.

² Board Order No. P.U. 16(2019) directed Hydro to file its next GRA no later than September 30, 2020 for rates based on a 2021 Test Year.

Table 1: Muskrat Falls Hydroelectric Generating Facility Schedule

Generating Unit No.	Completion of Commissioning and Released for Service	Status
Unit 1	December 22, 2020	Released for Service
Unit 2	June 12, 2021	Released for Service
Unit 3	August 14, 2021	Released for Service
Unit 4	October 31, 2021	

Labrador-Island Link

Due to delays in GE’s Full Function Bipole Software testing,³ completion of Trial Operations by November 26, 2021 is at risk. The Lower Churchill Project (“LCP”) continues to monitor software development and testing on a daily basis and is working with GE to explore any mitigation opportunities to improve schedule. The LCP expects to be in a position to provide an update on these milestones in the next Labrador-Island Link Monthly Update report which is due on October 7, 2021.

Financial Restructuring of Muskrat Falls PPA 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, 2021.⁴ Hydro does not have further information regarding the status of the financial restructuring of the Muskrat Falls PPA or the completion of the Government’s rate mitigation plan at this time.

Projected 2021 Cost Increases

Given the current terms and conditions under the Muskrat Falls PPA, Hydro’s 2021 financial performance has the potential to be materially impacted by the requirement to commence payments upon the commissioning of the Muskrat Falls generation assets, which could occur in advance of the commissioning of the Labrador-Island Link. The current schedule for the final commissioning of the Muskrat Falls generation assets reflects an October 31, 2021 time frame. As such, Hydro may be required to commence payment of the Project costs in the fall of 2021, in advance of Hydro having the opportunity to recover these costs through customer rates.

It is currently projected that Hydro will be required to begin payments under the Muskrat Falls PPA on November 1, 2021, in advance of the commissioning of the Labrador-Island Link. Hydro is required to make payments under the Transmission Funding Agreement one day after full Project commissioning. OC2013-343 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 that may materialize as a result of these contractual requirements, Hydro filed an application on July 29, 2021⁵ to revise its supply cost deferral accounts to allow for the transfer

³ Further information regarding the testing delays is provided in Hydro’s response to PUB-NLH-181 of the Resource and Reliability Adequacy Study proceeding (located at: <http://www.pub.nf.ca/applications/NLH2018ReliabilityAdequacy/rfis/PUB-NLH-181.PDF>).

⁴ “Items Impacting the Delay of Hydro’s Next General Rate Application – Further Update,” Newfoundland and Labrador Hydro, August 27, 2021.

⁵ “Supply Cost Accounting Application,” Newfoundland and Labrador Hydro, July 29, 2021.

of cost variances associated with the commissioning of the Muskrat Falls Project assets that may occur on a go-forward basis. The deferral account revisions are intended to address the potential for Hydro to incur financial losses during this transition period. The regulatory review process for Hydro's application is ongoing.

Proposed Timing of Hydro's Next GRA

In correspondence dated August 27, 2021, Hydro confirmed that it will not be in a position to file its next GRA in October 2021 as previously committed. Based on the agreement in principle for the financial restructuring of the Project and the timelines associated with the restructuring plan, Hydro expects the earliest time frame for filing its next GRA to be the second quarter of 2022. Hydro will require adequate time to prepare its GRA filing once the final details of the agreements are available and is cognizant of the regulatory inefficiencies that may result should a complete package of information not be available to the Board and parties.

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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