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March 31, 2023

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

Attention: Cheryl Blundon
Director of Corporate Services & Board Secretary

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 2023*," Newfoundland and Labrador Hydro, March 2, 2023, 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 accepted into commercial operation. As such, the Muskrat Falls Hydroelectric Generating Facility is considered commissioned pursuant to the commercial and financial agreements.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 and plan for the execution of LIL high power testing up to 700 MW to permit the Final Commissioning of project assets. Testing requires elevated system loads that would be accommodated by typical temperatures expected in March and April. In preparation for testing, Hydro is working with GE Canada (“GE”) to mitigate three outstanding technical items related to hardware and software.

As previously reported,⁶ the three technical items include:

- 1) Firing angle measurement (software);
- 2) Direct Current Current Transformer (“DCCT”) measurement (hardware); and
- 3) Submarine Cable connection (software).

GE has developed a new version of software (Version 1.1.37e) to correct both software issues. This software was released to site on March 24, 2023 and is currently undergoing testing.

Hydro is continuing to support GE in troubleshooting and root cause analysis efforts on the DCCT hardware. In the interim, protocols and procedures have been implemented to address the DCCT issue until a long-term solution is developed.

It is expected that the noted mitigations will permit LIL high-power testing to occur in early April 2023.⁷ 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 April 6, 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 continuing to meet 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 “Reliability and Resource Adequacy Study Review – Labrador-Island Link Monthly Update – February 2023,” Newfoundland and Labrador Hydro, March 2, 2023, p. 2.

⁷ “Public Advisory: Testing To Continue This Week On The Labrador Island Link,” Newfoundland and Labrador Hydro, rev. March 30, 2023 (originally posted March 29, 2023), <<https://nlhydro.com/public-advisory-testing-to-continue-this-week-on-the-labrador-island-link/>>.

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

On March 31, 2023, Government announced that as part of initial steps on implementation of rate mitigation, Government will pay the remaining 2022 balance of approximately \$190.4 million in the Supply Cost Variance Deferral Account.⁹ Hydro does not expect the implementation of the final components of rate mitigation until full commissioning of all aspects of the Lower Churchill project, including the Labrador-Island Link.

Projected Supply Increases

The approved Supply Cost Variance Deferral Account was put in place to address the cost impact of the contractual requirements related to the Project¹⁰ and was effective as of November 1, 2021.¹¹ 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.¹² Hydro is currently evaluating whether it will propose an increase the Project Cost Recovery Rider in its rate application to be filed in April 2023 for approval of July 1, 2023 customer rates.

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 timeline 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 timeframe 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 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



Shirley A. Walsh
Senior Legal Counsel, Regulatory
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⁹ "Implementing Initial Steps of Rate Mitigation," Government of Newfoundland and Labrador, March 31, 2023, <<https://www.gov.nl.ca/releases/2023/iet/0331n03/>>.

¹⁰ *Public Utilities Act*, RSNL 1990, c P-47, Board Order No. P.U. 33(2021), Board of Commissioners of Public Utilities, December 8, 2021.

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.

¹² *Public Utilities Act*, RSNL 1990, c P-47, Board Order No. P.U. 19(2022), Board of Commissioners of Public Utilities, June 21, 2022.

Cheryl Blundon
Board of Commissioners of Public Utilities

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Board of Commissioners of Public Utilities

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