

December 6, 2024

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Re: Newfoundland and Labrador Hydro – 2021 Capital Budget Supplemental Application Approval of the Construction of Hydro's Long-Term Supply Plan for Southern Labrador – Request for Approval

On July 16, 2021, Newfoundland and Labrador Hydro ("Hydro") submitted an application for the approval of the construction of Hydro's long-term supply plan for southern Labrador ("Application"). On May 31, 2023, Hydro filed a revision to its Application that incorporated the recommendations made in Midgard Consulting Inc.'s ("Midgard") "Southern Labrador Communities – Integrated Resource Plan,"¹ and on October 5, 2023, Hydro filed a second revision to the Application, updating the costs and schedule. On December 18, 2023, Hydro filed its submissions to party comments on the Application.

In that submission, Hydro referenced the information that had been filed by Hydro through the Application and the subsequent reports and responses to Requests for Information and other additional information requested by the Board of Commissioners of Public Utilities ("Board"), and stated that Hydro firmly believed the fulsome evidence supports Hydro's proposal of the construction of a regional plant with a 25 kV interconnected system as the recommended solution for the long-term supply of southern Labrador ("Project"). This solution is in line with Hydro's mandate to provide power at the lowest possible cost, consistent with reliable service in an environmentally responsible manner.

¹ "Southern Labrador Communities - Integrated Resource Plan," Midgard Consulting Inc., March 28, 2023.

Hydro's submission had also noted the position of the NunatuKavut Community Council ("NCC") with respect to the duty to consult, and, in an effort to allow work for the Project to proceed, Hydro requested that the Board provide approval of the Application under the condition that the construction and commissioning portions of the Project would not proceed pending Hydro's confirmation that the duty to consult with NCC has been met and the environmental approval received. Hydro then provided additional filings on January 12, 2024, and February 13, 2024, in response to requests for clarification from the Board regarding the proposed approval with conditions. On March 19, 2024, Hydro provided further correspondence addressing submissions by the NCC and Newfoundland Power Inc. ("Newfoundland Power") addressing specific questions posed by the Board regarding Hydro's proposal for approval with conditions. At that time, the NCC noted they did not oppose Hydro's Application, including the request for conditional approval. Newfoundland Power did not specifically object to conditional approval—relying on its previously filed submission regarding the Application. Hydro reiterated its position that the Project is the least-cost solution for the long-term supply of southern Labrador, consistent with reliable, environmentally responsible service. Since the March 19, 2024 filing, Hydro has continued with some early-stage work, including front-end engineering and design, preparatory work for the environmental assessment, and readying equipment tenders for issue. The remaining work necessary for the Project has been held pending a decision from the Board.

During the intervening time, Hydro has also continued its discussions with the NCC regarding the proposed Project, the necessity of meeting the duty to consult with the NCC regarding the Project, and the importance of the Project to the southern Labrador communities. On October 11, 2024, the NCC provided correspondence to Jennifer Williams, President and CEO of Hydro, reiterating its position that the duty to consult and accommodate the NCC must be met before construction of the Project can begin. However, the NCC acknowledged that Hydro has taken steps toward meeting this duty, including making a commitment that any and all information that may be required for the NCC to adequately understand any possible impacts arising from the proposed Project will be provided once that information is available, and at the latest during the environmental assessment of the Project. The NCC advised that they did not object to Hydro proceeding with a request to the Board for full approval of its Application, without any conditions that would require the duty to consult to be met prior to that approval. The NCC agreed that Hydro could provide the Board with a copy of that correspondence; it is attached to this letter as Attachment 1.

Due to the passage of time, the project schedule previously filed with the Board and the related costs of the project required updating. To support regulatory efficiency, Hydro has prepared a revised Project cost estimate and Project schedule, which is provided in the Long-Term Supply for Southern Labrador Cost and Schedule Update attached to this letter as Attachment 2.

The current Project cost estimate is \$110.9 million, as is described further in Attachment 2. Hydro has considered the increased Project cost in the context of the sensitivity ranges considered by Midgard and notes that the revised estimate falls within those ranges. Therefore, Hydro's proposed long-term solution for electricity supply in southern Labrador remains the least-cost alternative for reliable service.

Conclusion

Based on the foregoing, and on the substantial submissions previously filed, Hydro reiterates that the construction of a regional diesel generating station with a 25 kV interconnected system is the recommended solution for the long-term supply of southern Labrador and is in line with Hydro's mandate to provide power at the lowest possible cost, consistent with reliable service, in an environmentally responsible manner. Hydro will continue to work with the NCC up to and through the

environmental assessment process to provide the necessary information for the NCC to determine any impacts of the Project. At this time, Hydro respectfully requests that the Board approve the Application, without the previously proposed conditions.

This proposal, in particular Attachment 2, contains commercially sensitive information. A version in which this information has been redacted is enclosed. The Board has been provided with a complete copy as well as a copy of the redacted version. Hydro requests that this information be kept confidential and not be made publicly available.

Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



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SAW/kd

Encl.

ecc:

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Attachment 1



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October 11, 2024

VIA EMAIL

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Dear Ms. Williams:

Re: Newfoundland and Labrador Hydro - 2021 Capital Budget Supplemental Application Approval of the Construction of Newfoundland and Labrador Hydro's Long-term Supply Plan for Southern Labrador

We are writing further to the above-noted Application submitted by Newfoundland and Labrador Hydro ("Hydro") to the Board of Commissioners of Public Utilities (the "Board"). As you are aware, we represent the NunatuKavut Community Council Inc. ("NCC"), an intervenor in the Application.

NCC understands that it is Hydro's position that it requires (at least) conditional approval from the Board to commence the environmental assessment ("EA") and design stages of the proposed Southern Labrador Microgrid Project as outlined in the Application (the "Project"). Hydro states that it requires an EA in order to obtain sufficient information to adequately meet its duty to consult and accommodate NCC.

NCC wishes to emphasize its position that the duty to consult and accommodate NCC must be met before construction of the Project can begin. NCC acknowledges that Hydro has taken steps toward meeting this duty, including a commitment that any and all information that may be required for NCC to adequately understand any possible impacts arising from the Project will be provided once that information is available, and at the latest during the EA of the Project. Hydro has also agreed to engage NCC on all Southern Labrador projects requiring Provincial EA.

NCC remains optimistic that its objectives and concerns (including those of its communities) can be addressed through Hydro's commitments and through the development of a project-specific agreement with Hydro relating to the Project.

NCC is very cognizant of the importance of providing the Southern Labrador communities with a long-term source of reliable power as soon as possible. This is especially the case for Charlottetown and Pinsent's Arm, which have been served by mobile gensets since a fire rendered the Charlottetown Diesel Generating Station inoperable in October 2019.

As set out in its prior submissions to the Board, NCC does not oppose the Application at this time. Further, NCC does not object to Hydro's intention to seek full approval. NCC expects a fulsome and engaging EA process, which prioritizes renewable energy development and integration. NCC looks forward to continued relationship building with Hydro to ensure that it is adequately consulted and accommodated through the development, construction, and operation of the Project.

Yours very truly,

BURCHELL WICKWIRE BRYSON ^{LLP}

A handwritten signature in blue ink that reads "J T Cooke". The signature is written in a cursive style with a large, stylized initial "J" and "T".

Jason T. Cooke, K.C.

Attachment 2



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1.0 Introduction

In October 2019, a fire at the Charlottetown Diesel Generating Station left it inoperable. Customers previously served by the Charlottetown Diesel Generating Station have since been served by mobile gensets, which is a temporary configuration that was implemented on an emergency basis and was intended as an interim solution. A long-term solution is required to address reliability, safety, and environmental concerns associated with the long-term use of mobile generation in a prime power application.

Newfoundland and Labrador Hydro (“Hydro”) evaluated a number of alternatives from a technical, economic, and environmental perspective and determined that the interconnection of communities in southern Labrador to a regional diesel generating station was the best long-term solution for customers in this region. In July 2021, Hydro filed an application with the Board of Commissioners of Public Utilities (“Board”) based on a phased approach to interconnection. In May 2023, based on the analysis and recommendation of Midgard Consulting Inc. (“Midgard”), Hydro revised its application to reflect a non-phased approach to the same project.¹

The regulatory proceeding continued through the fall of 2023. In October 2023, Hydro revised its application to include an updated schedule and the corresponding updated estimates of cost.² The updated schedule reflected the adjusted timelines for major procurement activities for the generators and an Engineering Procurement and Construction Management (“EPCM”) consultant. The adjusted timelines for those aspects had associated impacts to the timelines associated with the environmental review process, as the major procurement activities are needed to provide key primary inputs for the environmental review. The overall schedule impact was a delay in the beginning of site work by one construction season, which was reflected in the updated cost estimates.

Hydro’s final submission, filed in December 2023, had noted the position of the NunatuKavut Community Council (“NCC”) with respect to the duty to consult, and, in an effort to allow work for the project to proceed, Hydro requested that the Board provide approval of its application under the condition that the construction and commissioning portions of the project would not proceed pending Hydro’s confirmation that the duty to consult with the NCC has been met and the environmental

¹ The cost and schedule provided in the May 2023 revision were based on advancing major procurement activities in fall 2023.

² The cost and schedule provided in the October 2023 revision were based on advancing major procurement activities by the end of the first quarter of 2024.

1 approval received. This proposal was further addressed in correspondence from Hydro, in response to
2 requests from the Board, on January 12, February 13, and March 19, 2024. Since the March 19, 2024
3 filing, Hydro has continued with some early-stage work, including front-end engineering and design
4 (“FEED”), preparatory work for the environmental assessment, and readying equipment tenders for
5 issue. The remaining work necessary for the project has been held pending a decision from the Board.

6 Hydro has continued its discussions with the NCC regarding the proposed project, the necessity of
7 meeting the duty to consult with NCC regarding the project, and the importance of the project to the
8 southern Labrador communities. The NCC has provided correspondence acknowledging that Hydro has
9 taken steps toward meeting the duty to consult, including making a commitment that any and all
10 information that may be required for the NCC to adequately understand any possible impacts arising
11 from the proposed project will be provided once that information is available, and at the latest, during
12 the environmental assessment of the project. This correspondence is provided as Attachment 1. The
13 NCC has advised that they do not object to full approval of this project, without any conditions that
14 would require the duty to consult to be met prior to that approval. As such, Hydro is requesting approval
15 of its application without conditions. To support regulatory efficiency, Hydro has prepared a revised
16 project cost estimate and project schedule.

17 The current project cost estimate is \$110.9 million. While this is a substantial increase, the projected
18 cost increase falls within the sensitivity ranges considered by Midgard. Therefore, Hydro’s proposed
19 long-term solution for electricity supply in southern Labrador remains the recommended alternative.

20 Hydro has made efforts to mitigate schedule delays and advance the project where possible through
21 2024. However, as Hydro has not issued certain critical procurement offerings prior to project approval,
22 such as those necessary to enable Hydro to complete environmental assessment registration, Hydro has
23 had to extend the project schedule by one year to the fourth quarter of 2029.

24 Details supporting the updated cost estimate, project schedule, and impacts of further delays are
25 provided in this report.

1 **2.0 Project Cost Estimate**

2 Table 1 provides a summary of the current project estimate.

Table 1: Revised Project Estimate (\$000)³

Project Cost	2025	2026	2027	2028	2029	Total
Material Supply						
Labour						
Consultant						
Contract Work						
Other Direct Costs						
Interest and Escalation						
Contingency						
Total						110,863.2

3 Table 2 provides a comparison of the current project estimate to the previous project estimate.⁴

Table 2: Current Cost Estimate vs Previous Cost Estimate (\$000)⁵

Project Cost	Current (November 2024)	Previous (October 2023)	Difference
Material Supply		31,538.7	
Labour		6,438.6	
Consultant		4,619.6	
Contract Work		25,825.0	
Other Direct Costs		4,521.9	
Interest and Escalation		7,456.3	
Contingency		7,545.0	
Total	110,863.2	87,945.0	

4 The primary drivers of the increase to base project costs⁶ are (i) an increase in budgeted project
 5 oversight; (ii) inflationary increases to material and equipment costs; and (iii) refinement of project
 6 deliverables that Hydro identified through additional project planning work completed in 2024.

³ Numbers may not add due to rounding.

⁴ As provided in the October 5, 2023 revision to the Application.

⁵ Numbers may not add due to rounding.

⁶ Base project cost is considered to be the total direct project costs. Indirect projects cost (contingency, interest and escalation) are excluded.

1 Indirect project costs are determined as a result of the base project cost as they are typically a
2 percentage of the total; therefore, cost estimates for interest, escalation and contingency also
3 increased, and account for an additional \$8.3 million.

4 **2.1 Increased Project Oversight**

5 In recognition of its criticality in the success of major projects, Hydro increased the level of project
6 oversight by utilizing both internal and external resources to ensure it had assembled an experienced
7 team with the necessary breadth and depth of expertise.⁷ The addition of necessary resources resulted
8 in an additional \$4.5 million of project oversight costs, approximately 30% of the total \$14.6 million base
9 cost increase. A number of factors have influenced project oversight costs since the October 2023
10 update.

11 First, Hydro placed the execution of this work scope under the Major Projects department, who are
12 responsible for overseeing the management of its major projects. This department brings together some
13 of Hydro's internal expertise related to Hydro's electrical system, project management, contract
14 management, and project controls. The Major Projects department also includes a number of
15 contracted resources that have expertise in specific areas with larger-scale developments. The
16 establishment of the Major Projects department is prudent and necessary to provide the level of
17 oversight required for project success.

18 Hydro's revised project oversight cost estimate also reflects increased costs for consultant resources.
19 The October 2023 budget included consultant costs for detailed design and general procurement,
20 construction, and commissioning support; however, at the time, it was assumed that Hydro's
21 Engineering department would be able to oversee many aspects of the engineering, procurement, and
22 construction (as is typically the case on Hydro's capital projects). Through further project planning in
23 2024, and as a result of lessons learned during the execution of the replacement and refurbishment of
24 Penstock 1 in Bay d'Espoir, Hydro determined that due to the complexity of this project and the
25 criticality of ensuring the timely completion of a long-term source of power for this region, it would be
26 prudent to seek additional expertise. Hydro has done so, including taking steps to engage an EPCM
27 consultant for the execution of the full project scope. The consultants' focus is primarily related to

⁷ Several of the lessons learned from the Muskrat Falls Inquiry relate to ensuring that the project management team have the appropriate competencies and experience to undertake these projects.

1 project controls and construction management to supplement Hydro’s team to ensure safe, efficient
2 project execution.

3 **2.2 Inflationary Increases to Equipment and Materials Cost**

4 Project budgets are based on estimated costs of equipment and materials at a point in time. They
5 quickly become stale as demand for equipment and materials and availability and accessibility of skilled
6 labour can vary based on a number of external factors. For example, federal net zero policies are driving
7 electrification which, in turn, is driving capital investment in electrical systems across the country. This is
8 placing pressure on the common resources required in the construction of assets, resulting in increased
9 costs. Additionally, certain materials, such as copper, are subject to considerable market volatility.
10 Finally, general economic conditions contribute to factors such as escalation.

11 As the October 2023 budget is outdated, the project team has undertaken a budget update to better
12 reflect current industry and market conditions. Where vendor quotes were not available, the project
13 team escalated the 2023 estimate to 2024. Updated escalation factors were also applied to future costs.
14 This escalation exercise resulted in an increase of \$6.6 million of the \$14.6 million base cost increase.

15 **2.3 Refinement of Project Deliverables**

16 In order to further refine the early project scope definition and to best inform the estimate, Hydro
17 continued front-end planning throughout 2024. As this project planning took place, the findings resulted
18 in several updates that were necessary inclusions in a refreshed cost estimate and contributed to an
19 estimated increase in project deliverables. The most significant updates were additional electrical
20 equipment within the distribution system design, including distribution transformers and reclosers,
21 identified through additional engineering and site assessment, incremental insurance costs required for
22 major projects, additional FEED costs for work advanced since March 2023, and the necessary
23 commissioning resources required to ensure a smoother transition into operations. This exercise
24 resulted in an increase of \$3.5 million of the \$14.6 million base cost increase.

25 **3.0 Sensitivity Analysis**

26 In its correspondence to Hydro filed on August 1, 2023, the Board requested that Hydro provide
27 multivariate sensitivity analyses which considered variations to fuel price, customer load, capital costs,
28 either as whole or individual components, and any other reasonable variables that might significantly
29 impact the net present cost analysis.

1 In its reply filed on October 5, 2023, Hydro provided the additional sensitivity analyses requested by the
2 Board. In their analysis, Hydro’s consultant, Midgard Consulting, considered a range of variations,
3 summarized in Table 3.⁸

Table 3: Sensitivity Analysis Variable Ranges

Category	Values				
Interconnection Costs	75%	100%	150%	200%	300%
Fuel Costs	75%	100%	150%	200%	
Non-Interconnection Capital Costs	75%	100%	200%		
Load Change	-2%	- 1 plant	None	+1 plant	+2%

4 This combination of variables resulted in 300 unique sensitivity scenarios. In their analysis, Midgard
5 concluded that Hydro’s proposed solution remained the least-cost solution in 260 of the 300 scenarios
6 considered. In all of the 40 scenarios in which Hydro’s proposed solution was no longer the least-cost
7 solution, transmission (interconnection) costs were increased by 200%, and plant-related capital costs
8 remained constant or decreased.

9 In Hydro’s response to PUB-NLH-097 of this proceeding, at the Board’s request, Hydro performed
10 sensitivity analysis by modeling phased capital spending throughout the years of the project rather than
11 as a lump sum at the time the assets entered service. The results of this analysis determined that
12 Hydro’s proposed solution remained the least-cost solution in 200 of the 300 scenarios analyzed. The
13 scenarios where the proposed solution was not least-cost required a minimum increase in
14 interconnection costs of 100%, with non-interconnection capital costs decreasing or remaining constant,
15 with the exception of one scenario that required a minimum increase in interconnection costs of 50%,
16 coupled with a reduction in non-interconnection capital costs of 25% and load reduction of 2%.

17 Midgard’s analysis concluded that Hydro’s proposed solution remains the least cost solution provided
18 interconnection costs have not increased by greater than 50% **and** that non-interconnection costs have
19 not increased. Hydro’s revised estimate has increased interconnection costs by less than 50%; therefore,
20 the proposed solution remains the least-cost solution.

⁸ “Newfoundland and Labrador Hydro – 2021 Capital Budget Supplemental Application Approval of the Construction of Hydro’s Long-term Supply Plan for Southern Labrador – Revision 1 – Safe and Reliable Power Supply to Charlottetown – Reply,” Newfoundland and Labrador Hydro, October 5, 2023, att. 1, p. 35 of 74, Table 16.

- 1 A comparison of transmission (interconnection) and diesel plant (non-interconnection costs) from
- 2 Hydro’s October 2023 estimate and its current, updated project estimate are provided in Table 4.

Table 4: Estimate Comparison (2023 vs 2024)⁹

Category	October 2023 Estimate (\$ Million)	November 2024 Estimate (\$ Million)	Change (%)
Interconnection Capital Costs	██████	██████	██████
Non-Interconnection Capital Costs	██████	██████	██████

- 3 As presented in Table 4, the estimated increase in Interconnection Capital Costs of ██████ and the increase
- 4 in Non-Interconnection Capital Costs of ██████ are within the sensitivity ranges which represent Hydro’s
- 5 proposed solution as the least-cost solution for long-term supply for southern Labrador. Hydro therefore
- 6 submits that Hydro’s proposed solution at the updated cost of \$110.9 million remains the least-cost
- 7 alternative consistent with reliable service in an environmentally responsible manner.

8 **4.0 Project Schedule**

- 9 The updated project schedule is shown in Table 5. It indicates a one-year delay in project completion
- 10 when compared to the October 2023 update.

Table 5: Project Schedule

Activity	Start Date	End Date
Planning:		
Front-end engineering and project approval	First Quarter 2020	First Quarter 2025
Environmental assessment	Third Quarter 2024	Fourth Quarter 2025
Design:		
Detailed design of diesel generating station and distribution	First Quarter 2025	First Quarter 2026
Procurement:		
Major equipment and construction contracts	First Quarter 2025	First Quarter 2028
Construction:		
Regional diesel generating station and distribution	Second Quarter 2026	First Quarter 2029
Commissioning:		
Commissioning of equipment	First Quarter 2029	Second Quarter 2029
Closeout:		
Contract and project closeout	Third Quarter 2029	Fourth Quarter 2029

⁹ Numbers may not add due to rounding.

5.0 Impact of Delay

The current estimate is based on the updated schedule, which requires Hydro to commence critical procurement activities in February 2025. Specifically, procurement for diesel generator sets (“gensets”) and engagement of the EPCM consultant is required for Hydro to obtain genset emissions data and have the diesel plant site designed to finalize emissions modelling required to complete the environmental assessment registration process.

If Hydro is unable to progress these activities, there may be further delay in the release from the environmental assessment process; design work necessary to inform procurement for construction contracts; and Hydro’s ability to provide information to NCC and meet its duty to consult.

Such delays would impact the start of construction, resulting in a change to scheduled project completion.

Hydro is conscious that delays in project completion negatively affect customers in Charlottetown from a reliability perspective, as they are required to rely on mobile generators for prime power supply. Additionally, delays that impact the project schedule expose Hydro and its customers to further project cost increases due to the evolving conditions within the industry, market, and general economy. Further, given that the proposed solution is the best alternative for the integration of renewable sources of power in the region, a delay in the execution of this project could postpone the integration of renewables, resulting in additional reliance on diesel and increased greenhouse gas emissions.

6.0 Conclusion

Since Hydro’s initial application in July 2021, Hydro, the Board, and the intervening parties have invested a great deal of effort in understanding this project and its possible impact on customers and the region. Immense rigour has gone into various analyses, consistently demonstrating that the proposed project is the correct long-term solution for the region.

Implementation of a long-term solution for electricity supply in southern Labrador as soon as possible remains a top priority for Hydro. Customers in Charlottetown have been reliant on mobile generators as a prime power source for five years and, based on the current schedule, will remain reliant on those

1 generators for another five years before a permanent solution is in place. These generators were
2 implemented on an emergency basis as a temporary solution.

3 Hydro has a legislated obligation to deliver power at the lowest possible cost, in an environmentally
4 responsible manner, consistent with reliable service. The revised cost estimate of \$110.9 million falls
5 well within the sensitivities considered by Midgard, indicating that the proposed project remains the
6 lowest-cost, long-term alternative. From an environmental perspective, the proposed project provides
7 the most potential for the integration of renewable energy sources. Finally, the proposed project not
8 only provides a permanent supply source for customers in Charlottetown, but it integrates several
9 communities and provides long-term reliability benefits for the region as a whole.