

September 30, 2020

Board of Commissioners of Public Utilities
Prince Charles Building
120 Torbay Road, P.O. Box 21040
St. John's, NL A1A 5B2

Attention: Ms. Cheryl Blundon
Director of Corporate Services & Board Secretary

Dear Ms. Blundon:

Re: Quarterly Update – Items Impacting the Delay of Hydro's Next General Rate Application

In Order No. P.U. 15(2020), the Board of Commissioners of Public Utilities ("Board") approved Newfoundland and Labrador Hydro's ("Hydro") request to delay the filing of its next General Rate Application ("GRA").^{1,2} The Board directed Hydro to file quarterly updates with respect to the filing of its next GRA beginning on September 30, 2020 and to include the following:

- (i) Information related to:
 - a. The time frame for the commissioning of the Muskrat Falls Project;
 - b. The financial restructuring of the Muskrat Falls Power Purchase Agreement ("PPA");
 - c. The completion of Government of Newfoundland and Labrador's ("Government") rate mitigation plan; and
- (ii) Projected 2021 cost increases and Hydro's plans to address these increases.

Muskrat Falls Project Schedule

On September 28, 2020, Hydro filed correspondence with the Board³ communicating Nalcor Energy's ("Nalcor") most recent integrated project schedule reflecting the impacts of the COVID-19 pandemic on the Muskrat Falls Project, which shows full power being delivered by the end of September 2021.⁴ For ease of reference, Table 1 provides the summary of key project milestones that Nalcor provided for inclusion in Hydro's September 28, 2020 correspondence to the Board.

¹ "Application to Delay the Filing of Newfoundland and Labrador Hydro's Next General Rate Application," Newfoundland and Labrador Hydro, April 15, 2020.

² Board Order No. P.U. 16(2020) directed Hydro to file its next GRA no later than September 30, 2020 for rates based on a 2021 Test Year.

³ "The Liberty Consulting Group Eighth Quarterly Monitoring Report on the Integration of Power Supply Facilities to the Island Interconnected System – Monthly Update," Newfoundland and Labrador Hydro, September 28, 2020.

⁴ Nalcor's previous project schedule had full power scheduled for November 2020.

Table 1: Muskrat Falls Project Key Milestones Update

Scope of Work	Previous Forecast (Jan 2020)	Revised Forecast (Aug 2020) ⁵
First Power (Grid Synch)	15-Mar-2020	30-Sep-2020
Unit 1: Commercial Power	15-Apr-2020	31-Oct-2020
Unit 2: Commercial Power	20-Jun-2020	31-Dec-2020
Unit 3: Commercial Power	17-Sep-2020	31-May-2021
Unit 4: Commercial Power	18-Nov-2020	30-Sep-2021
Full Power	18-Nov-2020	30-Sep-2021
Converter Stations Bipole Dynamic Testing Complete	31-Aug-2020	30-Sep-2021
All Synchronous Condensers Ready for Operation	14-Aug-2020	31-Aug-2021 ⁶
Commissioning Certificate		TBD ⁷

Financial Restructuring of Muskrat Falls PPA and Government’s Rate Mitigation Plan

At this time, Hydro does not have any updates to provide regarding the status of the financial restructuring of the Muskrat Falls PPA or the completion of Government’s rate mitigation plan.

Projected 2021 Cost Increases

Hydro previously advised the Board⁸ that it expected there would be impacts on Holyrood Thermal Generating Station (“Holyrood TGS”) fuel costs and fuel inventory as a result of transitioning to supply from the Muskrat Falls Project. Hydro also advised of costs related to additional borrowing, depreciation, and return requirements in 2021 resulting from increased capital investments since its 2019 Test Year. However, Hydro currently expects these cost increases to be partially offset by depreciation reductions associated with the extension of the Holyrood TGS as a generating facility until March 31, 2023.⁹ Additionally, Hydro will file an update on its Efficiency and Effectiveness Plan in the fall which will include projected operating savings targets for the next five years.

Hydro anticipates that it will be required to begin paying approximately \$60 million per month associated with the Muskrat Falls Project in October 2021 and intends to apply, before the filing of the next GRA, for approval to defer any 2021 charges to Hydro resulting from the completion of the Muskrat Falls Project.

On the basis that the costs associated with the Muskrat Falls Project are deferred, Hydro’s preliminary assessment indicates its 2021 earnings are expected to be slightly below the lower end of the approved

⁵ While impacts from COVID-19 have been included in the updated costs and schedule, there are still other emerging risks being closely monitored including the outcome of any additional work that might be required on LIL valve hall equipment, remediation work on the synchronous condensers, the outcome of the Astaldi arbitration, and any additional impacts due to COVID-19.

⁶ Assumes foundation remediation solution.

⁷ Pending discussion with Nalcor, the Independent Engineer, the Government of Newfoundland and Labrador, and the Government of Canada.

⁸ Please refer to Hydro’s response to PUB-NLH-008 in the proceeding to delay the filing of Hydro’s GRA.


⁹ “The Liberty Consulting Group Eighth Quarterly Monitoring Report on the Integration of Power Supply Facilities to the Island Interconnected System – Monthly Update,” Newfoundland and Labrador Hydro, September 28, 2020.

range of return on rate base.¹⁰ However, this projection may change materially as Hydro completes its 2021 budgeting process and it becomes aware of rate mitigation actions that may be required.

Hydro will provide a further update on the preceding matters in its fourth quarter 2020 update, which will be filed before the end of December 2020. Should you have any questions or comments about any of the enclosed, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



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SAW/kd

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¹⁰ Hydro's 2019 Test Year rate of return on average rate base of 5.43% in a range of 5.23% to 5.63% was approved in Board Order No. P.U. 30(2019).