



NEWFOUNDLAND AND LABRADOR

**BOARD OF COMMISSIONERS OF PUBLIC UTILITIES**

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2019-06-13

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P.O. Box 5939  
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Dear Mr. Connors:

**Re: Rate Mitigation Options and Impacts Reference - Information Requests**

Attached are Information Requests PUB-Nalcor-250 to PUB-Nalcor-270 issued by the Board in relation to the above subject matter. Responses to these requests must be filed by 3:00 p.m. on Thursday, June 27, 2019.

If you have any questions or require any clarification, please do not hesitate to contact the undersigned.

Sincerely,

Cheryl Blundon  
Board Secretary

CB/bt

Enclosure

ecc **Nalcor Energy**  
Peter Hickman, E-mail: [phickman@nalcorenergy.com](mailto:phickman@nalcorenergy.com)  
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**Labrador Interconnected Customer Group**  
Senwung Luk, E-mail: [sluk@oktlaw.com](mailto:sluk@oktlaw.com)

**Reference from the Lieutenant-Governor in Council  
On the Rate Mitigation Options and Impacts  
Relating to the Muskrat Falls Project**

**INFORMATION REQUESTS**

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- 1    **PUB-Nalcor-250**    Further to PUB-Nalcor-144, Churchill Falls forecasts, please provide the  
2    impact on revenue requirements and on cash flow for each year assuming  
3    that rental royalties in PUB-Nalcor-184 are not paid to the Province, and are  
4    directed to rate mitigation.  
5
- 6    **PUB-Nalcor-251**    Please provide a table that lists the “target debt/equity” and “target return on  
7    equity” for each Crown-owned electrical utility in Canada, and explain if  
8    the comparisons of “target equity” and “target return on equity” among  
9    Crown-owned electrical corporations, are a viable comparison to the 25%  
10    and 8.5% respective Newfoundland Hydro targets, given the business risk  
11    profiles and earnings/cash flow volatility of Newfoundland Hydro in  
12    comparison to the others.  
13
- 14   **PUB-Nalcor-252**    Please provide the most recent DBRS (or other rating agency) full credit  
15    rating report for each Crown-owned electrical corporation listed in PUB-  
16    Nalcor-251, similar to the Newfoundland Hydro DBRS reports in the  
17    response to PUB-Nalcor-213.  
18
- 19   **PUB-Nalcor-253**    Please provide current DBRS reports or papers that establish criteria or  
20    ranges of credit metrics for Canadian Crown-owned electric utilities to  
21    qualify for each credit rating level.  
22
- 23   **PUB-Nalcor-254**    For those Canadian Crown-owned electrical utilities, whose debt is  
24    guaranteed by the province, please provide the DBRS criteria for being  
25    considered “self-sustainable” and not create an impact on provincial credit  
26    ratings.  
27
- 28   **PUB-Nalcor-255**    Please provide the analysis for Newfoundland Hydro from 2020 to 2039,  
29    showing the impact of the following:  
30    1)    Debt issues  
31    2)    Debt retired  
32    3)    Revenue requirement (Island Interconnected)  
33    4)    Net Income  
34    5)    Dividends  
35    6)    Promissory notes

- 1           7) Capital expenditures  
 2           8) % of equity  
 3           9) Cash flow/total debt  
 4           10) Fixed charge coverage  
 5           11) EBITDA interest coverage

6  
 7           using the following assumptions:  
 8

Scenario	Equity Target	Return on Equity
1	25%	8.50%
2	25%	6.50%
3	25%	5.00%
4	25%	3.50%
5	20%	8.50%
6	20%	6.50%
7	20%	5.00%
8	20%	3.50%
9	15%	8.50%
10	15%	6.50%
11	15%	5.00%
12	15%	3.50%
13	10%	8.50%
14	10%	6.50%
15	10%	5.00%
16	10%	3.50%

9  
 10   **PUB-Nalcor-256**

Further to PUB-Nalcor-255, please explain if any of the alternative capital structures and return on equity levels shown violate any Newfoundland Hydro debt or line of credit covenants, Newfoundland legislative requirements, Lower Churchill Project Power Purchase Agreement, and/or any of the Muskrat Falls Project financing agreements.

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 16   **PUB-Nalcor-257**

Please provide a summary of Nalcor/Newfoundland Hydro's research into Muskrat Falls Project, Newfoundland Hydro or Churchill Falls dividends usage for rate mitigation, and the accounting impacts, issues and potential solutions with various approaches to re-directing the dividends to rate mitigation from these sources.

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 22   **PUB-Nalcor-258**

Further to PUB-Nalcor-201, MFLTA forecast for dividends, please provide the "delta impact" on revenue requirements and on dividends for the 2019-2039 forecasts for MFLTA, assuming that the commissioning date is delayed by 12 months, and an additional \$1 Billion in CAPEX is spent, pre-commissioning. Please also give an explanation of how this change specifically impacts the calculation of revenue requirements and dividends for MFLTA and LIL (if any for LIL).

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- 1    **PUB-Nalcor-259**    Further to PUB-Nalcor-201, MFLTA forecast for dividends, please provide  
2    the “delta impact” on revenue requirements and on dividends for the 2019-  
3    2039 forecasts for MFLTA, assuming an additional \$1 Billion in CAPEX  
4    is spent in 2022 post-commissioning, and the plant is out of service for 12  
5    months at this time. Please also give an explanation of how this change  
6    specifically impacts the calculation of revenue requirements and dividends  
7    for MFLTA and LIL (if any for LIL).  
8
- 9    **PUB-Nalcor-260**    Further to PUB-Nalcor-203, LIL forecast for dividends, please provide the  
10    “delta impact” on revenue requirements and on dividends for the 2019-2039  
11    forecasts for LIL, assuming that its availability is delayed by 12 months,  
12    and an additional \$500 Million in CAPEX is spent, pre-commissioning.  
13    Please also give an explanation of how this change specifically impacts the  
14    calculation of revenue requirements and dividends for MFLTA and LIL.  
15
- 16    **PUB-Nalcor-261**    Further to PUB-Nalcor-203, LIL forecast for dividends. Please provide the  
17    “delta impact” on revenue requirements and on dividends for the 2019-2039  
18    forecasts for LIL, assuming an additional \$500 Million in CAPEX is spent  
19    in 2022 post-commissioning, and the LIL is out of service for 12 months at  
20    this time. Please also give an explanation of how this change specifically  
21    impacts the calculation of revenue requirements and dividends for MFLTA  
22    and LIL.  
23
- 24    **PUB-Nalcor-262**    Further to PUB-Nalcor-201 and PUB-Nalcor-203, MFLTA and LIL  
25    forecasts for dividends, please provide the “delta impact” on revenue  
26    requirements and on dividends for the 2019-2039 forecasts for each  
27    MFLTA and LIL, assuming:  
28    a) The base operating costs (which includes O&M and Environmental  
29    costs, but not Water Power Rentals and IBA costs) increase by 10% and  
30    20% over the base cases.  
31    b) The base operating costs (which includes O&M and Environmental  
32    costs, but not Water Power Rentals and IBA costs) decrease by 10% and  
33    20% from the base cases.  
34    Please also give an explanation of how these changes specifically impact  
35    the calculation of revenue requirements and dividends for each MFLTA and  
36    for LIL.  
37
- 38    **PUB-Nalcor-263**    Further to PUB-Nalcor-201, MFLTA forecast for dividends, please provide  
39    the “delta impact” on revenue requirements and on dividends for the 2019-  
40    2039 forecasts for MFLTA, assuming that none of the Water Power Rental  
41    payments are made to the Province. Please also give an explanation of how  
42    this change specifically impacts the calculation of revenue requirements and  
43    dividends for MFLTA and LIL (if any for LIL).

- 1 **PUB-Nalcor-264** Please provide the most recent version of Nalcor's MFLTA and LIL  
2 analyses that analyze the impact of extending the depreciable lives of each  
3 of the Muskrat Falls Projects to 75 years. Please include the "delta impact"  
4 on revenue requirements and on dividends for the 2019-2039 forecasts, and  
5 provide an explanation of how these changes specifically impact the  
6 calculation of revenue requirements and dividends for MFLTA and LIL.  
7
- 8 **PUB-Nalcor-265** Regarding the depreciation used in the analysis for MFLTA and LIL, please  
9 provide:  
10 a) The basis for the depreciable lives and methods utilized;  
11 b) Studies utilized to establish the depreciable lives and methods; and  
12 c) The depreciable lives and methods used for large hydroelectric plants at  
13 other utilities, and especially other Canadian Crown-owned corporation  
14 utilities.  
15
- 16 **PUB-Nalcor-266** Further to PUB-Nalcor-205, please provide:  
17 a) The range of depreciable lives being studied;  
18 b) The work plan for the consultants who have been hired for this  
19 engagement; and  
20 c) Whether the depreciable lives and methods used for large hydroelectric  
21 plants at other utilities other Canadian Crown-owned corporation  
22 utilities are being utilized for this study, and how.  
23
- 24 **PUB-Nalcor-267** With regard to the recent change in depreciation methods and total  
25 depreciation for Newfoundland Hydro, please provide:  
26 a) The reasons driving the study and changes in depreciation lives and  
27 methods.  
28 b) Benchmarks from other Canadian utilities regarding depreciable lives  
29 and methods.  
30 c) Are other Canadian utilities more aggressive regarding depreciation?  
31 Please specify those that are.  
32 d) Please provide an estimate of the revenue requirement result if  
33 Newfoundland Hydro were to adopt the most aggressive depreciation  
34 lives and methods used by other Canadian utilities.  
35
- 36 **PUB-Nalcor-268** Please provide the DG-3 Operating Expense Forecast for the Muskrat Falls  
37 Project.  
38
- 39 **PUB-Nalcor-269** In April 2019, the Provincial Government released its rate mitigation plan,  
40 "Protecting You from the Cost Impacts of Muskrat Falls". Page 6 of the  
41 Plan includes a reduction in Nalcor's expenses of \$20 million as a result of  
42 organizational change. Has Nalcor received direction from the Provincial  
43 Government relating to this initiative? Has Nalcor prepared a plan to  
44 achieve this reduction of \$20 million? What savings/initiatives have been  
45 identified to date, and how does Nalcor intend to meet the target?

1 **PUB-Nalcor-270** In April 2019, the Provincial Government released its rate mitigation plan,  
2 "Protecting You from the Cost Impacts of Muskrat Falls". Page 6 of the  
3 Plan includes a reduction in Muskrat Falls Operation and Maintenance costs  
4 of \$12 million. Has Nalcor received direction from the Provincial  
5 Government relating to this initiative? Has Nalcor prepared a plan to  
6 achieve this reduction of \$12 million? What savings/initiatives have been  
7 identified to date, and how does Nalcor intend to meet the target?

**DATED** at St. John's, Newfoundland this 13<sup>th</sup> day of June, 2019.

**BOARD OF COMMISSIONERS OF PUBLIC UTILITIES**

Per   
Cheryl Blundon  
Board Secretary