Q. In the "Final Report on Rate Mitigation Options and Impacts Muskrat Falls Projects" dated February 7, 2020 the Board noted a number of potential rate mitigation opportunities related to operational efficiencies that were identified by the Board's consultant, Liberty Consulting Group. Liberty estimated that annual savings of $12.7 million in 2020, increasing to $20.7 million in 2023, could be realized if Power Supply and Hydro were re-integrated. In Volume 1, page 2.31 Hydro stated that it pursued operating cost reductions as ordered by the Board in 2013 and 2017 GRAs, as well as the Board's 2020 recommendation that Nalcor and Hydro undertake a comprehensive organizational review to identify $20 million in savings from the overall organization.

a) Provide details of the organizational review and operating cost reductions, indicating the amount of savings that were realized and how the savings were achieved.

b) The Board also noted that Liberty identified potential savings of $12 million in the Muskrat Falls Project O&M costs. Hydro states that operating costs for Muskrat Falls Assets have decreased by $20.3 million Please provide details of how operating costs have been reduced beyond the savings identified by Liberty.

A. **a)** As a result of the Rate Mitigation Options and Impacts proceeding before the Board of Commissioners of Public Utilities ("Board") and direction by Government of Newfoundland and Labrador ("Government") to Nalcor Energy ("Nalcor"),[1] Newfoundland and Labrador Hydro ("Hydro") and the former Nalcor began an organizational review to find streamlining opportunities between the entities. Hydro's regulated operations began its own internal review in late 2019 to find organizational efficiencies within its own business as part of the Efficiency and Effectiveness Plan.[2]

[1] Government of Newfoundland and Labrador, "Protecting You from the Cost Impacts of Muskrat Falls," April 2019, https://www.gov.nl.ca/em/files/Framework.pdf.
[2] Please refer to Hydro's response to PUB-NLH-081 of this proceeding for further information.

The organizational review encompassed the broader integration of Hydro and former Nalcor operations, including functions previously separated between Hydro and Power Supply, and sought to eliminate duplicative management, administrative, and operational functions across the organization. The review also involved a focused effort on reducing operating costs, including budgeted reductions in professional services, system equipment and maintenance costs, non-essential travel, and a consolidation of training expenditures. These efforts ultimately culminated in Government direction to transition Nalcor operations under Hydro in June 2021, and the subsequent streamlining of the executive and broader organization in November 2021.

When considering the former Nalcor's consolidated operating costs in real dollars (excluding O&M related to the Muskrat Falls Assets),[3] Chart 1 demonstrates that the organization achieved operating costs that were $22 million lower in real dollars than 2019 Actuals.

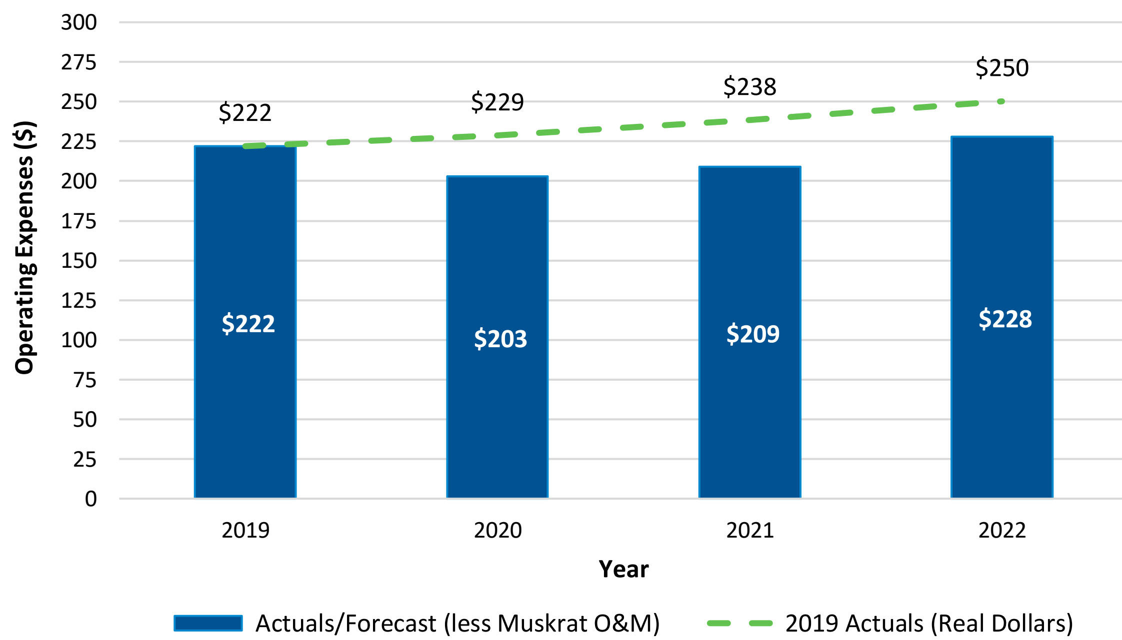

Chart 1: Operating Expenses ($ Millions)

[3] Please refer to Hydro's response to part b) for operating cost savings associated with Muskrat Falls Assets.

These savings are reflective of cost management efforts in both labour and non-labour costs. Non-labour cost savings cannot be reliably isolated, as COVID-19 pandemic operational impacts and subsequent inflationary pressures on goods and services have distorted year-over-year comparisons. Estimated savings in labour costs are reflective of an overall reduction in full-time equivalents ("FTEs"),[4] restructuring of the Executive team (including revised executive compensation that included the elimination of vehicle allowances and short-term incentives)[5] and compensation directives by Government, resulting in an estimated $9.5 million of labour-related savings. The savings do not represent net operating cost savings and are offset by other cost increases and inflationary pressures over the time period. The majority of these savings compounded annually, such as the elimination of executive positions and elimination of short-term incentives for all employees, avoiding those costs in future years. As discussed in Hydro's evidence, the staffing constraints and salary freezes that had been put in place as a result of the review were not sustainable beyond 2022.

Despite significant inflationary pressures and market-driven increases in the cost of labour, materials, and services, Hydro's operating costs in 2022 were approximately $22 million lower in real dollars than 2019 actual costs. This result reflects the cumulative impact of the organizational review, workforce reductions, executive restructuring, compensation measures, and ongoing operating cost management efforts. The achievement of these reductions demonstrates that Hydro met the savings objectives associated with the organizational review while continuing to provide safe and reliable service.

b) In addition to the $20 million discussed in Hydro's response to part a), a commitment was made to save $12.0 million in operating costs for the Muskrat Falls Assets over Year 1 estimates.

As stated in Hydro's evidence, Hydro has achieved savings in operating costs associated with the Muskrat Falls Assets from those initially estimated for the base year or the first full year of operations of the assets. Estimated operating costs for the base year, or first full year of

[4] Reduction of 38 FTEs overall from 2021 to 2022 as shown in PUB-NLH-019 of this proceeding.
[5] Including elimination of eight executive positions and executive vehicle allowances.

operations, provided to the Board as part of the Rate Mitigation Options and Impacts Reference proceeding were $83.1 million in 2024 dollars.[6] When compared to the first full year of operations, which is reflected in the actual operating costs of $62.8 million[7] for 2024, operating costs for the Muskrat Falls Assets have decreased by $20.3 million or 24%, as shown in Table 1.

Table 1: Muskrat Falls Assets Operating Costs 2024 vs Year 1 Estimate ($ Millions)

	Year 1 Estimate	**2024**
Labrador Transmission Assets (Nominal Dollars)	9.7	4.9
Labrador-Island Link (Nominal Dollars)	36.9	31.1
Muskrat Falls (Nominal Dollars)	27.1	26.8
Gross O&M (Nominal Dollars) [8]	**73.7**	**62.8**
Year 1 Estimate (Real Dollars)		83.1
Savings vs Year 1 Estimate	**-**	**(20.3)**

Savings in relation to Year 1 are primarily in relation to the Labrador Transmission Assets and the Labrador-Island Link and have been achieved by general savings and efficiencies in labour costs and system equipment maintenance contracts.

[6] "2026 General Rate Application," Newfoundland and Labrador Hydro, May 27, 2026, vol. I, ch.4, p. 4.16/6–12.
[7] Muskrat Falls Operating Costs ($26.8) + Labrador Transmission Assets Operating Costs ($4.9) + LIL Operating Costs ($31.1) = $62.8.
[8] Please refer to Nalcor's response to the request for information PUB-Nalcor-050 of the Rate Mitigation Options and Impacts Reference proceeding. Costs were normalized for North American Electric Reliability Corporation costs that were included in the original estimate and are no longer applicable.