

1 Q. Order in Council OC2013-343 requires that the cost of supply from the Muskrat Falls Project  
2 (including the LIL and the LTA) be recovered in full through Island Interconnected rates  
3 charged to the appropriate classes of ratepayers. In Hydro's view, what implications does  
4 OC2013-343 have with regards to Hydro's Cost of Service?

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7 A. Order in Council OC2013-343 is a rates policy directive made to the Board of  
8 Commissioners of Public Utilities ("Board") under section 5.1 of the *Electrical Power Control*  
9 *Act, 1994*. Subsection 5.1(1) of that Act empowers the Lieutenant-Governor in Council to  
10 direct the Board generally as to rate setting policies and subsection 5.1(2) empowers the  
11 Lieutenant-Governor in Council to direct the Board specifically with regard to rates policies  
12 respecting the Muskrat Falls Project.

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14 Under Order in Council OC2013-343, the Board has been directed that costs incurred by  
15 Newfoundland and Labrador Hydro ("Hydro") that are payable to an entity to which the  
16 Muskrat Falls Exemption Order, OC2013-342, applies are to be recovered by Hydro in its  
17 rates charged to the appropriate classes of customers served from the Island  
18 Interconnected System. The Muskrat Falls Exemption Order, OC2013-342, applies to: the  
19 entities that own and operate the Muskrat Falls generating station; the Labrador  
20 Transmission Assets, which is the transmission line connecting the Churchill Falls and  
21 Muskrat Falls Generating Stations; and the Labrador-Island Link, which runs between  
22 Muskrat Falls and terminates at the Soldier's Pond Converter Station.

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24 The implication of these Orders in Council on Hydro's Cost of Service is that the costs  
25 charged to Hydro by the owners and operators of these facilities (the Muskrat Falls  
26 Generating Station, the Labrador Transmission Assets and the Labrador-Island Link) must  
27 be included only in Hydro's Island Interconnected Cost of Service. In order for Hydro to fully  
28 recover changes in annual costs related to the Muskrat Falls Project, Hydro would need to  
29 establish a supply cost recovery mechanism to replace the Rate Stabilization Plan and

- 1 provide for recovery of supply cost variances relative to the Muskrat Falls purchase power
- 2 costs that will be included in approved test year rates.