

1 Q. With reference to IC-NLH-003 and paragraph 16 of the Application, what is Hydro's  
2 understanding of the criteria and conditions which must be met for determining whether the  
3 commissioning of the Muskrat Falls Project has been achieved?  
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6 A. The relevant assets of the Lower Churchill Project are:

- 7 **1)** The Muskrat Falls Plant ("MF Plant");
- 8 **2)** The Labrador Transmission Assets ("LTA"); and
- 9 **3)** The Labrador-Island Link ("LIL").

10 The primary sets of relevant Lower Churchill Project agreements are:

- 11 **1)** The NL Revenue Agreements [i.e., the Muskrat Falls Power Purchase Agreement ("PPA")  
12 and the Transmission Funding Agreement ("TFA")]; and
- 13 **2)** The Financing Agreements.

14 The NL Revenue Agreements address the purchase by and transmission of power to  
15 Newfoundland and Labrador Hydro ("Hydro") and the payments that ultimately provide funds to  
16 repay loans secured under the Financing Agreements put in place by the Lower Churchill Project  
17 entities that are party to the agreements with Hydro.

18 There are two Financing Agreements, one for the MF Plant and LTA and the other for the LIL.  
19 These agreements set out the terms and conditions governing the financing of the debt portion  
20 of the project costs of the MF Plant, the LTA, and the LIL.

21 Both the NL Revenue Agreements and the Financing Agreements contain certain financial and  
22 other obligations that are triggered by commissioning (i.e., completion in accordance with the  
23 design criteria) of the MF Plant and LTA in one instance and LIL in the other. Although the  
24 specific criteria for achieving commissioning under the NL Revenue Agreements and the  
25 Financing Agreements are not identical, a link exists between them in that achieving

1 commissioning as per the terms of the Financing Agreements is a condition precedent to  
2 achieving commissioning under the NL Revenue Agreements.

3 These agreements contemplate a commercial structure whereby all financial obligations  
4 (including debt repayment) under the Financing Agreements are satisfied by island rate payers  
5 through payments made to Hydro that then flow to the owners of the MF Plant, LTA, and LIL  
6 who ultimately are responsible for repayment of all debt under the Financing Agreements.

7 Hydro has the obligation to purchase and pay for energy and capacity under the Muskrat Falls  
8 PPA upon commissioning of the MF Plant and the LTA. This obligation arises regardless of  
9 whether Hydro receives or is able to receive such energy or capacity. Hydro has the obligation to  
10 begin payments covering the entire cost of the LIL under the TFA upon commissioning of the LIL.  
11 This obligation arises regardless of whether Hydro receives the benefit of any transmission  
12 service from the LIL following commissioning.

13 The Commissioning Date under the Muskrat Falls PPA is the date on which all of the following  
14 four events have occurred:

- 15 **1)** The MF Plant Commissioning (i.e., the start-up and testing activities required to  
16 demonstrate that all four generation units of the Plant are ready for safe and reliable  
17 provision of Energy, Capacity and Ancillary Services in accordance with the Muskrat Falls  
18 Project Description) has been completed;
- 19 **2)** The LTA commissioning has been completed;
- 20 **3)** The Newfoundland and Labrador System Operator (“NLSO”) has accepted in writing that  
21 the LTA commissioning has been completed; and
- 22 **4)** The Financing Parties have accepted in writing that the MF Plant commissioning has  
23 been completed and the financing parties for the LTA have accepted that the LTA  
24 Commissioning has been completed.

25 The commissioning of the LIL is not a factor in determining the Commissioning Date for the  
26 Muskrat Falls PPA.

1 Hydro has the obligation to begin payments covering the entire cost of the LIL under the TFA  
2 upon Commissioning of the LIL. The “Commissioning Date” for the purposes of that agreement  
3 means the date on which all of the following has occurred:

- 4 • The Commissioning (i.e., the testing activities required to demonstrate the LIL is ready  
5 to transmit Energy and Capacity in accordance with the LIL Project Description) has been  
6 completed;
- 7 • The NLSO has accepted in writing that the Commissioning has been completed; and
- 8 • The Financing Parties have accepted in writing that the Commissioning has been  
9 completed.