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March 31, 2022

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),¹ 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").^{2,3} 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 ("Project");
- b. The financial restructuring of the Muskrat Falls Power Purchase Agreement ("Muskrat Falls PPA");
- c. The completion of the 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

As part of its ongoing *Reliability and Resource Adequacy Study Review* proceeding, Hydro continues to provide monthly updates on the status of the Labrador-Island Link ("LIL") and the Muskrat Falls Hydroelectric Generating Facility, as well as other relevant operational and commercial information.⁴ The update provided herein reflects the information that was available as of the date of this correspondence.

¹ *Public Utilities Act*, RSNL 1990, c P-47, Board Order No. P.U. 15(2020), Board of Commissioners of Public Utilities, May 27, 2020.

² "Application to Delay the Filing of Newfoundland and Labrador Hydro's Next General Rate Application," Newfoundland and Labrador Hydro, April 15, 2020.

³ As per *Public Utilities Act*, RSNL 1990, c P-47, Board Order No. P.U. 16(2019), Board of Commissioners of Public Utilities, May 7, 2019, the Board directed Hydro to file its next GRA no later than September 30, 2020 for rates based on a 2021 Test Year.

⁴ Please refer to "*Reliability and Resource Adequacy Study Review – Labrador-Island Link Monthly Update – February 2022*," Newfoundland and Labrador Hydro, March 3, 2022, for Hydro's most recent update.

Muskrat Falls Hydroelectric Generating Facility

Unit 4, the final of four units at the Muskrat Falls Hydroelectric Generating Facility, was released for service on November 22, 2021 and was accepted into commercial operation. As such, the Muskrat Falls Hydroelectric Generating Facility is considered commissioned pursuant to the commercial and financial agreements; Hydro was required to commence payments under the Muskrat Falls PPA on Thursday, November 25, 2021.⁵

Labrador-Island Link

General Electric's ("GE") testing of the Full Function Bipole software identified critical bugs that must be corrected in advance of Trial Operations. GE has provided a version which resolves some, but not all, of the critical software bugs; however, it remains unsuitable for Trial Operations and commissioning. GE has advised that delivery of the next version of software, which is planned for Trial Operations and Final Commissioning, has moved from the first quarter of 2022 to the second quarter of 2022. GE is working to complete Trial Operations by May 31, 2022; however, based on GE's continuous delays to deliver the software, Hydro believes that there is likely to be a delay in completion of Trial Operations. It is not possible to predict the extent of any possible delay at this point in time. Hydro will advise of any updates in its next monthly update on the status of the LIL and the Muskrat Falls Hydroelectric Generating Facility, scheduled to be filed with the Board on April 7, 2022.

Financial Restructuring of the Project Agreements and Government's Rate Mitigation Plan

On February 14, 2022, the Government announced that it had signed term sheets with Hydro and the Government of Canada ("Canada") for the \$1 billion federal loan guarantee and capital restructuring for Muskrat Falls and the Labrador Transmission Assets, and the \$1 billion investment by Canada in the province's portion of the LIL.⁶ The process to complete the financial restructuring of the Project agreements and Government's rate-mitigation plan remain ongoing. The Government indicated that the final agreements are "substantively complete and will be signed in the coming months."⁷

Projected 2021 Cost Increases

To address the cost impact of the contractual requirements related to the Project, Hydro filed its Supply Cost Accounting Application⁸ which was approved by the Board in December 2021.⁹ Hydro's compliance application, filed with the Board on January 21, 2022,¹⁰ was approved in Board Order No. P.U. 4(2022). The approved Supply Cost Variance Deferral account was effective as of November 1, 2021.¹¹

Proposed Timing of Hydro's Next GRA

Hydro will not be in a position to file its next GRA in the second quarter of 2022 as previously contemplated given the following: the uncertainty regarding timing of the LIL commissioning; the financial restructuring of the Project remains ongoing; and details regarding rate mitigation have not yet

⁵ "Muskrat Falls Project Asset Update," Newfoundland and Labrador Hydro, November 29, 2021.

⁶ The Government had previously announced an Agreement in Principle on July 28, 2021. Please refer to "Items Impacting the Delay of Hydro's Next General Rate Application – Further Update," Newfoundland and Labrador Hydro, August 27, 2021.

⁷ "Term Sheets Signed for Third Federal Loan Guarantee and LIL Investment; Moving Towards Finalization of Financial Restructuring Agreements," February 14, 2022, <<https://www.gov.nl.ca/releases/2022/exec/0214n02/>>.

⁸ "Supply Cost Accounting Application," Newfoundland and Labrador Hydro, July 29, 2021.

⁹ *Public Utilities Act*, RSNL 1990, c P-47, Board Order No. P.U. 33(2021), Board of Commissioners of Public Utilities, December 8, 2021.

¹⁰ "Supply Cost Accounting Compliance Application," Newfoundland and Labrador Hydro, January 21, 2022.

¹¹ *Public Utilities Act*, RSNL 1990, c P-47, Board Order No. P.U. 4(2022), Board of Commissioners of Public Utilities, February 21, 2022, p. 3/35–36.

been finalized. Without having the required information, Hydro does not have adequate certainty to develop a test year forecast revenue requirement for use in its GRA filing. Hydro will require adequate time to prepare its GRA filing once the final details are available and is cognizant of the regulatory inefficiencies that would result if its GRA proposals are not reflective of financial restructuring of the Project, the timing of when payments under the Transmission Funding Agreement will begin, and the final rate mitigation plan. As a result, the time frame for filing Hydro's next GRA is unknown at this time.

Hydro will continue to provide quarterly updates to the Board on the timing of its next GRA and will provide a more defined timeframe for filing of its GRA when further information is available.

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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Senior Legal Counsel, Regulatory
SAW/kd

Encl.

ecc:

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