

1 Q. Re: Muskrat Falls/Happy Valley Interconnection.
2 Order in Council OC-2013-343 directs that costs associated with the Muskrat Falls
3 project be recovered from Island Interconnected Rates but prohibits the recovery of
4 these costs until the project is commissioned or near commissioned and Hydro is
5 receiving services. (Emphasis added.)

6 (a) How does the project budget estimates and proposed costs comply with this
7 Order-in-Council?
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10 A. The Hydro 2018 Capital Budget Application project entitled Muskrat Falls to Happy
11 Valley Interconnection (Volume 1, page C-44 (Revision 1) and Volume 2, Tab 13
12 (Revision 1)) proposes work on the transmission system that serves the Labrador
13 East Customers in order to meet the growing load requirements for that region. The
14 use of the Muskrat Falls Terminal Station in the proposed solution is the least cost
15 option for meeting the load requirements of Labrador East. This option provides an
16 alternative route of transmission from Churchill Falls to the customers served in
17 Labrador East using some of the infrastructure installed in association with the
18 Muskrat Falls Project.
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20 It is a mischaracterization of Order in Council OC2013-343 to say that it prohibits
21 the recovery of costs associated with the Muskrat Falls Project. OC2013-343 is quite
22 specific as to what it does in that regard. The Muskrat to Happy Valley
23 Interconnection project is not affected by this Order.
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25 For the present discussion, Order in Council OC-2013-343 can be described as
26 having three purposes: it directs the Board to include in Hydro's revenue
27 requirement for rate-setting purposes certain identified costs set out in the Order;

1 it excludes from the costs that can be recovered through Hydro's regulated rates
2 the costs which pertain to export sales; and it delays the recovery of the identified
3 costs incurred by Hydro until the Muskrat and Transmission projects are
4 commissioned or nearly commissioned. In order for costs to be subject to the
5 deferred recovery, they must first fit within the description of costs, which is the
6 subject of the Order in Council.

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8 Those costs can be summarized as the expenditures, payments, or compensation
9 payable by Hydro to parties named in paragraphs 1(a) through (c) of the Order in
10 respect of: power and energy sales (or specified attributes of them) to Hydro, or
11 obligations of Hydro to ensure the Project's financing requirements are met. The
12 capital costs of the Muskrat to Happy Valley Interconnection project do not fit
13 within the costs set out in the Order in Council. So, it is not that the recovery of
14 these costs are, or are not, in compliance with the Order; rather these costs are not
15 the subject matter of the Order.