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VIA EMAIL

Board of Commissioners of Public Utilities
120 Torbay Road, P.O. Box 2140
St. John's NL, A1A 5B2

Attention: Ms. G. Cheryl Blundon,
Director of Corporation Service and Board Secretary

Dear Ms. Blundon:

RE: Newfoundland and Labrador Hydro Application for Non-Firm Rates

Blockchain Labrador Corp. ("BlockLAB") provides the following comments with respect to the application of Newfoundland and Labrador Hydro ("Hydro") for the establishment of a non-firm rate.

COMMENTS OF BLOCKLAB

Hydro seeks Board approval to redefine its "incremental cost" as a hypothetical monthly price based on the forecasted market price of export sales in New York and New England. The source of the 50 MW of power is the "recapture block" which was intended for recall for domestic use in the province, not to generate profits from power that Hydro deems "surplus". If there is local demand for power, it is not, by definition, "surplus". BlockLAB opposes the Application as it proposes a profound shift in the current pricing policy for non-firm power which is currently based on thermal generation cost. As the 50 MW of power has no incremental cost, it should be priced at the current industrial rate.

Hydro proposal contrary to contractual undertakings made to BlockLAB

On June 13, 2017, BlockLAB applied to Hydro for 20 MW of power.

On March 29, 2018, it received an email from Hydro advising that the application for firm service could not be approved until more firm capacity became available. BlockLAB was advised that Hydro had established a "queue of customers" and confirmed that BlockLAB was second on a "waiting list" behind an application for 1.25 MW. It was advised that any freed up capacity would be "assigned to customers in the queue on a sequential basis" and that the system could support up to 7.75 MW of service without any upgrades.

On April 1, 2018, BlockLAB sent a revised application to Hydro for 20MW, requesting up to 8 MW of temporary power stating that it had revised its 20MW application "because we want to retain our current place in line for any new firm power that becomes available as well as request temporary power".

On April 5, 2018, Hydro emailed BlockLAB confirming that:

> Hydro has been maintaining a queue of service requests, with the premise that once the constraints are mitigated, these customers will receive their electrical services. BlockLAB's 20 MW service request is second in the queue (following a smaller 1.25 MW request).

Based on these assurances, BlockLAB accepted 7.75 MW of curtailable power in 2018 and made substantial capital investments (including building a sub-station) on the understanding and with the assurance from Hydro that its request for 20 MW of power would be made available when Hydro had available capacity (subject to the 1.25 MW request). Twenty of the fifty megawatts of the "non-firm" power is now available year round and, for that reason, is properly considered to be firm power. BlockLAB should be accorded this power at the existing industrial rate in accordance with the representations and undertakings made to it.

Hydro's proposal unfairly favours one industry over others. It has already assigned at least ten (10) megawatts of the sixty (60) MW over peak to the two mining companies in Western Labrador as interruptible power at the existing industrial rate. However, it proposes to designate BlockLAB's existing 7.75 megawatts as non-firm power and consign it as part of the remaining fifty (50) megawatts to be divided among ***all*** new applicants, none of which have a local presence or made any local investments. In contrast, Hydro does not propose to reallocate power assigned to IOC and Tacora among other mining applicants.

Proposed rate structure

Hydro currently transmits the surplus power from the recapture block through Quebec and sells it in the New York market. However, it proposes to price non-firm energy as a blend of the New York and New England prices and not deduct the "fixed" transmission costs through Quebec. As the 50 MW of non-firm energy comes from the recapture block, there's no rationale to include the New England market in pricing that power or to ignore the $20 million transmission cost through Quebec and other associated expenses. This is contrary to its own accounting practices as Hydro has, in past years, deducted the "fixed" cost of transmission through Quebec in calculating net profits. In addition, the proposal does not take into account Hydro's avoided costs by reducing its transmission requirements through Quebec and other jurisdictions or the environmental benefits of local consumption.

The proposal is also inconsistent with the practice in other Canadian jurisdictions where the price for non-firm power is designed to be revenue neutral. The established rates recover the incremental cost of providing such energy either through generation or purchased power cost

after meeting provincial firm load commitments. They are not designed to recover lost profits opportunities from forgone exports sales opportunities. This can result in a price lower than the cost of providing firm energy load.

Setting a monthly price based on two month old prices is unusual and unnecessary. Local customers will be forced to decide a month in advance whether to take power. If they decline to do so, and the price drops, Hydro will be able to sell in an export market for lower prices than that sold to local customers who will miss the price advantage. Other utilities, such as BC Hydro and Manitoba Hydro, update their surplus price energy daily, and provide the forecast price for the next day. This enables customers to determine if the pricing is economically feasible. It is especially important to cryptocurrency customers which have the ability to engage and disengage within minutes.

The proposal is further flawed by a request for a price floor. If prices drop in export markets, Hydro seeks to have its profit level assured by recouping what would be export sales losses from domestic customers. This is unfair. It is also contrary to the current pricing of interruptible power where lower prices in the New York market have resulted in interruptible power being sold for less than firm power. Similarly, in other provinces, non-firm power is often priced lower than firm power.

Legislated Mandate

This proposal runs contrary to Hydro's legislated mandate.

Subsection 3(a) of the *Electrical Power Control Act, 1994,* SNL 1994 Chapter E-5.1 (the "*Electrical Power Control Act*") declares that it is the policy of the province that rates charged for the supply of power within the province should be "reasonable and not unjustly discriminatory" and "should promote the development of industrial activity in Labrador". Subsection 3(b) requires that all sources of production, transmission and distribution of power in the province should be managed and operated in a manner that would result in power being delivered to customers in the province at the "lowest possible cost consistent with reliable service" and result in "open, non-discriminatory and non-preferential access" to the electric system. Where necessary, all power in the province is to "assessed and allocated and re-allocated in the manner that is necessary to give effect to this policy".

The Hydro Application is contrary to the subsection 3(a) requirement that rates be reasonable and not discriminatory. If approved, it would have the effect of impeding or precluding industrial activity in Labrador because of the substantial price increases. The other danger in approving the Hydro Application is that it seeks to "transition" the regulated marginal energy cost on the island to the "market value of exports". These are matters that are best considered in a general rate application.

If Hydro's proposal on pricing of the non-firm power is approved, it will cause great uncertainty for BlockLAB in conducting its business operations causing losses, employee layoffs and

possible closure. Of the potential customers identified by Hydro for the non-firm power, BlockLAB, which is one of the largest customers for power in Labrador, is the only one that has established operations in Western Labrador. It has made substantial investments and provided benefits to the local community including donations to local charities and non-profits. The extent to which the undisclosed applicants are willing and able to make the required capital investments and how long it will take them to do so is unknown.

Order in Council

BlockLAB, as an existing cryptocurrency mining customer, is entitled to continue to receive its current 7.75 MW of power in accordance with OC2022-266.

On November 10, 2022 the Lieutenant-Governor in Council exempted Hydro from the requirements of sections 54 and 55 of the Public Utilities Act and section 3 of the Electrical Power Control Act, 1994, to supply electrical energy, on a firm basis only, to any applicant involved in computing or data processing load related to cryptocurrency mining. This exemption was subject to three conditions. The first was that Hydro could supply such applicants with temporary firm service if it did not require new generation infrastructure to maintain system reliability. The second was that this exemption did not apply to cryptocurrency mining applicants such as BlockLAB who were approved for and receiving service at the time of the issuance of this Order in Council, and which continued to receive that service. The third was that any changes to such a customer's service, including an increase in connected load, would result in the customer being subject to the exemption.

This proposal also assumes that the power is able to be transported to the Eastern United States and that the Labrador Island Link (LIL) will be reliable. This is questionable on current data which shows that the link may not deliver a reliable uptime. If this cannot be achieved, and the power is overpriced, then it will result in lost revenue for Hydro.

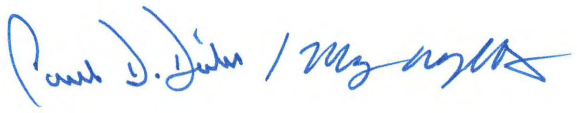
Cryptocurrency customers

Other provinces, such as Quebec view cryptocurrency customers favourably for the substantial benefits they provide. These customers enable utilities to efficiently manage supply and demand by optimizing energy production and reducing waste as a flexible, controllable load which can absorb excess energy and provide additional revenues. When there are sudden changes in grid demand, cryptocurrency customers can adjust consumption in mere minutes contributing to grid stability. They are also a boost to the local economy with increased investment and high-tech job creation stimulating employment in other sectors. The increased demand and additional revenues can lead to lower energy cost for other users of the system. The proposal, generally, does not take into account the benefit of additional power usage to the provincial economy and potential revenues and cost savings to Hydro.

Thank you for the opportunity to provide these comments. If there is anything further you require, please let us know.

Yours sincerely,

Benson Buffett PLC Inc.



Paul D. Dicks, K.C. & Megan Reynolds