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December 19, 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

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 – November 2022*," Newfoundland and Labrador Hydro, December 8, 2022, for Hydro's most recent update.

The update provided herein reflects the information that was available as of the date of this correspondence.

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 November 25, 2021.⁵

Labrador-Island Link

Hydro continues to work with General Electric Canada (“GE”) to advance the software required to reliably operate the LIL at varying levels. In November 2022, Trial Operations was successfully completed, after which GE successfully performed a 450 MW heat run on each pole for 12 hours and a 475 MW pole compensation test. The completion of the tests indicated the correct functioning of the control system features and equipment capabilities to enable testing and operation at higher power levels.

On November 24, 2022, GE attempted the 700 MW overload test; however, it was not successful.⁶ Through root cause analysis it has been determined that a new software version is required.⁷ A schedule from GE for the software fix, followed by regression testing and Factory Acceptance Testing, is pending; however, Hydro anticipates that it will be in a position to undertake high-power online testing again in the first quarter of 2023.

Final commissioning will be delayed until the remaining high-power tests can be successfully performed. Confirmation of acceptance of final commissioning requirements are being worked with financing partners, including Government of Canada.

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 for filing with the Board on January 12, 2023.

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

The finalization of the \$1 billion federal loan guarantee and capital restructuring for the Project agreements was announced by Hydro on March 31, 2022.⁸ Hydro is meeting with Government on an ongoing basis regarding the development and finalization of the rate mitigation plan. The outstanding actions related to the finalization of the details of the rate mitigation plan include confirmation of the mechanism by which rate mitigation will be provided to customers and confirmation of the amount and timing of those payments by the Government to Hydro.

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

⁶ During the overload test, Pole 2 successfully compensated for the loss of Pole 1 (i.e., the control system correctly triggered short-term overload and automatic cable switching was successful). Pole 2 continued to operate at 700 MW for 44 seconds until it tripped resulting in an underfrequency load shedding event and loss of customers.

⁷ GE have completed a root cause analysis and have pinpointed the problem to a measurement/calculation issue when operating the LIL above 475 MW.

⁸ “Financial Restructuring Agreement for the Third Federal Loan Guarantee and LIL Investment Finalized,” March 31, 2022, <<https://nlhydro.com/financial-restructuring-agreement-for-third-federal-loan-guarantee-and-lil-investment-finalized/>>.

Projected 2021 Cost Increases

The approved Supply Cost Variance Deferral Account was put in place to address the cost impact of the contractual requirements related to the Project⁹ and was effective as of November 1, 2021.¹⁰ In Order No. P.U. 19(2022), the Board approved Hydro's proposal to commence recovery of Project costs and implement a Project Cost Recovery Rider effective July 1, 2022, with payments to be credited to the Project Cost Recovery – Utility component of the Supply Cost Variance Deferral Account.¹¹

Proposed Timing of Hydro's Next GRA

Hydro continues to estimate that it would require approximately nine months to prepare its next GRA.

With the restructuring of the Project agreements now finalized, this time line would begin once Hydro has certainty related to the commissioning of the LIL and the finalization of the details of the Government's rate mitigation plan. Hydro is cognizant of the regulatory inefficiencies that would result if its GRA proposals are not reflective of the timing of when payments under the Transmission Funding Agreement will begin, and the final rate mitigation plan. 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. 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 time frame for the 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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SAW/kd

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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 *Public Utilities Act*, RSNL 1990, c P-47, Board Order No. P.U. 4(2022), Board of Commissioners of Public Utilities, February 21, 2022.

¹¹ *Public Utilities Act*, RSNL 1990, c P-47, Board Order No. P.U. 19(2022), Board of Commissioners of Public Utilities, June 21, 2022.