

June 30, 2021

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), 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").^{1,2} 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 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

The overall Project completion date is currently November 14, 2021; as noted in Hydro's June 3, 2021 correspondence to the Board,³ there remains risk of schedule impact pending an update from GE Canada.

Financial Restructuring of Muskrat Falls PPA and Government's Rate Mitigation Plan

At this time, Hydro does not have any updates regarding the status of the financial restructuring of the Muskrat Falls PPA or the completion of Government's rate mitigation plan.

¹ "Application to Delay the Filing of Newfoundland and Labrador Hydro's Next General Rate Application," Newfoundland and Labrador Hydro, April 15, 2020.

² Board Order No. P.U. 16(2019) directed Hydro to file its next GRA no later than September 30, 2020 for rates based on a 2021 Test Year.

³ "Reliability and Resource Adequacy Study Review – Labrador-Island Link Monthly Update – May 2021," Newfoundland and Labrador Hydro, June 3, 2021.

Projected 2021 Cost Increases

Given the current terms and conditions under the Muskrat Falls PPA, Hydro's 2021 financial performance has the potential to be materially impacted by the requirement to commence payments upon the commissioning of the Muskrat Falls generation assets, which can occur in advance of the commissioning of the Labrador-Island Link. The current schedule for the final commissioning of the Muskrat Falls generation assets reflects a September 30, 2021 time frame. As such, Hydro may be required to commence payment of Project costs in the fall of 2021, in advance of Hydro having the opportunity to recover these costs through customer rates.

Commissioning of the Labrador-Island Link is not required in advance of commissioning of the Muskrat Falls generation and the Labrador Transmission Assets. It is currently projected that Hydro will be required to begin payments under the Muskrat Falls PPA on October 1, 2021, in advance of the commissioning of the Labrador-Island Link (currently scheduled for November 14, 2021). Hydro is required to make payments under the Transmission Funding Agreement one day after full Project commissioning, currently projected to be November 15, 2021. OC2013-343 requires the full Project to be commissioned or nearing commissioning before Hydro can be permitted to recover Project costs through customer rates.

To address the cost impact that may materialize as a result of these contractual requirements, Hydro intends to file an application in the third quarter of 2021 to revise its supply cost deferral accounts to allow for the transfer of cost variances associated with the commissioning of the Muskrat Falls Project assets that may occur on a go-forward basis. The deferral account revisions are intended to address the potential for Hydro to incur financial losses during this transition period.

Proposed Timing of Hydro's Next GRA

As the financial restructuring of the Muskrat Falls PPA and Government's rate mitigation plan are ongoing and the necessary information to inform the filing of a complete GRA is not yet available, Hydro believes there is material uncertainty with respect to its ability to file its next GRA in October 2021. Hydro is cognizant of the regulatory inefficiencies which may result should a complete package of information not be available to the Board and parties. Hydro will provide an update to the Board and parties as soon as new 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



Michael S. Ladha
Vice President, General Counsel, Corporate Secretary & Commercial
MSL/sk

ecc: **Board of Commissioners of Public Utilities**
Jacqui Glynn
PUB Official Email

Newfoundland Power
Dominic J. Foley
Regulatory Email

Consumer Advocate

Dennis M. Browne, Q.C., Browne Fitzgerald Morgan & Avis
Stephen F. Fitzgerald, Browne Fitzgerald Morgan & Avis
Sarah G. Fitzgerald, Browne Fitzgerald Morgan & Avis
Bernice Bailey, Browne Fitzgerald Morgan & Avis
Bernard Coffey, Q.C.

Industrial Customer Group

Paul L. Coxworthy, Stewart McKelvey
Denis J. Fleming, Cox & Palmer
Dean A. Porter, Poole Althouse

Praxair Canada Inc.

Sheryl E. Nisenbaum
Peter Strong

Iron Ore Company of Canada

Gregory A.C. Moores, Stewart McKelvey

Labrador Interconnected Group

Senwung Luk, Olthuis Kleer Townshend LLP
Julia Brown, Olthuis Kleer Townshend LLP

Teck Resources Limited

Shawn Kinsella