NEWFOUNDLAND AND LABRADOR
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES
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2021-08-17

Ms. Shirley Walsh
Senior Legal Counsel - Regulatory
Newfoundland and Labrador Hydro
P.O. Box 12400
St. John's, NL A1B 4K7

Dear Ms. Walsh:

**Re: Newfoundland and Labrador Hydro - Supply Cost Accounting Application
To NLH - Requests for Information**

Enclosed are Requests for Information PUB-NLH-001 to PUB-NLH-031 regarding the above-noted application.

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

Yours truly,

Cheryl Blundon
Board Secretary

CB/cj
Enclosure

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<u>IN THE MATTER OF</u> the *Electrical Power Control Act, 1994*, SNL 1994, Chapter E-5.1 (the "*EPCA*") and the *Public Utilities Act*, RSNL 1990, Chapter P-47 (the "*Act*"), as amended, and regulations thereunder; and

<u>IN THE MATTER OF</u> an application by Newfoundland and Labrador Hydro for the approval of deferral accounts to address material changes in system costs as a result of the Muskrat Falls Project and the phasing out of the Holyrood Thermal Generating Station as a generating facility, pursuant to sections 58, 71, and 80 of the *Act*.

PUBLIC UTILITIES BOARD
REQUESTS FOR INFORMATION

PUB-NLH-001 to PUB-NLH-031

Issued: August 17, 2021

Schedule 1: Evidence

PUB-NLH-001 (a) During the period that the Labrador Island Link ("LIL") is not commissioned, how much energy will the LIL be able to deliver to the Island Interconnected system once the Muskrat Falls Generating Station and the Labrador Transmission Assets ("LTA") are commissioned?

(b) Depending on the energy available during this period, will Hydro still be reliant on the Holyrood Thermal Generating Station ("Holyrood TGS") to meet the load requirements of the Island Interconnected system? If so, will it be appropriate to use the market value of exports as the marginal energy supply cost, and would it be premature to discontinue the Rate Stabilization Plan ("RSP") and the No. 6 fuel component of the Revised Energy Supply Cost Deferral Account before the LIL is fully commissioned? Please explain.

PUB-NLH-002 Page 2, lines 19-21 states "The proposed deferral account would also provide for rate mitigation funding and/or rate changes implemented solely to recover Project costs to be applied to the proposed deferral account to offset Project charges to Hydro."

During the Rate Mitigation Reference, it was noted by Nalcor and Hydro that the application of rate mitigation sources received from the province raised a number of accounting issues that needed to be addressed. In particular Hydro did not want to be viewed from an accounting standards perspective as not being "self-supporting". Has Hydro received any opinion or consultation from external accountants/auditors confirming that applying the rate mitigation funding from the province to a deferral account would resolve the potential issues and be appropriate under IFRS? If so, please provide this information. If not, please explain how Hydro has come to the conclusion that this treatment of the rate mitigation funding received from the province would be appropriate under IFRS.

PUB-NLH-003 Page 6, lines 7-9 states that, as a result of the significant level of rate mitigation funding that will be required for many years, a formalized mechanism to incorporate rate mitigation into the regulatory process for setting customer rates is appropriate and that this mechanism could be done through a billing credit or the use of the deferral account. Please confirm if Hydro's proposal to include the rate mitigation funding as a component of the proposed Supply Cost Variance Deferral Account is an interim measure until Hydro has obtained more certainty of the details and timing of province's rate mitigation plan.

PUB-NLH-004 Page 8, lines 16-17 states that, in order to defer excess Schedule 2 energy, Hydro is required to declare that it will defer excess energy rather than monetize the excess as export revenues.

(a) When does Hydro have to make the declaration to defer the excess energy rather than monetize it? Can the excess energy that has been deferred be monetized as export revenues in future years?

(b) How would Hydro account for the deferral of excess energy and will there be a dollar value attached to this deferred excess energy?

(c) Is there a limit to the amount of excess energy that Hydro can defer?

(d) Will the deferral of excess energy have any impact on the operation of the proposed Supply Cost Variance Deferral Account?

PUB-NLH-005 Page 8, lines 13-14 states that the Muskrat Falls Power Purchase Agreement ("PPA") provides Hydro the option to borrow excess energy from future years, if available.

(a) How and who determines if excess energy is available to purchase from future years?

(b) Please provide a scenario where Hydro would choose to defer excess Schedule 2 energy instead of monetizing it if Hydro can borrow energy from future years to avoid incurring additional power purchase costs in circumstances when the energy generation on the Island is reduced.

PUB-NLH-006 Page 15, lines 10-11 states that the monthly payments for 2021 under the Muskrat Falls PPA and the Transmission Funding Agreement ("TFA") are projected to be approximately $33 million and $34 million, respectively.

(a) Please provide a breakdown of the $33 million Muskrat Falls PPA monthly payment indicating the portion representing the Base Block Capital Costs Recovery payments (Schedule 1), the monthly estimates of the components of the O&M charges from Muskrat Falls Corporation, and the LTA payments which include the capital cost recovery, O&M and sustaining capital.

(b) Also provide an estimate of the components included in the $34 million TFA monthly payment.

PUB-NLH-007 Page 17, lines 4-6 states that Hydro is proposing to transfer the balance in the RSP Hydraulic Production Variation component to the Holyrood TGS Fuel Costs component of the proposed Supply Cost Variance Deferral Account upon the approved effective date. Will Hydro allocate 25% of the balance in the RSP Hydraulic Production Variation component to the Newfoundland Power and Industrial Customer RSP Current Plan balances, similar to what is now done at the end of the year, before the balance is transferred? If not, please explain.

PUB-NLH-008 (a) Hydro is proposing to transfer the balance in the RSP Hydraulic Production Variation component to the proposed Supply Cost Variance Deferral Account upon the approved effective date. Since the balance accumulated in the RSP Hydraulic Production Variation component reflects Holyrood TGS fuel cost variances not yet recovered through customer rates, please explain why Hydro is proposing to continue to defer this balance with the costs associated with the supply of energy from the Muskrat Falls Project instead of recovering these costs earlier.

(b) Please confirm whether or not hydraulic production variances will be tracked in the Supply Cost Variance Deferral Account when the Project is fully commissioned.

PUB-NLH-009 The current operation of the RSP Hydraulic Production Variation component includes the net ponded energy results (kWh) and spill exports (kWh). Will this activity be tracked in the proposed Supply Cost Variance Deferral Account? If not, please explain how it will be tracked in the future and, if this activity is included, please explain how it will operate within the proposed Supply Cost Variance Deferral Account.

PUB-NLH-010 Page 17, Footnote 37 states that Hydro will recognize an IFRS deviation under IFRS 14 to ensure that an estimate of the exports is recorded in the period incurred but it is not specifically noted in paragraph 41 of the Application. Is Hydro requesting Board approval at this time for this IFRS deviation?

PUB-NLH-011 Page 18, lines 19-20 states that transmission tariffs credited to this deferral account will reflect tariff payments from parties other than Hydro. Are these tariff payments from other parties for exports received by Nalcor Energy Marketing or Hydro?

PUB-NLH-012 Page 21, lines 10-14 states that Hydro is proposing to transfer the balances in the Revised Energy Supply Cost Variance Deferral Account and the Holyrood Conversion Rate Deferral Account to the Other Island Interconnected System Supply Cost Variance component of the proposed Supply Cost Variance Deferral Account upon its effective date.

a) Has Hydro considered transferring the balance in these current supply deferral accounts, as of the effective date, to the RSP and recovering these costs in the 2022 RSP rates, instead of transferring the balances to the proposed Supply Cost Variance Deferral Account for disposition in 2023 or later, especially considering these costs are incurred prior to the commissioning of the Muskrat Falls Project?

b) As ordered in Order No. P.U. 22(2017), Hydro is required to file a report with the Board annually in its justification for disposition of these balances. Are there any reasons why this report cannot be filed to justify the disposition of the balance accumulated before the effective date of the proposed deferral account?

PUB-NLH-013 Further to PUB-NLH-012, in Appendix A, page 5 of 7 Hydro is also proposing to transfer the balances in the Isolated System Supply Cost Variance Deferral Account to the proposed Supply Cost Variance Deferral Account upon its effective date. Has Hydro considered a proposal to transfer the balance accumulated in this account to the RSP before the implementation of the proposed Supply Cost Variance Deferral Account? If not, please explain.

PUB-NLH-014 Hydro has not previously requested approval of a Rural Rate Adjustment - Load Variation component for the RSP. Please explain what has changed which has resulted in Hydro proposing this component as part of the proposed Supply Cost Variance Deferral Account.

PUB-NLH-015 (a) Has Hydro considered using a "deadband" for the proposed load variation component of the Rural Rate Adjustment? If not, please explain.

(b) Will the approval of the proposed Rural Rate Adjustment - Load Variation component have any impact on the calculation of the rural deficit?

PUB-NLH-016 On page 25, lines 1-5 Hydro indicates that the Rural Rate Alteration transfers, which only apply to Newfoundland Power, will continue to be applied to Newfoundland Power's RSP Current Plan balance and be reflected in the remaining plan balance of the RSP to be recovered by the updated RSP rate in July 2022. Is it Hydro's intention to also apply the proposed load variation component of the Rural Rate Alteration to the Utility balance component for recovery in the 2022 RSP rate or will it become a separate component of the proposed Supply Cost Variance Deferral Account upon its effective date?

PUB-NLH-017 On page 25, lines 7-10 Hydro is proposing that, for 2022, the normal rate updates previously required under the RSP, January 1, 2022 for Industrial customers and July 1, 2022 for Newfoundland Power, will reflect the discontinuance of the fuel riders and the recovery of the remaining current plan balances. However, Appendix A, page 7 of 7 also states that the timing of the required rate revision for the RSP will depend on the implementation schedule of the province's rate mitigation plan. Please explain why the RSP rate revision to recover costs incurred prior to the commissioning of the Muskrat Falls Project will depend on the implementation schedule of the rate mitigation plan to assist with the recovery of the costs associated with the Muskrat Falls Project.

PUB-NLH-018 On page 32 Hydro states that it will provide additional evidence on the long-term approach to the proposed Supply Cost Variance Deferral Account in its next general rate application but proposes to file a future application subsequent to the receipt of an order from the Board relating to the next general rate application to deal with the allocation and recovery of the balance in the account. Please clarify what will be provided and required for approval in relation to the proposed Supply Cost Variance Deferral Account in Hydro's next general rate application and whether the subsequent application will be for approval of the allocation and disposition of funds as approved in the general rate application.

PUB-NLH-019 Please explain Hydro's rationale to defer the collection of the net costs accumulated in the following components of the proposed Supply Cost Variance Deferral Account until after the next general rate application:

- Holyrood Thermal Generating Station Fuel Cost Variance
- Other Island Interconnected System Supply Cost Variance
- Rural Rate Alteration
- Isolated Systems Supply Cost Variance
- Greenhouse Gas Credit Revenues Variance

Please confirm whether or not these costs/revenues are specifically related to the supply of energy from the Muskrat Falls Project. If not, please explain why there is a delay in collecting/refunding these costs from/to ratepayers.

PUB-NLH-020 Has Hydro considered to defer only the "Muskrat Falls Project Costs", the "Net Revenues from Exports", the "Transmission Tariff Revenues", and the "Greenhouse Gas Credit Revenues" as part of the proposed Supply Cost Variance Deferral Account and wait until Hydro has more certainty with regards to the commissioning of the LIL before requesting approval for the remaining components of the proposed Supply Cost Variance Deferral Account?

PUB-NLH-021 Please explain how the proposal described in PUB-NLH-020 would impact the operation of the RSP and the current supply deferral accounts if these accounts were to continue operating "as is" until Hydro has obtained more certainty with the supply of energy from the Muskrat Falls Project. Also, would this result in any negative impact with regards to Hydro's financial reporting?

PUB-NLH-022 According to the information in the Application Hydro is proposing a deferral account to record the costs associated with the significant monthly Muskrat Falls PPA and TFA payments that Hydro is required to pay for the supply of energy from the Muskrat Falls Project. These monthly payments are scheduled to commence in the Fall of 2021, and will continue to be recorded in a deferral account until disposition is determined by the Board, subsequent to the conclusion of Hydro's next general rate application. Please explain how Hydro will be financing these cash payments during this period with no revenue collected from rates associated with these costs, and the uncertainty of the timing and details of the province's rate mitigation plan.

Holyrood Accelerated Depreciation

PUB-NLH-023 Please reconcile the difference in the numbers included in Footnote 57 on page 28 and the $32.2 million in Table 6.

PUB-NLH-024 Please explain how the proposed Holyrood TGS Accelerated Depreciation Deferral Account will be treated in rate base. Will the account be deducted from the total accumulated depreciation included in rate base?

Financial Reporting of Project Costs

PUB-NLH-025 Will Hydro have separate regulatory accounts for the pre-commissioning power purchases from the Muskrat Falls PPA, the post-commissioning power purchases from the Muskrat Falls PPA and the transmission costs from the TFA or will there be one regulatory account? Will these regulatory assets/liabilities be included in the calculation of rate base?

PUB-NLH-026 (a) Please provide examples of the accounting of the monthly payments that Hydro will be incurring as a result of the Muskrat Falls PPA and the TFA to reflect the IFRS deviation, the deferral of sustaining capital payments, and the Supply Cost Variance Deferral Account. Please state and explain any assumptions made by Hydro to provide this information.

(b) Please explain how the purchased power and transmission costs recorded in these regulatory accounts as a result of the IFRS deviation will eventually be included in the proposed Supply Cost Variance Deferral Account?

Sustaining Capital Deferral Account

PUB-NLH-027 On page 32, lines 2-4 Hydro is proposing to defer the monthly payments relating to sustaining capital costs and include a monthly interest charge for interest incurred during construction in the proposed Sustaining Capital Deferral Account. Is the interest incurred during construction a cost in addition to the Muskrat Falls PPA payments? Would this cost be incurred if sustaining capital costs were recognized consistent with the commercial terms as up-front payments? Please explain.

PUB-NLH-028 Will the proposed Sustaining Capital Deferral Account be included in rate base if interest is being charged and deferred on a monthly basis?

Appendix D – Summary of Proposed Regulatory Accounting for Muskrat Falls Project Charges

PUB-NLH-029 Was the information included in Appendix D prepared in consultation with external accountants/auditors? If so, please provide the information and/or consultation papers prepared for Hydro.

PUB-NLH-030 On page 1 of 2 under the Muskrat Falls PPA, the regulatory mechanism for O&M, payments pursuant to Real Property, Leases, Licenses or Easements, Indemnity payments, and Taxes states "N/A- Treat consistent with IFRS", but the same costs for the LTA payments states "IFRS Deviation – Treat consistent with commercial payment". Why are these costs being treated differently?

PUB-NLH-031 The definition of the proposed Sustaining Capital Deferral Account includes Hydro's funding of sustaining capital for the Muskrat Falls Plant and the LTA. In Appendix D, page 1 of 2, included in the Muskrat Falls PPA O&M costs, there are descriptions of the regulatory mechanisms for the Muskrat Falls Plant sustaining capital costs and the LTA sustaining costs. The description of the mechanisms appears to be different. Please explain the difference between the two descriptions provided in the table and whether these costs will be treated differently for regulatory purposes.

DATED at St. John's, Newfoundland this 17th day of August, 2021.

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Per CBlundon

Cheryl Blundon
Board Secretary