

1 **Q. Further to the response to PUB-NP-037, does Newfoundland Power believe that the**  
2 **July 2021 agreement in principle announced for the restructuring of the Muskrat**  
3 **Falls Project, which includes a rate mitigation target, reduce the business risks**  
4 **associated with the Muskrat Falls Project it has identified in the Application? If yes,**  
5 **is the reduction material or insignificant in Newfoundland Power’s opinion?**  
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7 A. The likelihood of an announcement regarding the financial restructuring of the Muskrat  
8 Falls Project was anticipated and reflected in Newfoundland Power’s assessment of its  
9 business risk provided with the Company’s *2022/2023 General Rate Application*.<sup>1</sup>  
10

11 The provincial and federal governments entered into negotiations to undertake a financial  
12 restructuring of the Muskrat Falls Project in February 2020, and announced an agreement  
13 in principle in July 2021.<sup>2</sup> The Provincial Government provided an updated rate  
14 mitigation target of 14.7 ¢/kWh, approximately 9% higher than the previously announced  
15 target of 13.5 ¢/kWh.<sup>3</sup>  
16

17 While the updated rate mitigation target provides an indication of the magnitude of  
18 customer rate increases over the near term, material uncertainty remains regarding the  
19 Muskrat Falls Project. This uncertainty includes how Muskrat Falls Project costs will  
20 ultimately be recovered from customers. Wholesale rate structures and other matters  
21 regarding the recovery of Muskrat Falls Project costs are expected to be addressed as part  
22 of Newfoundland and Labrador Hydro’s (“Hydro”) next general rate application.  
23 Hydro’s next general rate application is not anticipated to conclude before 2023.<sup>4</sup>  
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25 Additionally, the future reliability of supply from the Muskrat Falls Project is currently  
26 under review by the Board. To Newfoundland Power’s knowledge, the updated rate  
27 mitigation target of 14.7 ¢/kWh reflects the estimated cost of the Muskrat Falls Project as  
28 at July 2021. It does not include potential future investments in the reliability of the  
29 Labrador-Island Link (“LIL”), or potential investments in additional generation on the  
30 Island of Newfoundland.<sup>5</sup> Any requirement for additional investment to address the  
31 reliability of the LIL or the adequacy of generation resources could place additional  
32 upwards pressure on customer rates.  
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34 The Board has expressed concerns regarding the reliability of the LIL.<sup>6</sup> A large-scale  
35 customer outage resulting from failure of the LIL could result in a prolonged effort to

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<sup>1</sup> See Newfoundland Power’s *2022/2023 General Rate Application, Volume 1, Application, Company Evidence and Exhibits, Section 3: Finance*, page 3-33, lines 9-10.

<sup>2</sup> Following the announcement of the agreement in principle, the Innu Nation commenced litigation against the provincial and federal governments, seeking an injunction that would prevent the agreement from being signed.

<sup>3</sup> Any increase in customer rates beyond the previously announced target of 13.5 ¢/kWh could reduce the Company’s energy sales beyond what is included in its *Customer, Energy and Demand Forecast*. For an example of how the recent rate mitigation announcement could impact the Company’s energy sales and customer rates, see response to Request for Information PUB-NP-056.

<sup>4</sup> See response to Request for Information PUB-NP-037, page 2, lines 19 to 24.

<sup>5</sup> *Ibid.*, page 2, line 26, to page 3, line 21.

<sup>6</sup> *Ibid.*, page 4, footnote 21.

1 complete load rotations, repair system issues arising due to cold load pick-up and respond  
2 to customer enquiries. The operational cost to Newfoundland Power of such an event  
3 could be significant.<sup>7</sup>  
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5 In Newfoundland Power's view, given the material uncertainty that remains with respect  
6 to the Muskrat Falls Project, the agreement in principle has not resulted in an overall  
7 reduction in the Company's business risk.

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<sup>7</sup> Ibid., page 4, line 28, to page 5, line 13.