
Nova Scotia Utility and Review Board

IN THE MATTER OF

*The Public Utilities Act, R.S.N.S 1989, c. 380, as amended
and the
The Maritime Link Act, S.N.S 2012 c.9
and the
Maritime Link Cost Recovery Process Regulations, N.S. Reg. 189/2012*

NSPML 2021 Interim Assessment Application

July 31, 2020

TABLE OF CONTENTS

1.0 INTRODUCTION AND RELIEF SOUGHT 4

2.0 CONTEXT FOR THIS APPLICATION 10

2.1 2013 Maritime Link Project Approval 10

2.2 ML Schedule Prudence and 2018 and 2019 Assessment Approvals 10

2.3 Commencement of Depreciation and 2020 Assessment Approvals 12

3.0 SCOPE OF THE CURRENT (2021 Assessment) APPLICATION 14

4.0 QUARTERLY REPORTS 17

5.0 REQUESTED 2021 ASSESSMENT 18

5.1 Recovery of 2021 Project Costs 18

5.1.1 Operating & Maintenance Costs 19

5.1.2 Capital Cost Recovery via Depreciation 20

5.1.3 Debt Financing Costs 24

5.1.3.1 Annual Net Interest Costs 24

5.1.3.2 Amortization of Deferred Financing Charges 25

5.1.4 Equity Financing Costs 27

6.0 HOLDBACK 28

7.0 REQUEST FOR RELIEF 29

LIST OF APPENDICES

- Appendix A NSPML Quarterly Report Q2 2020
- Appendix B Proposed Monthly Assessment for the Maritime Link (2021) – Illustrative Examples

1 **1.0 INTRODUCTION AND RELIEF SOUGHT**

2
3 The Maritime Link (**ML**) was put into service in January 2018 and has been operated
4 by NSP Maritime Link Incorporated (**NSPML**) since then to the benefit of Nova Scotia
5 electricity customers. NSPML has recovered its costs for operation of the ML from
6 Nova Scotia Power Inc. (**NS Power**) in each of 2018, 2019 and 2020 through payment
7 of interim assessments from NS Power as contemplated by section 64 of the *Public*
8 *Utilities Act* and subsection 8(1) of the *Maritime Link Cost Recovery Process*
9 *Regulations (ML Regulations)* and as approved by the Nova Scotia Utility and Review
10 Board (**UARB** or **Board**). These assessments were “interim” in that they were directed
11 pending approval by the Board of NSPML’s Final Project Costs for construction of the
12 ML, pursuant to the *ML Regulations*.

13
14 NSPML is mindful of the Board’s previous directions that the Board is not prepared to
15 receive an application for approval of NSPML’s Final Project Costs until the Nova
16 Scotia Block including the Supplemental Energy (collectively **NS Block**) that will flow
17 to Nova Scotia pursuant to the terms of the agreements between Emera Inc. and Nalcor
18 Energy (**Nalcor**) and their respective affiliates is being delivered, and there is capacity
19 to transact Market Priced Energy as contemplated by those agreements.¹ At the time of
20 the last interim assessment application, NSPML had anticipated Nalcor would
21 commence delivery of the NS Block by mid-2020. As indicated by Nalcor, the
22 unprecedented and severe impact of the global COVID-19 pandemic has rendered
23 Nalcor unable to safely meet that timeline. Nalcor has most recently indicated a delay
24 range of between six and ten months in its completion schedule², which means that
25 delivery of the NS Block is now expected to commence between late 2020 and mid-
26 2021.

¹ M09277 November 27, Decision, paragraph 60.

² NLH- Labrador-Island Link Monthly Update – July 2020

1 In its decision approving NSPML’s assessment for 2020, the Board directed NSPML to
2 “manage its regulatory calendar to file a timely request for a 2021 interim assessment
3 in the event that the NS Block is delayed beyond mid-2020” as “there is no Board
4 approval for the transfer of assessment funds beyond 2020 from NS Power to NSPML”.³
5

6 Given the recent confirmation from Nalcor that delivery of the NS Block will be delayed
7 beyond mid-2020, NSPML brings this application for approval of a 2021 assessment for
8 recovery from NS Power of NSPML’s forecasted 2021 costs for operating the ML (**2021**
9 **Assessment**).

10
11 For the 2021 Assessment, NSPML proposes to continue the framework developed by
12 the Board for NSPML’s 2018 through 2020 assessments, including; i) a pro-rated \$10
13 million holdback from assessment amounts otherwise payable; and ii) continued and
14 further deferrals of recovery of depreciation expense and amortization of deferred
15 financing costs.

16
17 NSPML understands the challenges to Nova Scotians brought about by the COVID-19
18 pandemic, including the further delay of delivery of the NS Block and the consequent
19 need for NS Power to procure replacement power in the interim. In light of these
20 challenges, NSPML has obtained the support of the Government of Canada for an
21 arrangement that will enable the long-term deferral of recovery of up to \$22.75 million
22 of the depreciation expense required for NSPML to meet its June 1, 2021 principal
23 repayment obligation and maintain the Board-approved Debt to Equity ratio of 70:30
24 (**DER**) if the NS Block continues to be delayed in 2021. Such long-term deferral would
25 be affected by utilizing cash currently held in NSPML’s Debt Service Reserve Account
26 (**DSRA**)⁴. NSPML would replace such cash with a low-cost letter of credit (**LC**). As

³ *Supra*, note 1, paragraph 63.

⁴ The ML Credit Agreement requires NSPML to maintain, through cash on deposit in the DSRA and one or more letters of credit delivered to the Collateral Agent, if any, an amount equal to the next six months’ debt principal repayment and interest expense. To date, NSPML has satisfied this requirement by maintaining a cash balance of \$22.75 million in the DSRA.

1 further described in section 5.1.2, this arrangement will allow NSPML to defer recovery
2 of up to \$22.75 million (the amount of cash in the DSRA) of depreciation expense until
3 near the end of the term of the Federal Loan Guarantee (**FLG**) debt in 2052. This in
4 turn will allow such deferred amounts to remain in NS Power's Fuel Adjustment
5 Mechanism account (**FAM**) earning NS Power's weighted average cost of capital
6 (**WACC**) for the balance of the term of NS Power's current Fuel Stability Period,
7 partially offsetting the costs of replacement power pending delivery of the NS Block to
8 the benefit of customers. NSPML has estimated that this arrangement would have a net
9 present value of up to approximately \$13 million should delivery of the NS Block be
10 delayed beyond May 1, 2021.

11
12 In the event the NS Block is delayed beyond June 1, 2021, NSPML proposes to continue
13 to defer depreciation expense during the remainder of 2021 in the same manner as the
14 Board approved in 2020, with each month of deferred recovery after June 1, 2021 to be
15 added to the depreciation expense payments to be recovered by NSPML once the
16 delivery of the NS Block commences, or November 1, 2021, whichever is earlier.

17
18 Attached as Appendix B are illustrative scenarios for recovery of costs by NSPML from
19 NS Power in 2021 including depreciation expense and amortization of deferred
20 financing charges in the manner outlined above and in more detail in section 3 of this
21 Application.

22
23 By this Application, NSPML respectfully requests that the Board issue an order pursuant
24 to section 64 of *the Public Utilities Act* and section 8(1) of the *Maritime Link Cost*
25 *Recovery Process Regulations* and based on forecasted 2021 ML costs and expenses for
26 recovery in 2021 of a total amount not to exceed \$172.2 million, to be recovered as
27 follows:

- 28
29 1. **Base Assessment.** The amount of \$115.0 million to be recovered from NS Power
30 in 2021, excluding depreciation and amortization of deferred financing charges
31 as provided for in paragraphs 2 and 3 below, and approving a schedule of

1 monthly charges starting on January 1, 2021 in accordance with Appendix B to
2 this Application;

3
4 **2. Depreciation and Amortized Financing Charges: January – May.** To enable
5 the required June 1, 2021, debt principal repayment under the ML Credit
6 Agreement and maintain the DER, **by May 1, 2021**, NSPML will recover
7 depreciation expense of no more than \$27.8 million and amortization of deferred
8 financing charges totaling \$0.8 million, in the following manner:

9
10 a. in respect of depreciation and the \$27.8 million cash requirement, NSPML
11 will recover proceeds from the DSRA and from NS Power as depreciation
12 expense as follows;

13
14 i. if delivery of the NS Block commences between January 1 and
15 April 30, 2021, NSPML will recover:

16
17 1. from the DSRA, \$4.6 million for each month up to and
18 including the month in which the NS Block commences,
19 to a maximum of \$18.4 million; and

20
21 2. from NS Power as depreciation expense, an amount
22 equal to \$27.8 million less the total amount recovered
23 from the DSRA, such amount to be recovered in equal
24 monthly payments according to the number of months
25 following the month in which the NS Block commences
26 up to and including May; and

27
28 ii. if delivery of the NS Block has not commenced by May 1,
29 2021, NSPML will recover

30
31 1. from the DSRA, \$22.75 million; and

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

2. from NS Power as depreciation expense, \$5.05 million on May 1, 2021; and

b. in respect of amortization of deferred financing costs, NSPML will recover from NS Power a total of \$0.8 million prorated monthly commencing on the later of January 1, 2021 or the first day of the month following the month in which delivery of the NS Block commences and ending on May 1, 2021, or, if delivery of the NS Block is delayed beyond May 1, 2021 then in one lump sum payment of \$0.8 million from NS Power on May 1, 2021;

3. **Depreciation and Amortized Financing Charges: June – December.** To enable the required December 1, 2021, debt principal repayment under the ML Credit Agreement and maintain the DER, **by November 1, 2021**, NSPML will recover depreciation expense of \$27.8 million and amortization of deferred financing charges totaling \$0.8 million, in the following manner:

- a. in respect of depreciation:
 - i. if delivery of the NS Block commences before June 1, 2021, from NS Power as depreciation expense the total amount of \$27.8 million through six equal monthly payments between June 1 and November 1, 2021;
 - ii. if delivery of the NS Block commences between June 1 and October 31, 2021, the total of \$27.8 million through equal monthly payments commencing on the first day of the month following the month in which delivery of the NS Block commences and ending on November 1, 2021; and

1 **2.0 CONTEXT FOR THIS APPLICATION**

2
3 **2.1.1 2013 Maritime Link Project Approval**

4
5 In November, 2013, the UARB approved the ML as the lowest long-term cost alternative
6 for electricity customers in Nova Scotia.⁵ The Board further approved a capital cost
7 forecast for the ML of \$1.52 billion, and pursuant to section 6 of the *ML Regulations*
8 the Board also approved a variance for the project of up to \$60 million⁶, for a total
9 approved capital cost envelope of \$1.58 billion. In addition, the Board approved
10 AFUDC for the ML of up to \$230 million.⁷

11
12 **2.1.2 ML Schedule Prudence and 2018 and 2019 Assessment Approvals**

13
14 The ML went into service on January 15, 2018. Anticipating this, in September 2017
15 the UARB approved assessments for recovery by NSPML from NS Power of \$109.5
16 million for 2018 and \$111.5 million for 2019 for the costs of operating the ML.⁸ In so
17 doing, the Board addressed concerns regarding intergenerational equity between
18 customers paying the interim assessment in the early years pending receipt of the NS
19 Block and customers receiving NS Block power in the final years of the contractual
20 period for delivery of the NS Block by accepting NSPML's proposals to:⁹

- 21
22 (a) defer recovery of depreciation expenses totalling \$51 million in each of 2018
23 and 2019; and
24
25 (b) implement the Board's suggestion to defer amortization of deferred financing
26 charges of \$1.5 million in each of 2018 and 2019.
27

⁵ 2013 NSUARB M05419, Maritime Link Project Application, paragraph 170.
⁶ 2013 NSUARB M05419, Decision, paragraph 356.
⁷ *Supra*, note 6, paragraph 324.
⁸ 2017 NSUARB, M07718, Application for Approval of Interim Cost Assessment, Decision, paragraph 186.
⁹ *Supra*, note 8, paragraph 180.

1 In its 2017 decision the UARB further:

- 2
- 3 (a) stipulated that the approved assessments would be subject to a holdback of \$10
4 million in each of these years, pending proof satisfactory to the Board that \$10
5 million per year in benefits for Nova Scotia customers had been achieved
6 through operation of the ML¹⁰;
- 7
- 8 (b) determined that ML depreciation expense is to be recovered over a period of 35
9 years, matching the depreciation period with the delivery duration of the NS
10 Block¹¹;
- 11
- 12 (c) determined that ML deferred financing costs are to be recovered over a period
13 of 33 years, coinciding with the period of the ML Financing Trust bonds
14 (guaranteed under the FLG) principal repayment starting in 2020 and ending in
15 2052¹²; and
- 16
- 17 (d) determined that NSPML’s decision to complete the ML on the original timeline
18 despite the delay in the Nalcor projects was prudent¹³ and that upon being put
19 into service the ML was “used and useful”¹⁴.
- 20

21 In its 2017 decision the UARB also indicated that:¹⁵

22

23 *The issue of whether NSPML prudently incurred the costs of*
24 *constructing the Maritime Link (including construction and contract*
25 *costs, management costs, financing costs, etc.) are not the subject of this*
26 *proceeding and will be canvassed in the final assessment proceeding to*
27 *be held later.*

28

¹⁰ *Supra*, note 8, paragraph 177.

¹¹ *Supra*, note 8, paragraph 184.

¹² *Supra*, note 8, paragraph 185.

¹³ *Supra*, note 8, paragraph 64.

¹⁴ *Supra*, note 8, paragraph 171.

¹⁵ *Supra*, note 8, paragraph 65.

1 The Board further made clear that it is not prepared to hold a hearing on NSPML’s Final
2 Project Costs until the NS Block is being delivered.¹⁶

3
4 **2.1.3 Commencement of Depreciation and 2020 Assessment Approvals**

5
6 In November 2019, the UARB approved an assessment for recovery by NSPML from
7 NS Power in 2020 of \$115.1 million plus depreciation and amortization of deferred
8 financing charges of \$29.4 million for a total of \$144.5 million.¹⁷ In so doing, the
9 Board¹⁸:

- 10
11 a) continued the holdback mechanism previously applied to NSPML’s 2018 and
12 2019 assessments, directing that the same \$10 million holdback would continue
13 in 2020 and would be applied *pro rata* to the number of days prior to the start
14 of delivery of the NS Block; and
15
16 b) in approving commencement of recovery by NSPML of depreciation and of
17 amortization of deferred financing charges, directed that these amounts would
18 continue to be partially deferred pending commencement of delivery of the NS
19 Block and would only be paid over from NS Power to NSPML upon
20 confirmation of delivery of the NS Block or November 1, 2020, whichever
21 occurred first.

22
23 In its 2019 decision the Board also:

- 24
25 a) confirmed its 2017 determination on the prudence of NSPML’s construction
26 schedule¹⁹;

¹⁶ *Supra*, note 8, paragraph 153.

¹⁷ *Supra*, note 1, paragraphs 24, 32 and 72.

¹⁸ *Supra*, note 1, paragraph 3.

¹⁹ *Supra*, note 1, paragraph 22.

- 1 b) found that while deferral of recovery of depreciation and amortization of
2 deferred financing costs has addressed concerns regarding the impact of the
3 delay of delivery of the NS Block on intergenerational equity, it is also
4 necessary to provide for recovery by NSPML of funds required to support
5 NSPML’s ML financing obligations and ensure no default in those obligations,
6 in the interests of Nova Scotia customers²⁰;
- 7
- 8 c) held that there is no basis for increasing the \$10 million holdback previously
9 directed and that the holdback framework incents NSPML and NS Power to
10 realize benefits from the ML for Nova Scotia customers pending delivery of the
11 NS Block²¹;
- 12
- 13 d) reiterated that it would not initiate the hearing process for NSPML’s Final
14 Project Costs until the NS Block starts²²; and
- 15
- 16 e) directed NSPML to manage its regulatory calendar to file a timely request for a
17 2021 interim assessment if the NS Block was delayed beyond mid-2020.²³
- 18
- 19
- 20

²⁰ *Supra*, note 1, paragraph 31.

²¹ *Supra*, note 1, paragraph 56.

²² *Supra*, note 1, paragraph 62.

²³ *Supra*, note 1, paragraph 63.

1 **3.0 SCOPE OF THE CURRENT (2021 ASSESSMENT) APPLICATION**

2
3 On March 17, 2020, Nalcor announced it had temporarily paused construction at the
4 Muskrat Falls Generating Station (MFGS) site in response to the COVID-19 pandemic,
5 and had placed the MFGS and Soldiers Pond (a key location of the Labrador Island
6 Link) into care and maintenance mode in order to ensure the safety of its project work
7 crews and local communities. While Nalcor has since announced commencement of a
8 measured return to work program, it has projected at least a four-month delay in its
9 construction schedule as it addresses safe return to work protocols, with the potential
10 for a further 2 to 6 month delay depending on project progress prior to winter²⁴ .

11
12 NSPML continues to regularly engage with Nalcor and is closely monitoring Nalcor’s
13 plans to safely continue work on its project sites and mitigate the effects to the project
14 schedule of the pandemic driven delays. However, in light of the continuing uncertainty
15 regarding the pace of work by Nalcor and its contractors resulting from the imperative
16 for continuing pandemic precautions, as well as the possible impact of a second wave
17 of the COVID-19 virus, NSPML is unable at this time to provide a precise update on
18 Nalcor’s project completion schedule or anticipated timing for commencement of
19 delivery of the NS Block.

20
21 Given the continuing uncertainty in respect of Nalcor’s revised project schedule and
22 considering the requirement for a Board order for continued assessment payments from
23 NS Power to NSPML from and after January 1, 2021, NSPML has focussed this
24 Application on its 2021 forecasted ML costs. To support an expedited review of those
25 forecasts and determination of the requested 2021 Assessment prior to January 1, 2021,
26 NSPML has adopted a framework for the requested 2021 Assessment consistent with
27 that approved by the Board in 2017 (for NSPML’s 2018 and 2019 assessments) and

²⁴ *Supra*, note 2.

1 again in 2019 (for NSPML’s 2020 assessment). As further described below, NSPML
2 proposes to:

3
4 a) continue the holdback mechanism previously directed by the Board in respect of
5 NSPML’s 2018 and 2019 assessments and as continued by the Board for
6 NSPML’s 2020 assessment on a pro rata basis; and

7
8 b) continue the mechanism previously adopted by the Board for partial deferral of
9 recovery of depreciation and amortized deferred financing costs within the year
10 pending commencement of delivery of the NS Block.

11
12 In addition, and in the face of the challenges to Nova Scotians brought about by the
13 COVID-19 pandemic, including the further delay of delivery of the NS Block and the
14 consequent need for NS Power to procure replacement power in the interim, NSPML
15 has obtained the support of the Government of Canada for a mechanism that will enable
16 the long-term deferral of recovery of depreciation expense from NS Power if the NS
17 Block continues to be delayed in 2021. Such long-term deferral would be affected by
18 utilizing cash currently held in NSPML’s DSRA. NSPML would replace such cash with
19 a low-cost LC. As further described in section 5.1.2, this mechanism would allow
20 NSPML to defer recovery of up to \$22.75 million (the amount of cash in the DSRA) of
21 depreciation expense until near the end of the term of the FLG debt in 2052. This in turn
22 will allow such deferred amounts to remain in NS Power’s FAM earning NS Power’s
23 WACC for the balance of the term of NS Power’s current Fuel Stability Period, partially
24 offsetting the costs of replacement power pending delivery of the NS Block to the
25 benefit of customers.

26
27 As certainty increases in the coming months and the NS Block begins to flow, NSPML
28 will be able to complete and file its application for approval of ML Final Project Costs
29 pursuant to section 8 of the *ML Regulations*. In their review of that upcoming application
30 the Board and all interested parties will have full opportunity to pose questions of

1 NSPML on all matters relevant to determination of NSPML's Final Project Costs on the
2 basis of a full factual record.

3
4 In the interim, NSPML requests that this 2021 Assessment application focussed on
5 NSPML's 2021 forecasted costs and adopting the framework previously developed by
6 the Board for NSPML's assessments from 2018 through 2020 be considered by way of
7 a written process so that a 2021 Assessment order can be issued by the Board and
8 implemented prior to January 1, 2021.

9

1 **4.0 QUARTERLY REPORTS**

2

3 NSPML’s forecast of the 2021 Assessment is supported by NSPML’s Quarterly Reports.
4 The most recent Quarterly Report filed by NSPML with the Board dated June 15, 2020
5 (June 2020 Quarterly Report) is attached to this Application as Appendix A. All Quarterly
6 Reports filed by NSPML with the Board are publicly available and may be found on the
7 Board’s website. Table 2 in the June 2020 Quarterly Report provides the cost summary for
8 the ML actual costs incurred to the end of Q1 2020 and forecast costs for the remainder of
9 the project’s construction related activities.

10 The forecasts outlined in the Quarterly Reports confirm that ML capital costs remain within
11 the amount approved by the Board and within budget at a forecast capital cost of no more
12 than \$1.577 billion. The Quarterly Reports have also tracked and recorded financing costs
13 associated with AFUDC. NSPML has accumulated a total of \$209 million in AFUDC as
14 at December 31, 2017²⁵ which is less than the \$230 million amount approved by the Board
15 in its 2013 ML approval decision.

16

²⁵ NSPML Quarterly Report Q1 2019, April 15, 2019, section 3.0.

5.0 REQUESTED 2021 ASSESSMENT

5.1.1 Recovery of 2021 Project Costs

NSPML seeks an assessment and recovery from NS Power of 2021 ML costs in the sum of \$172.2 million. This figure includes a full year of depreciation expense and amortized deferred financing charges, and is subject to NSPML's proposal for further reduction by way of a deferral of these components of the 2021 Assessment as detailed later in this section in the event that delivery of the NS Block is delayed into 2021. The components of the requested 2021 Assessment prior to the proposed deferrals in the event of further delay of the NS Block are outlined in Table 1 below:

Table 1

Description	\$M	Section #
Operating & Maintenance Costs	\$21.5	5.1.1
Depreciation *	55.6	5.1.2
Debt Financing Costs		5.1.3
- Annual Net Interest Costs	44.5	5.1.3.1
- Amortization of Deferred Financing Charges	1.6	5.1.3.2
Equity Financing Costs	49.0	5.1.4
Total Interim Assessment	\$172.2	

* Subject to reduction through deferrals from and after January 1, 2021 to a maximum reduction of \$22.75 million.

For recovery of the 2021 Assessment, NSPML anticipates continuing the existing process of using monthly invoices, payable by NS Power on the first day of each month, commencing on January 1, 2021 for all cost components. In the event of delay of the NS Block into 2021, NSPML anticipates holding back a monthly portion of the \$10

1 million holdback from these invoices as well as deferring recovery of depreciation and
2 amortized deferred financing costs following the approach approved for 2020 and with
3 the addition of the proposed further reduction of the 2021 assessment by way of the
4 deferral of depreciation through access to the DSRA funds, all as explained elsewhere
5 in this evidence.

6
7 Appendix B to this Application provides the monthly amounts proposed to be recovered
8 from NS Power in respect of the 2021 Assessment under three illustrative scenarios,
9 dependent on when the NS Block commences.

10
11 The individual components of the assessment required for 2021, as outlined in Table 1,
12 are explained further below.

13
14
15 **5.1.2 Operating & Maintenance Costs**

16
17 NSPML has forecasted that its operating and maintenance costs for 2021 will total \$21.5
18 million which is comprised of the cost categories outlined in Table 2.

19
20 This forecast is based upon NSPML’s experience in operating and maintaining the ML
21 since January 2018. It represents an increase of approximately \$0.9 million as compared
22 to the 2020 forecasted operating and maintenance costs approved during the 2019
23 Interim Cost Assessment proceeding²⁶. The increases over prior year are primarily due
24 to an increase in insurance costs consistent with increases in market costs in the
25 insurance industry and ensuring appropriate resourcing, including that required to
26 transition from original equipment manufacturer (“OEM”) contract-provided services
27 to internally delivered services.

28
29

²⁶ 2019 NSUARB M09277, NSPML 2020 Interim Application, page 15, Table 2.

Table 2: Operations and Maintenance Forecast – 2021 (\$ millions)

Operating & Maintenance Costs (Amounts in \$millions)	2020	2021
Labour and Administration	6.9	8.3
Converters and substation operations	4.7	4.6
Marine Surveillance	3.3	2.8
Vegetation Management	1.3	1.2
Insurance	2.2	3.0
Independent Engineer	0.3	0.3
Environmental Assessment	0.4	0.3
Contingency	1.5	1.0
Total	20.6	21.5

5.1.3 Capital Cost Recovery via Depreciation

In its 2017 decision, the Board determined that the ML should be depreciated over a period of 35-years, as “[t]his will match the depreciation period with the delivery duration of the NS Block”.²⁷

Depreciation is the accounting methodology to enable a utility to recover the cost of constructing and financing its assets, as the value of the underlying assets are used through the service life of the asset. Accordingly, approval of final costs and an assumed asset service life is generally the basis upon which depreciation is calculated.

In NSPML’s case, the funds collected through ML asset depreciation expense are to be used to return proceeds to the ML bondholders and shareholder whose investments funded the project pursuant to the FLG structure. The principal repayment obligations are specified by the terms of the bonds issued and ML Credit Agreement. NSPML’s ML Credit Agreement obligations are not impacted or relieved by when the NS Block is, or is not, delivered. The ML Credit Agreement requires that NSPML pay its debt principal

²⁷ *Supra*, note 8, paragraph 184.

1 payments on a semi-annual basis, beginning December 1, 2020. There are two payments
2 required in 2021; the first in June and the second in December.²⁸

3
4 In advance of each bond principal repayment date NSPML must recover sufficient funds
5 to allow it to meet its financing obligations pursuant to the FLG underpinning the ML.
6 In particular, recovery of depreciation and amortized deferred financing costs as
7 outlined in this Application is required in order for NSPML (i) to repay principal on the
8 debt under the ML Credit Agreement²⁹ owing to the ML Financing Trust³⁰ which is
9 required for the ML Financing Trust to repay principal on the bonds issued under the
10 ML Trust Indenture (and which are guaranteed under the FLG) to support the financing
11 of the Project and (ii) to return equity to NSPML's shareholder to maintain NSPML's
12 UARB approved DER in 2021.

13
14 The Board's 2017 decision acknowledges the benefits to customers of the FLG
15 arrangement and that virtually all stakeholders expressly recognize that NSPML must
16 be able to recover expenses necessary to meet its obligations under the ML Credit
17 Agreement and in connection with the FLG.³¹ The Board in its 2019 decision approved
18 commencement of recovery by NSPML of depreciation in order to support timely
19 payment of the government guaranteed debt supporting the ML Project and in order to
20 ensure that there would be no default under the provisions of the ML Credit Agreement
21 and the FLG.³²

22
23 Accordingly, until such time as the final costs and the asset service lives are determined
24 as part of NSPML's Final Project Costs approval proceeding, NSPML proposed in its
25 2019 application for a 2020 assessment, and the Board approved, setting NSPML's

²⁸ First Supplemental Indenture dated April 23, 2014, between Maritime Link Financing Trust by its Trustee, BNY Trust Company of Canada, and Computershare Trust Company of Canada as Indenture Trustee, Schedule A - Payment Schedule. 2019 NSUARB M09277 NSUARB IR-6 Attachment 1.

²⁹ 2017 NSUARB M07718, NSPML Response to NSUARB IR-009, Attachment 2.

³⁰ ML Financing Trust is the entity that provides debt funds to NSPML to finance the Maritime Link and has received the guarantee from Canada.

³¹ *Supra*, note 8, paragraphs 95, 99, 102.

³² *Supra*, note 1, paragraph 31.

1 depreciation expense to equal what is required to meet its bond principal repayment
2 obligations and return equity to maintain the DER.

3
4 In 2020, based on one debt principal payment requirement, the approved cost recovery
5 was \$28.6 million. In 2021, two debt principal payments are required (one in June and
6 the second in December), so the amount being requested for recovery in 2021 is \$57.2
7 million. NSPML proposes that this be recovered through \$1.6m of deferred financing
8 amortization expense and \$55.6 million of depreciation expense (subject to a potential
9 reduction in this amount as described below). In the event of delay of delivery of the
10 NS Block into 2021, NSPML proposes to defer recovery of depreciation and
11 amortization of deferred financing costs within the year in a manner consistent with its
12 2020 assessment, with the addition of further, long-term deferral of depreciation
13 expense enabled through NSPML's proposal to access funds currently held in the
14 DSRA.

15
16 With the support of the Government of Canada, NSPML proposes to utilize a LC in
17 replacement of cash in the DSRA so as to be able to access those funds, thereby making
18 up to \$22.75 million in cash held in the DSRA available to apply towards 2021 financing
19 obligations in the event of further delay of the NS Block. The amounts so withdrawn
20 would therefore not be required to be collected by NSPML from NS Power as
21 depreciation expense. Rather such amounts would remain in NS Power's FAM earning
22 NS Power's WACC for the balance of the current Fuel Stability Plan period and help
23 offset the costs of replacement power pending delivery of the NS Block.

24
25 If delivery of the NS Block commences prior to January 1, 2021, NSPML will recover
26 from NS Power the full annual depreciation expense of \$55.6 million in monthly
27 depreciation expense payments of \$4.6 million.

28
29 Should delivery of the NS Block be delayed into 2021, then with respect to the period
30 from January through May, 2021, NSPML proposes to reduce the total depreciation
31 expense recovery from NS Power during this period by \$4.6 million for each month

1 during which delivery of the NS Block is delayed, up to a maximum reduction of \$22.75
2 million, which equals the total cash in the DSRA. Any such reduction in depreciation
3 expense in 2021 will be recovered from customers near the end of the FLG debt term
4 which is in the latter years of the ML depreciation period. During NS Power's current
5 Fuel Stability Plan period, the reduction in depreciation payments would remain in NS
6 Power's Fuel Adjustment Mechanism (FAM) deferral account, earning WACC for the
7 benefit of Nova Scotia customers.

8
9 The depreciation expense required by NSPML for the period January through May,
10 2021 is \$27.8 million, subject to the potential reductions noted in this Section. The
11 maximum amount in the DSRA available to enable a reduction of recovery of
12 depreciation expense by NSPML is \$22.75 million. Accordingly, should delivery of the
13 NS Block be delayed beyond May 1, 2021, NSPML would include in its May 1, 2021
14 invoice to NS Power an amount of \$5.05 million (\$27.8 million - \$22.75 million) for
15 depreciation expense recovery, to enable NSPML to meet its June 1st debt principal
16 obligation and maintain its DER.

17
18 In the event the NS Block commences between January 1 and May, 1, 2021, then
19 NSPML will recover from NS Power a total amount equal to \$27.8 million less the
20 amount withdrawn from the DSRA (up to the \$22.75 million maximum) in equal
21 monthly amounts beginning the month following the date on which delivery of the NS
22 Block commences and ending May 1, 2021.

23 In the event that the NS Block has not commenced by June 1, 2021, NSPML proposes
24 to continue to defer recovery of the second \$27.8 million component of depreciation
25 until the earlier of the delivery of the NS Block or November 1, 2021 in the same manner
26 as directed by the Board in 2020. Each month of deferred recovery from and after June
27 1, 2021 would be added, pro-rata, to the depreciation expense payments to be recovered
28 by NSPML once delivery of the NS Block commences, or November 1, 2021, whichever
29 is earlier.

1 **5.1.4 Debt Financing Costs**

2
3 In addition to the debt principal repayment obligations addressed in section 5.1.2 above,
4 NSPML projects debt financing costs of \$46.1 million in 2021, comprised of the
5 following two components:

- 6
7 (a) Annual net interest costs of \$44.5 million; and
8 (b) Amortization of deferred financing charges of \$1.6 million.

9
10 Each of these items is addressed below.

11
12 **5.1.4.1 Annual Net Interest Costs**

13
14 As noted in Table 1, the requested recovery of total annual net interest costs in 2021 is
15 \$44.5 million. This is comprised of total coupon interest costs of \$44.5 million, an
16 estimated letter of credit fee of \$0.2 million and offsetting estimated interest revenues
17 of \$0.2 million.

18
19 The debt financing of the ML under the ML Credit Agreement is based on the \$1.3
20 billion bonds issued by ML Financing Trust and guaranteed in accordance with the
21 FLG. The bonds have a locked-in coupon interest rate of 3.50 percent during their
22 term. This fixed 3.50 percent coupon interest rate is payable on a semi-annual basis.

23
24 The coupon interest cost in 2021 is \$44.5 million³³. The \$44.5 million is required in
25 2020 to pay semi-annual interest payments of \$22.4 million due on June 1 and \$22.1
26 million due on December 1. The reduction in coupon interest costs from 2020 results
27 from reduction of the principal amount following \$20 million semi-annual principal
28 repayments which begin on December 1, 2020.

³³ First Supplemental Indenture dated April 23, 2014, between Maritime Link Financing Trust by its Trustee, BNY Trust Company of Canada, and Computershare Trust Company of Canada as Indenture Trustee, Schedule A - Payment Schedule. 2019 NSUARB M09277 NSUARB IR-6 Attachment 1.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27

NSPML forecasts earning interest revenue on cash in its accounts, including the DSRA, which it estimates will approximate \$0.2 million in 2021.

As noted during the 2019 proceeding to set NSPML’s 2020 assessment³⁴, the DSRA is required by the terms of the ML Credit Agreement to increase from \$22.75 million to \$42.75 million in 2020 (given the requirement to fund 6 months of both interest and principal). NSPML will address this requirement for increase by way of arranging an LC, as permitted under the ML Credit Agreement and as otherwise permitted by the Government of Canada. NSPML’s proposal to replace some or all (depending on the length of delay of delivery of the NS Block) of the existing DSRA cash with an LC, as described in section 5.1.2 above, will result in an increase in the \$20 million LC in 2021 up to a maximum of \$42.75 million. Based on the estimated annual cost in 2021 (approximately 0.6% multiplied by the total amount of LC) of maintaining such an LC, the total cost of the LC in 2021 is estimated to be \$0.2 million.

5.1.4.2 Amortization of Deferred Financing Charges

As noted in Table 1, the requested recovery of Amortization of Deferred Financing Charges for 2021 is \$1.6 million.

NSPML incurred financing charges of approximately \$50.1 million³⁵ related to the \$1.3 billion in debt financing for the Project raised through the bonds issued by ML Financing Trust and guaranteed in accordance with the FLG. Of the \$50.1 million of financing costs, \$4.4 million was amortized during the ML construction period and has thus been included in the \$209 million in AFUDC accrued to date. In 2020, a further

³⁴ 2019 NSUARB M09277, NSPML Response to NSUARB IR-009, part (a).
³⁵ NSPML previously forecasted deferred financing charges to be approximately \$55 million. See M07718, Interim Cost Assessment Application, December 16, 2016, page 25, lines 15-17.

1 \$0.8 million is being amortized, which leaves an unamortized balance at the beginning
2 of 2021 of \$44.9 million.

3
4 NSPML proposes to collect \$1.6 million in 2021 in equal monthly payments but
5 subject to the partial deferral mechanism adopted by the Board in 2020 in respect of
6 amortization of these costs. Accordingly, NSPML proposes to collect amortized
7 deferred financing charges in 2021 as follows;

8
9 1. If delivery of the NS Block commences prior to January 1, 2021, in equal
10 monthly payments of \$0.133 million.

11
12 2. If delivery of the NS Block does not commence prior to January 1, 2021, then;

13
14 a. For the period January through May 2021, NSPML will recover from NS
15 Power a total of \$0.8 million prorated monthly commencing on the later
16 of January 1, 2021 or the first day of the month following the month in
17 which delivery of the NS Block commences and ending on May 1, 2021,
18 or, if delivery of the NS Block is delayed beyond May 1, 2021 then in
19 one lump sum payment of \$0.8 million from NS Power on May 1, 2021;
20 and

21
22 b. For the period June through November 2021, NSPML will recover from
23 NS Power a total of \$0.8 million prorated monthly commencing on the
24 later of June 1, 2021 or the first day of the month following the month in
25 which delivery of the NS Block commences and ending on November 1,
26 2021, or, if delivery of the NS Block is delayed beyond November 1,
27 2021 then in one lump sum payment of \$0.8 million from NS Power on
28 November 1, 2021.

1 **5.1.5 Equity Financing Costs**

2
3
4
5
6
7
8
9

NSPML is forecasting that its shareholder will have an average³⁶ shareholder equity (capital stock and retained earnings) of approximately \$542 million invested in 2021. This is in accord with the 30 percent equity invested, pursuant to the Board approved project capital structure. As a result, the requested 2021 Assessment includes a Return on Equity of \$49.0 million using the Board-approved 9.0 percent rate of Return on Equity.

³⁶ Based on 5 quarters (Q4 2019 as well as 4 quarters in 2020).

1 **6.0 HOLDBACK**

2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

NSPML proposes to continue in 2021 the holdback mechanism developed and applied by the Board to NSPML’s previous assessments.

In its 2017 decision on NSPML’s 2018 and 2019 assessments the Board directed NS Power to hold back \$10 million from NSPML’s assessment in each of 2018 and 2019 pending demonstration of a minimum of \$10 million in benefits to customers for each holdback year.

In its application for a 2020 assessment NSPML proposed to continue the previously directed holdback structure and amount. In its 2019 decision on NSPML’s 2020 assessment the Board accepted that proposal and ordered application of the \$10 million holdback for the 2020 assessment year, prorated to all days in 2020 prior to the commencement of delivery of the NS Block.³⁷

Consistent with NSPML’s proposal in this Application to continue the framework of the 2018, 2019 and 2020 assessments through 2021, NSPML proposes that NS Power hold back from the 2021 Assessment payments the annualized amount of \$10 million, prorated in the same manner as directed for 2020. NSPML will apply to the Board for release to NSPML of the amount held back by NS Power in the manner directed by the Board in its 2017 decision and again in its 2019 decision; i.e. based on proof satisfactory to the Board of benefits for Nova Scotia customers from operation of the ML equal in value to the amount held back.

³⁷ *Supra*, note 1, paragraph 48.

1 **7.0 REQUEST FOR RELIEF**

2
3 In consideration of the above, NSPML respectfully requests that the Board issue an
4 order pursuant to section 64 of *the Public Utilities Act* and section 8(1) of the *Maritime*
5 *Link Cost Recovery Process Regulations* and based on forecasted 2021 ML costs and
6 expenses for recovery in 2021 of a total of \$172.2 million, to be recovered as follows:

7
8 1. **Base Assessment.** The amount of \$115.0 million to be recovered against NS
9 Power in 2021, excluding depreciation and amortization of deferred financing
10 charges as provided for in paragraphs 2 and 3 below, and approving a schedule
11 of monthly charges starting on January 1, 2021 in accordance with Appendix B
12 to this Application;

13
14 2. **Depreciation and Amortized Financing Charges: January – May.** To enable
15 the required June 1, 2021, debt principal repayment under the ML Credit
16 Agreement and maintain the DER, **by May 1, 2021**, NSPML will recover
17 depreciation expense of no more than \$27.8 million and amortization of deferred
18 financing charges totaling \$0.8 million, in the following manner:

19
20 a. in respect of depreciation and the \$27.8 million cash requirement, NSPML
21 will recover proceeds from the DSRA and from NS Power as depreciation
22 expense as follows;

23
24 i. if delivery of the NS Block commences between January 1 and
25 April 30, 2021, NSPML will recover:

- 26
27 1. from the DSRA, \$4.6 million for each month up to and
28 including the month in which the NS Block commences,
29 to a maximum of \$18.4 million; and
30
31 2. from NS Power as depreciation expense, an amount
32 equal to \$27.8 million less the total amount recovered
-

1 from the DSRA, such amount to be recovered in equal
2 monthly payments according to the number of months
3 following the month in which the NS Block commences
4 up to and including May; and

5
6 ii. if delivery of the NS Block has not commenced by May 1,
7 2021, NSPML will recover

8
9 1. from the DSRA, \$22.75 million; and

10
11 2. from NS Power as depreciation expense, \$5.05 million
12 on May 1, 2021; and

13
14 b. in respect of amortization of deferred financing costs, NSPML will recover
15 from NS Power a total of \$0.8 million prorated monthly commencing on the
16 later of January 1, 2021 or the first day of the month following the month in
17 which delivery of the NS Block commences and ending on May 1, 2021, or,
18 if delivery of the NS Block is delayed beyond May 1, 2021 then in one lump
19 sum payment of \$0.8 million from NS Power on May 1, 2021;

20
21 3. **Depreciation and Amortized Financing Charges: June – December.** To
22 enable the required December 1, 2021, debt principal repayment under the ML
23 Credit Agreement and maintain the DER, **by November 1, 2021**, NSPML will
24 recover depreciation expense of \$27.8 million and amortization of deferred
25 financing charges totaling \$0.8 million, in the following manner:

26
27 a. in respect of depreciation:

28
29 i. if delivery of the NS Block commences before June 1, 2021, from
30 NS Power as depreciation expense the total amount of \$27.8
31 million through six equal monthly payments between June 1 and
32 November 1, 2021;

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31

ii. if delivery of the NS Block commences between June 1 and October 31, 2021, the total of \$27.8 million through equal monthly payments commencing on the first day of the month following the month in which delivery of the NS Block commences and ending on November 1, 2021; and

iii. if delivery of the NS Block has not commenced by November 1, 2021, the total amount of \$27.8 million in one lump sum on November 1, 2021.

b. in respect of amortization of deferred financing costs, NSPML will recover from NS Power a total of \$0.8 million prorated monthly commencing on the later of June 1, 2021 or the first day of the month following the month in which delivery of the NS Block commences and ending on November 1, 2021, or, if delivery of the NS Block is delayed beyond November 1, 2021 then in one lump sum payment of \$0.8 million from NS Power on November 1, 2021.

4. **Holdback.** The monthly charges set out in Appendix B will be subject to holdback by NS Power of the annualized amount of \$10 million prorated to all days in 2021 prior to commencement of delivery of the NS Block. The amount held back will be released by NS Power to NSPML upon proof satisfactory to the Board of ML benefits for Nova Scotia customers from operation of the ML equal in value to the amount held back.

As a result of the uncertainty and further delay to delivery of the NS Block caused by the COVID-19 pandemic, NSPML has intentionally focussed this application on only its 2021 forecasted costs and adopted the assessment framework previously developed

1 by the Board for NSPML's assessments from 2018 through 2020. NSPML has also
2 arranged for a long-term deferral of up to \$22.75 million of depreciation expense
3 recovery should the NS Block be delayed into 2021, which results in a positive net
4 present value to customers and will further mitigate replacement power costs which NS
5 Power will incur should delivery of the NS Block be delayed into 2021. NSPML
6 requests that this 2021 Assessment application be considered by way of a written process
7 so that a 2021 Assessment order can be issued by the Board and implemented prior to
8 January 1, 2021.

Nova Scotia Utility and Review Board

IN THE MATTER OF

*The Maritime Link Act, S.N.S 2012 c.9
and the
Maritime Link Cost Recovery Process Regulation, N.S. Reg. 189/2012*

NSPML Quarterly Report Q2 2020

June 15, 2020

Table of Contents

1.0	Introduction.....	3
2.0	Update of Project Schedule.....	4
2.1	Gates and Milestones	4
2.2	Safety.....	4
2.3	Commercial Activities.....	4
2.3.1	Land Access Agreements.....	9
2.3.2	Funding	9
2.3.3	Joint Development Agreements.....	9
2.4	Engineering Activities.....	10
2.5	Submarine Cables.....	10
2.6	Converters and Substations	11
2.7	Transmission Lines	11
2.8	Independent Engineer.....	12
2.9	Status of Nalcor Project and Muskrat Falls.....	12
2.10	Status of Benefits to NS Power Customers.....	14
3.0	Updated Cost Summary	15
4.0	Cost Flow	18
5.0	Interim Assessment Financial Update 2020	20

1 **1.0 INTRODUCTION**

2

3 This is the Q2 2020 Quarterly Report for the Maritime Link as directed by the Utility
4 and Review Board (UARB) where the UARB ordered in its Supplemental Decision:

5

6 [115]....detailed reports must be filed by NSPML on a semi-
7 annual basis, on June 15 and December 15 each year. The reports
8 shall commence December 15, 2013. Updated status reports must
9 be filed quarterly.

10

11 As per the UARB's order in its Decision regarding the Maritime Link Interim Cost
12 Assessment (M07718), this Report now includes detail regarding the status of the
13 construction of Nalcor's assets.

14

15 This Decision also requested that the quarterly reports include an accounting of all
16 transactions related to this project, cash flow analysis, and a reporting of the financial
17 and other benefits realized for ratepayers from the Maritime Link prior to delivery of
18 the Nova Scotia Block and Nalcor market-priced energy. Given that the benefits to
19 ratepayers prior to the Nova Scotia Block and Nalcor market-priced energy are secured
20 by Nova Scotia Power through the Maritime Link, Nova Scotia Power will report on
21 these in its Quarterly Fuel Adjustment Mechanism Report.

1 **2.0 UPDATE OF PROJECT SCHEDULE**

2

3 The Maritime Link was placed in-service on January 15, 2018.

4

5 Detail respecting the status of the Nalcor Project and Muskrat Falls is outlined in
6 Section 2.9.

7

8 **2.1 Gates and Milestones**

9

10 The Maritime Link was placed in-service January 15, 2018.

11

12 **2.2 Safety**

13

14 Improving and advancing the safety of Maritime Link remains one of NSPML's most
15 fundamental strategic objectives. NSPML consistently works to address and enhance
16 safety through coordinated activities and targets and has set out to promote health and
17 safety in the workplace, including the physical and mental health of all employees.

18

19 There have been no recordable incidents to date in 2020 and operations staff are
20 adhering to safety protocol established in response to COVID-19.

21

22 **2.3 Commercial Activities**

23

24 The key major procurement activities are presented in Table 1 with an update of the
25 status for each initiative.

26

27

28

29

30

31

32

1 **Table 1 Key Major Procurement Activities**

2

Commercial Activity	Background	Initiative Number	Status in June 2020
HVDC Submarine Cable Supply and Installation	The Contract was awarded to Nexans in January 2014. Substantial Completion occurred in September, 2017. Contract Final Completion Certificate signed February 5, 2018.	E11-18	Closed
Converter stations, switchyards and related structures (“converters and structures”)	The Contract was awarded to ABB Inc. in June 2014. Final System Test Completed January 15, 2018. Substantial Completion achieved on January 15, 2018.	E12-74	System studies requirements are being finalized, anticipated by Q3 2020.
Right of Way Clearing along Transmission Lines	Contracts were awarded to Majors Logging Limited in NL and to R. MacLean Forestry in NS in February 2014.	E13-88	Closed
Transmission Structures and Grillages	The Contract was awarded to Kalpataru Power Transmission Ltd. in September 2014 for design and delivery of Structures and Grillages.	E13-85	Closed

Commercial Activity	Background	Initiative Number	Status in June 2020
Site Preparation Services (Includes construction of access road upgrades)	<p>The Contract was awarded to JonelJim Concrete Construction (1994) Ltd. for NS Site Preparation Services in September 2014.</p> <p>Contracts awarded to Marine Contractors Inc., MCI Limited Partnership for NL Site Preparation Services in September 2014.</p>	E13-92	<p>Closed</p> <p>Closed</p>
Transmission Line Construction	<p>E13-95 contract terminated as of late 2016.</p> <p>Contract replaced with E16-284 and E16-269 previously reported.</p>	E13-95	Contract Closeout is in progress.
Transmission Line Construction – NL AC Line	The contract with PowerTel was re-assigned to NSPML for the completion of the two Grounding Lines and the HVAC Line. Final Completion was achieved January 31, 2019.	E16-284	Contract Closeout is in progress.
Transmission Line Construction - NL and NS HVDC Lines	The contract for the construction of the HVDC Transmission Lines was awarded to a joint venture of Emera Utility Services and Rokstad Power Corporation (ERJV).	E16-269	Contract Closeout is in progress.

Commercial Activity	Background	Initiative Number	Status in June 2020
Transmission Line Conductors	<p>The Contract for the supply of conductors was awarded to Midal Cables in March 2015.</p> <p>The contract for the supply of OPGW was awarded to Composite Power Group Inc. in June 2015. This is also within the scope of the E13-87 initiative.</p>	E13-87	<p>Closed</p> <p>Closed</p>
Horizontal Directional Drill (HDD) Construction Program	<p>Contract awarded to Directional Horizontal Drilling (DHD) in January 2016.</p> <p>E13-157 was divided into two contracts.</p> <p>E13-157 A was awarded to Schlumberger in March 2016 for the supply of HDD fluids. E13-157B was awarded to Baker Hughes in April 2016 for the Supply of directional drilling services, drill bits and other materials.</p> <p>E13-158 for marine intervention services was awarded in April 2016 to DOF Marine.</p> <p>The supply of the HDD casing (E15-238) was awarded to East Coast Tubulars Limited in October 2015.</p>	<p>E13-156</p> <p>E13-157</p> <p>E13-158</p> <p>E15-238</p>	<p>Closed</p> <p>Closed</p> <p>Closed</p> <p>Closed</p>

Commercial Activity	Background	Initiative Number	Status in June 2020
Accommodations Operations	The contract for the accommodations operations services was awarded to East Coast Catering in April 2015.	E13-89	Closed

1 **2.3.1 Land Access Agreements**

2

3 The majority of land rights are now in place, and NSPML is in the final stages of
4 securing any outstanding rights; moving to expropriation as required where agreement
5 could not be reached, or landowners could not be found. These easements do not
6 impact the ability of the project to complete contract closeouts or to operate according
7 to plan.

8

9 **2.3.2 Funding**

10

11 The IE Certificates allow for Project costs to be paid from the proceeds of the
12 Maritime Link Construction Loan under the payment terms of the Material Project
13 Documents and the Maritime Link Credit Agreement. A draw was requested and
14 approved in February 2020 which was the final draw on the \$1.3 billion proceeds. The
15 IE does not issue a Certificate specific to draws that occur after Commissioning such
16 as this most recent draw. Any such draws must be approved by the Collateral Agent
17 acting on Canada's behalf.

18

19 **2.3.3 Joint Development Agreements**

20

21 NSPML continues to work with Nalcor and NS Power to finalize the remaining
22 operational agreements arising from the Formal Agreements with Nalcor. Please refer
23 to Attachment 1 for details on the status of these Agreements, which indicate four
24 Agreements remain to be concluded.

1 **2.4 Engineering Activities**

2

3 Engineering is captured in three main categories across several Work Breakdown
4 Structures (“WBSs”):

5

6 • HVDC Submarine Cable Supply and Installation - Completed.

7

8 • HVDC Converters and Substations – All HVDC Converters and AC
9 Substations drawings are complete and have been accepted. The second draft
10 of the short circuit performance study (and the associated system models) has
11 been received and is under review.

12

13 • Overland Transmission – All project as-builts completed.

14

15 **2.5 Submarine Cables**

16

17 The Cable Integrity Risk Assessment (CIRA) model has been updated using the 2019
18 survey results and indicates the Maritime Link remains well protected and aligned
19 with industry best practice. Ice risk continues to be the governing external threat to the
20 cables with the primary source of this risk continuing to be sea-ice over the last
21 kilometre approaching the HDD outlet at Point Aconi. Following the burial of the
22 cables below 400 meters, risk from anchors and fishing gear is low and the overall
23 return periods are within industry norms.

24

25 Procurement activities are underway for the 2020 Cable Inspection Survey, with the
26 objective of completing a full survey of both cables. If COVID-19 response measures
27 persist during the planned execution of this work, a contingency plan has been
28 developed to complete a partial survey in a manner aligned with the required
29 protection measures.

30

1 Additionally, the team has initiated discussions on a Contingency Services Agreement
2 to support the broader Cable Inspection, Maintenance and Repair Framework. The
3 objective is to conclude contract discussions in the third quarter this year.
4

5 **2.6 Converters and Substations**

6

7 The Construction of the Converters and Substations was completed with the
8 conclusion of system testing and the Maritime Link placed in-service on January 15,
9 2018 and all punch list items are completed.
10

11 **2.7 Transmission Lines**

12

13 NSPML is finalizing multiple procurements with respect to HVDC Transmission
14 works in 2020, which will confirm the approach to the previously identified corrective
15 work related to Optical Ground Wire (OPGW) suspension clamps, OPGW/Overhead
16 Shield Wire (OHSW) jumpers, and conductors damage resulting from loose vibration
17 dampers. Designs have been developed to resolve each issue. Material procurements
18 are underway, and the required parts ordered. Work is underway to select contractors
19 to implement the identified solutions. NSPML is forecasting to address the OPGW and
20 OHSW issues by Q3 2020; however, the uncertainty caused by COVID-19 is affecting
21 delivery of replacement dampers to resolve the conductor damage issue and this will
22 likely mean that the damper installation work will take place in 2021. This is not
23 expected to pose an issue from a safety or reliability perspective. NSPML continues to
24 progress both warranty and insurance claims.
25

26 Work on the rerouting of a short section of the NL HVAC line near Southwest Brook
27 restarted in May 2020, which was required due to soil erosion on the hillside near the
28 base of multiple structures. All new structures and associated anchors have been
29 installed. The work was adjusted to accommodate COVID-19 protocols including
30 reduced crew size; however, the work is still expected to be completed in June.
31

1 The overhead transmission system continues to perform well through the second year
2 of operations with no significant reliability or downtime impacts experienced.

3 4 **2.8 Independent Engineer**

5
6 NSPML continues to be engaged with the Independent Engineer (IE) related to the
7 Operations phase of the Maritime Link, as per the Federal Loan Guarantee
8 requirements. Site visits will continue to occur routinely, and the IE will provide
9 annual confirmation to Canada and the Collateral Agent that the assets are being
10 operated and maintained appropriately.

11 12 **2.9 Status of Nalcor Project and Muskrat Falls**

13
14 Nalcor's latest project update, published at the end of May for construction activity to
15 the end of March, continues to indicate that overall construction of the Muskrat Falls
16 Project is greater than 99% completed¹.

17
18 The latest report from Nalcor, published on May 28, 2020 indicates the following
19 progress as of March 2020:

- 20
21 • Overall construction progress of all components of the Muskrat Falls Project at
22 the end of February was over 99% complete. Construction is considered
23 substantially complete over all Nalcor assets (LIL, LTA, Muskrat Falls
24 Generating Facility).

25
26 For the Muskrat Falls Hydroelectric Generating Facility, key recent activities include:

- 27
28 • Andritz Hydro Canada Inc. continued commissioning activities for Unit 1,
29 including continuing with wet commissioning. Minor issues arose during Unit
30 1 commission that were addressed by the contractor. The contractor advised
31 that replacement of the generator rotor rim keys was required on the Muskrat

¹ Muskrat Falls Project Monthly Report, March 2020, dated May 28, 2020, page 4, section 2.0.

1 units; and fabrication of the replacement keys was expedited by the contractor.
2 Replacement of the Unit 1 and Unit 2 generator rotor rim keys is now
3 complete.

- 4
- 5 • April's report from Nalcor indicated that Installation and testing work
6 continued to advance on Units 2, 3 and 4, and Cahill-Ganotec continued
7 mechanical completion and commissioning activities throughout the
8 Powerhouse.
- 9

10 **Labrador Transmission Assets (LTA)**

11

12 Turnover of the Churchill Falls and Muskrat Falls AC Switchyards to Nalcor Energy –
13 Power supply Operations has been completed.

14

15 **Labrador-Island Transmission Link (LIL)**

16

17 Activities for LIL continued and included:

18

- 19 • Continuation of HVDC Control System software development by GE Grid.
 - 20 • Prior to suspension of activities in March due to COVID-19, work continued
21 on punch list items at the Forteau Point and Shoal Cove Transition
22 Compounds.
- 23

24 On March 17, 2020, Nalcor announced that it had temporarily paused construction
25 activities at the Muskrat Falls site in response to the COVID-19 pandemic. With the
26 Muskrat Falls and Soldiers Pond sites being placed into a care and maintenance mode
27 resulting from the COVID-19 pandemic, the NS Block will not commence mid-year as
28 previously forecasted. At present, Nalcor has projected at least a four-month delay in
29 its construction schedule as a result of the COVID-19 related delays. NSPML
30 continues to be engaged with Nalcor and is closely monitoring Nalcor's plans to safely
31 resume work on its Project sites in Muskrat Falls in June and mitigate the effects to
32 schedule, including consideration of the timing of the Nova Scotia Block. Nalcor has

1 expressed its desire to resume all work at site as soon as it is safe to do so for its
2 employees, contractors, and associated communities.

3
4 Prior to the pause in construction activities, Nalcor's commissioning work on the
5 synchronous condensers had identified material vibration and binding issues -
6 vibration identified during Unit 3 work and binding during Unit 1 and 2 work.
7 Investigation of the vibration issue is ongoing, however, the binding issues have been
8 resolved. GE Power started a phased remobilization of personnel to the Soldiers Pond
9 site on May 12, 2020. Synchronous Condenser Unit 2 balancing was ongoing in
10 March 2020 but was not complete before the site ramp down. GE Power re-
11 commenced commissioning activities on Synchronous Condenser Unit 2 on May 25,
12 2020 and is making this work a priority.

13
14 With respect to the HVDC Control System Software development, since the pause of
15 work at the construction sites in NL, Nalcor and its Contractor, GE Grid, have been
16 able to safely continue development. Testing of the interim Protections & Controls
17 (P&C) Software needed for operations and the first pass of the Factory Acceptance
18 Testing (FAT) for the software has been completed. FAT testing began on April 19
19 and concluded on May 1, 2020. Nalcor management, the Independent Third Parties
20 and the Independent Engineer participated in or observed FAT activities from remote
21 locations. Certain bugs were identified during FAT that require fixing and GE is in
22 the process of investigating and resolving those bugs. Nalcor is working closely with
23 the Independent Third Parties and GE to confirm the completion and corrective action
24 plan for any identified issues.

25 26 **2.10 Status of Benefits to NS Power Customers**

27
28 Customer benefits received to date are being reported by NS Power with its Quarterly
29 Fuel Adjustment Mechanism Report.

3.0 UPDATED COST SUMMARY

As per Enerco U-31, section 6, the details below outline the DG3 forecasted costs.

Table 2 provides an updated cost summary for the Maritime Link, which includes actual costs incurred as of March 31, 2020 and forecasted total costs for the remainder of the Project's construction activities.

Costs associated with trenching the submarine cables as noted in section 2.5 (and associated with transmission line corrective work noted in section 2.7) are reflected in this report.

NSPML continues to track and report all costs, actual and forecast, consistent with the methodologies used in the cost forecast represented in the Maritime Link Project Application. Capitalized project costs include fully allocated costs for the entire Project Management Team, including contractors, employees, executives dedicated to the project, and NS Power seconded employees at affiliate mark-up rates according to the Affiliate Code of Conduct. All costs provided are in Canadian dollars.

Actual AFUDC has been tracked and recorded monthly up to December 31, 2017 and totals approximately \$209 million as of that date, which is below the \$230 million amount estimated at the time of filing of NSPML's Application.

1 **Table 2 Updated Cost Summary for the Maritime Link Project**

2

(000's of Canadian Dollars)	Actual Costs						Total Project to Date	Estimate to Completion	Total Project Estimate at Completion (A)
	2011-2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020			
Emera NL Project Management Costs	185,442	2,741	1,140	2,390	538	940	193,191	1,584	194,774
Nalcor Project Support Costs	16,216	15	12	(28)	-	-	16,215	(1)	16,214
Construction and Engineering Initiatives	1,324,162	944	1,212	14,493	4,763	(108)	1,345,466	7,271	1,352,737
Environmental Approval	18,239	33	54	19	52	-	18,397	39	18,436
Submarine and related	325,422	-	-	14,711	3,593	(648)	343,078	648	343,726
Converters, structures, and other ancillary equipment	547,113	275	422	133	317	50	548,310	2,508	550,818
AC and DC Transmission	433,388	636	736	(370)	801	490	435,681	4,076	439,757
Total	1,525,820	3,700	2,364	16,855	5,301	832	1,554,872	8,854	1,563,725
Contingency							-	-	-
Escalation								13,629	13,629
Grand Total	1,525,820	3,700	2,364	16,855	5,301	832	1,554,872	22,483	1,577,354

3

4

5

6

7

Note: Total forecast for Project completion continues to be within \$1.577 M. No amount has been estimated in this forecast for the potential recovery of costs from third parties, which continue to be advanced. Any such recovery will be used to reduce the final cost.

1 **Total Actual Project Costs at end of Q3 2019 Compared to Previous Forecast**

2
3 The total actual project capital costs incurred during Q1 2020 of \$832,000 are detailed
4 below:

- 5
6 • Emera NL Project Management Costs of \$940,000: Project management costs
7 continue to be incurred as work advances relating to closing out of contracts,
8 procuring and managing punch list and corrective activities, and ensuring
9 appropriate documentation is in place for project closeout and regulatory
10 purposes. NSPML has segregated these capital costs from costs relating to
11 operating and maintenance activities and have expensed such operating and
12 maintenance costs accordingly.
- 13
14 • Submarine and related credit of \$648,000: This reflects an adjustment for final
15 costs associated with the 2019 subsea cable trenching work.
- 16
17 • Converters, structures, and other ancillary equipment of \$50,000: This reflects
18 the cost of NL Hydro and NS Power system upgrades and modifications, as
19 well as the procurement of material spares in both provinces.
- 20
21 • AC and DC Transmission of \$490,000: This reflects corrective transmission
22 activities.

23
24 The Project capital cost remains within budget.

1 **4.0 COST FLOW**

2

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

31

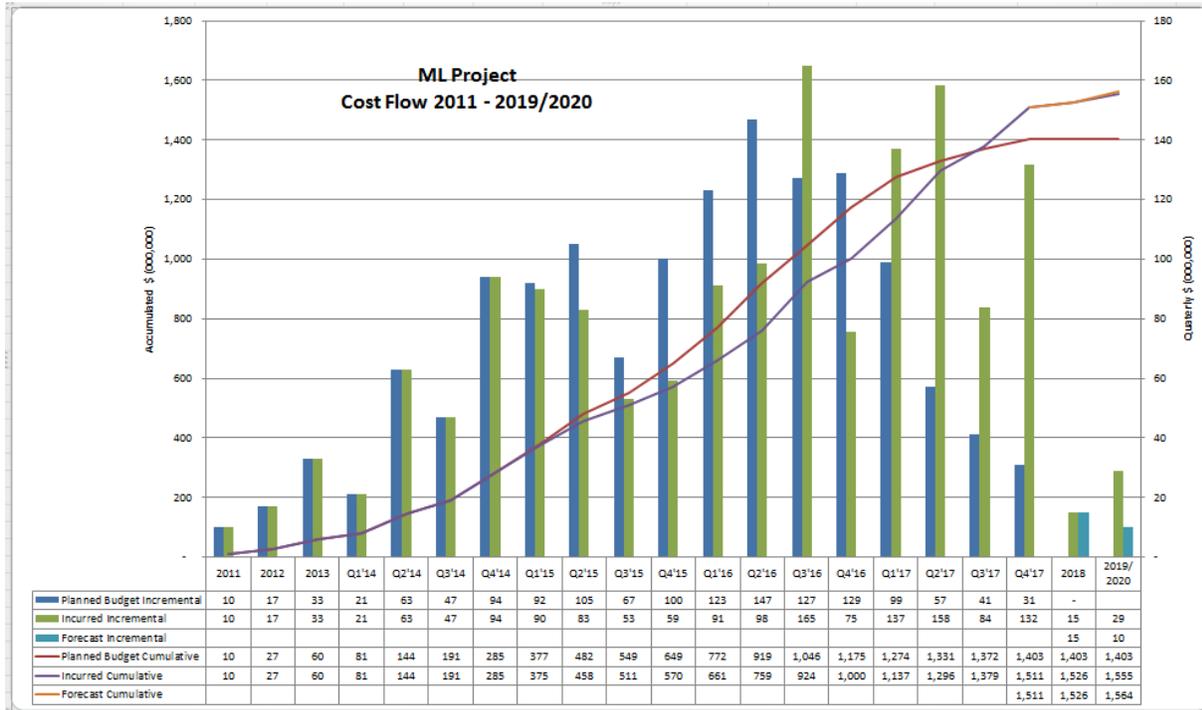
32

As per Enerco U-31, section 2.2, please refer to Table 3 below for the cost flow of the Maritime Link. This cost flow report for the base capital spending is now forecast at \$1.564 billion; a contingency draw was approved by the Company's board of directors in Q1 2020. The total of the base capital spending, escalation, and contingency amounts remains at or below \$1.577 billion.

The remaining budget includes forecasted costs relating to transmission corrective activities, completion of documentation and close out of payments to contractors, as well as regulatory and environmental requirements relating to the construction aspect of the project. Certain of these costs are expected to take place in 2020 and will require further draws on remaining budgeted contingency/escalation balances. The total forecast of base capital spending, escalation, and contingency amounts for the project remains at or below \$1.577 billion.

1 **Table 3 Maritime Link Cost Flow**

2



3

4

1 **5.0 INTERIM ASSESSMENT FINANCIAL UPDATE 2020**

2

3

With the Maritime Link placed in-service on January 15, 2018, NSPML continues to

4

receive monthly cost recovery revenues from NS Power pursuant to the Board's

5

November 27, 2019 Order. NSPML forecasts its 2020 operating and maintenance,

6

debt and equity financing costs to approximate the amounts budgeted for the year.

Operating Agreement Requirements Arising from the Formal Agreements

	Agreement	Parties	Description	Formal Agreement Source	Status
1.	Asset Interconnection Agreement (NL)	Emera, NLH	Interconnection of ML with the Island Interconnected System	ML-JDA, s. 2.1 (c)	Completed
2.	Multi-Party Pooling Agreement	Emera, NLH	NLH (SO) to have operational control of ML NLH AC Upgrades	ML-JDA, s. 2.1 (d)	Completed
3.	Transmission Operating Agreement (NL)	Emera, NLH	NLH (SO) to have operational control of ML NL HVdc Facilities	ML-JDA, s. 2.1 (e)	Completed
4.	Asset Interconnection Agreement (NS)	Emera, NSPI	Interconnection of ML with NS bulk electric transmission system	ML-JDA, s. 2.1 (f)(i)	Completed
5.	Transmission Operating Agreement (NS)	Emera, NSPI	NS SO to have general operational control of the ML	ML-JDA, s. 2.1 (f)(ii)	Completed
6.	ECA – Metering and Measuring Standards – Transmission Losses	NSPML, Nalcor	Metering and measuring standards used in the calculation of Transmission Losses	ECA, Schedule 3, s. 5	Completed
7.	Regulation Service Agreement	NS Power NLH	Nalcor’s provision of the Regulation Service with respect to the Nova Scotia Block for the Initial Term	ECA, Schedule 5	Expect completion prior to delivery of the NS Block
8.	Metering and Measuring Standards – NS NTQ transmission losses	NSPML, Nalcor	Metering and measuring standards used in calculation of NS –NTQ Path Peak and Off-Peak Hour transmission losses	NSTUA, Schedule 3, s. 6	Completed
9.	NB Back-up Capacity Agreement	Bayside Power L.P, Nalcor	Emera’s provision of backup Capacity to NB to Nalcor until March 31, 2021	NBTUA, s. 2.1(d)	No longer required given sale of Bayside to NB Power.
10.	IOA – ML Transmission Procedures	NSPI, NLH	Rules and practices applicable to administration of transmission service over the ML	IOA, Schedule D	Completed
11.	IOA – Reserve Sharing	NSPI, NLH	Sharing of energy and reserves between the Parties to improve Reliability	IOA, Schedule A	Completed
12.	IOA – Description of Interconnection Facilities	NSPI, NLH	Description of Interconnection Facilities for which each Party is responsible	IOA, Schedule B	Completed
13.	IOA – Functional Operating Relationship	NSPI, NLH	Various matters relating to operating relationship	IOA, Schedule C	Completed
14.	IOA – Operating	NSPI, NLH	IOC to develop “operating	IOA s.7.2 and s. 7.4(a)	Completed

	Procedures		procedures”		
15.	IOA – Schedule A1.0	NSPI, NLH	Parties to prepare a plan for NLH participation in Reliability Assessment Program (“RAP”)	IOA Schedule A1.0	Completed
16.	ML TSA – ML Scheduling Process	Emera and Nalcor	Scheduling process applicable to the provision of Firm Point-to-Point Transmission Service	MLTSAs, Schedule 2	Completed
17.	Amendments to Formal Agreements	Emera, Nalcor	Amendments to Formal Agreements required by Sanction Agreement	Sanction Agreement	Completed
18.	Energy Access Agreement	Emera, Nalcor	Commitments regarding access to market priced energy	Compliance Filing, Appendix A	Completed
19.	Balancing Service Agreement	Emera, Nalcor	Nalcor commitment to provide balancing services from generation sources in NL for 25 years.	Energy Access Agreement Term Sheet, s. 7(g) and Appendix 1	Completed
20.	Assignment of Transmission Rights under ML(E)TSA	Emera, Nalcor	Assignment of Transmission Rights	ML(E)TSA, s. 3.3 (h)	Expect completion in 2020
21.	Assignment of Energy Access Agreement	Emera, Nalcor, NSPI and Nalcor Energy Marketing (NEM)	Assignment/assumption of Nalcor’s rights and obligations to/by NEM	EAA s. 15.1 (a)	Expect completion in 2020
22.	Assignment of Nalcor Master Agreement (EAA Schedule 2)	Nalcor, NSPI and NEM	Assignment/assumption of Nalcor’s rights and obligations to/by NEM	Nalcor Master Agreement s. 10.5 (a)	Expect completion in 2020
23.	JOA-Joint Operating Committee (“JOC”)	Nalcor and NSPML	Establish/Operationalize JOC	JOA s. 3.1, 3.5	Completed
24.	NS Transmission Utilization Agreement	Nalcor and Emera	Status of Emera firm Point to Point Transmission Service	NSTUA s.s.2.2 (a)-(c)	Completed

Nova Scotia Utility and Review Board

IN THE MATTER OF

*The Maritime Link Act, S.N.S 2012 c.9
and the
Maritime Link Cost Recovery Process Regulation, N.S. Reg. 189/2012*

NSPML Quarterly Report Q2 2020

June 15, 2020

Table of Contents

1.0 Introduction.....	3
2.0 Update of Project Schedule.....	4
2.1 Gates and Milestones	4
2.2 Safety.....	4
2.3 Commercial Activities.....	4
2.3.1 Land Access Agreements.....	9
2.3.2 Funding	9
2.3.3 Joint Development Agreements.....	9
2.4 Engineering Activities.....	10
2.5 Submarine Cables.....	10
2.6 Converters and Substations	11
2.7 Transmission Lines	11
2.8 Independent Engineer.....	12
2.9 Status of Nalcor Project and Muskrat Falls.....	12
2.10 Status of Benefits to NS Power Customers.....	14
3.0 Updated Cost Summary	15
4.0 Cost Flow	18
5.0 Interim Assessment Financial Update 2020	20

1 **1.0 INTRODUCTION**

2

3 This is the Q2 2020 Quarterly Report for the Maritime Link as directed by the Utility
4 and Review Board (UARB) where the UARB ordered in its Supplemental Decision:

5

6 [115]....detailed reports must be filed by NSPML on a semi-
7 annual basis, on June 15 and December 15 each year. The reports
8 shall commence December 15, 2013. Updated status reports must
9 be filed quarterly.

10

11 As per the UARB's order in its Decision regarding the Maritime Link Interim Cost
12 Assessment (M07718), this Report now includes detail regarding the status of the
13 construction of Nalcor's assets.

14

15 This Decision also requested that the quarterly reports include an accounting of all
16 transactions related to this project, cash flow analysis, and a reporting of the financial
17 and other benefits realized for ratepayers from the Maritime Link prior to delivery of
18 the Nova Scotia Block and Nalcor market-priced energy. Given that the benefits to
19 ratepayers prior to the Nova Scotia Block and Nalcor market-priced energy are secured
20 by Nova Scotia Power through the Maritime Link, Nova Scotia Power will report on
21 these in its Quarterly Fuel Adjustment Mechanism Report.

1 **2.0 UPDATE OF PROJECT SCHEDULE**

2

3 The Maritime Link was placed in-service on January 15, 2018.

4

5 Detail respecting the status of the Nalcor Project and Muskrat Falls is outlined in
6 Section 2.9.

7

8 **2.1 Gates and Milestones**

9

10 The Maritime Link was placed in-service January 15, 2018.

11

12 **2.2 Safety**

13

14 Improving and advancing the safety of Maritime Link remains one of NSPML's most
15 fundamental strategic objectives. NSPML consistently works to address and enhance
16 safety through coordinated activities and targets and has set out to promote health and
17 safety in the workplace, including the physical and mental health of all employees.

18

19 There have been no recordable incidents to date in 2020 and operations staff are
20 adhering to safety protocol established in response to COVID-19.

21

22 **2.3 Commercial Activities**

23

24 The key major procurement activities are presented in Table 1 with an update of the
25 status for each initiative.

26

27

28

29

30

31

32

1 **Table 1 Key Major Procurement Activities**

2

Commercial Activity	Background	Initiative Number	Status in June 2020
HVDC Submarine Cable Supply and Installation	The Contract was awarded to Nexans in January 2014. Substantial Completion occurred in September, 2017. Contract Final Completion Certificate signed February 5, 2018.	E11-18	Closed
Converter stations, switchyards and related structures (“converters and structures”)	The Contract was awarded to ABB Inc. in June 2014. Final System Test Completed January 15, 2018. Substantial Completion achieved on January 15, 2018.	E12-74	System studies requirements are being finalized, anticipated by Q3 2020.
Right of Way Clearing along Transmission Lines	Contracts were awarded to Majors Logging Limited in NL and to R. MacLean Forestry in NS in February 2014.	E13-88	Closed
Transmission Structures and Grillages	The Contract was awarded to Kalpataru Power Transmission Ltd. in September 2014 for design and delivery of Structures and Grillages.	E13-85	Closed

Commercial Activity	Background	Initiative Number	Status in June 2020
Site Preparation Services (Includes construction of access road upgrades)	<p>The Contract was awarded to JonelJim Concrete Construction (1994) Ltd. for NS Site Preparation Services in September 2014.</p> <p>Contracts awarded to Marine Contractors Inc., MCI Limited Partnership for NL Site Preparation Services in September 2014.</p>	E13-92	<p>Closed</p> <p>Closed</p>
Transmission Line Construction	<p>E13-95 contract terminated as of late 2016.</p> <p>Contract replaced with E16-284 and E16-269 previously reported.</p>	E13-95	Contract Closeout is in progress.
Transmission Line Construction – NL AC Line	The contract with PowerTel was re-assigned to NSPML for the completion of the two Grounding Lines and the HVAC Line. Final Completion was achieved January 31, 2019.	E16-284	Contract Closeout is in progress.
Transmission Line Construction - NL and NS HVDC Lines	The contract for the construction of the HVDC Transmission Lines was awarded to a joint venture of Emera Utility Services and Rokstad Power Corporation (ERJV).	E16-269	Contract Closeout is in progress.

Commercial Activity	Background	Initiative Number	Status in June 2020
Transmission Line Conductors	<p>The Contract for the supply of conductors was awarded to Midal Cables in March 2015.</p> <p>The contract for the supply of OPGW was awarded to Composite Power Group Inc. in June 2015. This is also within the scope of the E13-87 initiative.</p>	E13-87	<p>Closed</p> <p>Closed</p>
Horizontal Directional Drill (HDD) Construction Program	<p>Contract awarded to Directional Horizontal Drilling (DHD) in January 2016.</p> <p>E13-157 was divided into two contracts.</p> <p>E13-157 A was awarded to Schlumberger in March 2016 for the supply of HDD fluids. E13-157B was awarded to Baker Hughes in April 2016 for the Supply of directional drilling services, drill bits and other materials.</p> <p>E13-158 for marine intervention services was awarded in April 2016 to DOF Marine.</p> <p>The supply of the HDD casing (E15-238) was awarded to East Coast Tubulars Limited in October 2015.</p>	<p>E13-156</p> <p>E13-157</p> <p>E13-158</p> <p>E15-238</p>	<p>Closed</p> <p>Closed</p> <p>Closed</p> <p>Closed</p>

Commercial Activity	Background	Initiative Number	Status in June 2020
Accommodations Operations	The contract for the accommodations operations services was awarded to East Coast Catering in April 2015.	E13-89	Closed

1 **2.3.1 Land Access Agreements**

2

3 The majority of land rights are now in place, and NSPML is in the final stages of
4 securing any outstanding rights; moving to expropriation as required where agreement
5 could not be reached, or landowners could not be found. These easements do not
6 impact the ability of the project to complete contract closeouts or to operate according
7 to plan.

8

9 **2.3.2 Funding**

10

11 The IE Certificates allow for Project costs to be paid from the proceeds of the
12 Maritime Link Construction Loan under the payment terms of the Material Project
13 Documents and the Maritime Link Credit Agreement. A draw was requested and
14 approved in February 2020 which was the final draw on the \$1.3 billion proceeds. The
15 IE does not issue a Certificate specific to draws that occur after Commissioning such
16 as this most recent draw. Any such draws must be approved by the Collateral Agent
17 acting on Canada's behalf.

18

19 **2.3.3 Joint Development Agreements**

20

21 NSPML continues to work with Nalcor and NS Power to finalize the remaining
22 operational agreements arising from the Formal Agreements with Nalcor. Please refer
23 to Attachment 1 for details on the status of these Agreements, which indicate four
24 Agreements remain to be concluded.

1 **2.4 Engineering Activities**

2

3 Engineering is captured in three main categories across several Work Breakdown
4 Structures (“WBSs”):

5

6 • HVDC Submarine Cable Supply and Installation - Completed.

7

8 • HVDC Converters and Substations – All HVDC Converters and AC
9 Substations drawings are complete and have been accepted. The second draft
10 of the short circuit performance study (and the associated system models) has
11 been received and is under review.

12

13 • Overland Transmission – All project as-builts completed.

14

15 **2.5 Submarine Cables**

16

17 The Cable Integrity Risk Assessment (CIRA) model has been updated using the 2019
18 survey results and indicates the Maritime Link remains well protected and aligned
19 with industry best practice. Ice risk continues to be the governing external threat to the
20 cables with the primary source of this risk continuing to be sea-ice over the last
21 kilometre approaching the HDD outlet at Point Aconi. Following the burial of the
22 cables below 400 meters, risk from anchors and fishing gear is low and the overall
23 return periods are within industry norms.

24

25 Procurement activities are underway for the 2020 Cable Inspection Survey, with the
26 objective of completing a full survey of both cables. If COVID-19 response measures
27 persist during the planned execution of this work, a contingency plan has been
28 developed to complete a partial survey in a manner aligned with the required
29 protection measures.

30

1 Additionally, the team has initiated discussions on a Contingency Services Agreement
2 to support the broader Cable Inspection, Maintenance and Repair Framework. The
3 objective is to conclude contract discussions in the third quarter this year.
4

5 **2.6 Converters and Substations**

6
7 The Construction of the Converters and Substations was completed with the
8 conclusion of system testing and the Maritime Link placed in-service on January 15,
9 2018 and all punch list items are completed.
10

11 **2.7 Transmission Lines**

12
13 NSPML is finalizing multiple procurements with respect to HVDC Transmission
14 works in 2020, which will confirm the approach to the previously identified corrective
15 work related to Optical Ground Wire (OPGW) suspension clamps, OPGW/Overhead
16 Shield Wire (OHSW) jumpers, and conductors damage resulting from loose vibration
17 dampers. Designs have been developed to resolve each issue. Material procurements
18 are underway, and the required parts ordered. Work is underway to select contractors
19 to implement the identified solutions. NSPML is forecasting to address the OPGW and
20 OHSW issues by Q3 2020; however, the uncertainty caused by COVID-19 is affecting
21 delivery of replacement dampers to resolve the conductor damage issue and this will
22 likely mean that the damper installation work will take place in 2021. This is not
23 expected to pose an issue from a safety or reliability perspective. NSPML continues to
24 progress both warranty and insurance claims.
25

26 Work on the rerouting of a short section of the NL HVAC line near Southwest Brook
27 restarted in May 2020, which was required due to soil erosion on the hillside near the
28 base of multiple structures. All new structures and associated anchors have been
29 installed. The work was adjusted to accommodate COVID-19 protocols including
30 reduced crew size; however, the work is still expected to be completed in June.
31

1 The overhead transmission system continues to perform well through the second year
2 of operations with no significant reliability or downtime impacts experienced.

3 4 **2.8 Independent Engineer**

5
6 NSPML continues to be engaged with the Independent Engineer (IE) related to the
7 Operations phase of the Maritime Link, as per the Federal Loan Guarantee
8 requirements. Site visits will continue to occur routinely, and the IE will provide
9 annual confirmation to Canada and the Collateral Agent that the assets are being
10 operated and maintained appropriately.

11 12 **2.9 Status of Nalcor Project and Muskrat Falls**

13
14 Nalcor's latest project update, published at the end of May for construction activity to
15 the end of March, continues to indicate that overall construction of the Muskrat Falls
16 Project is greater than 99% completed¹.

17
18 The latest report from Nalcor, published on May 28, 2020 indicates the following
19 progress as of March 2020:

- 20
21 • Overall construction progress of all components of the Muskrat Falls Project at
22 the end of February was over 99% complete. Construction is considered
23 substantially complete over all Nalcor assets (LIL, LTA, Muskrat Falls
24 Generating Facility).

25
26 For the Muskrat Falls Hydroelectric Generating Facility, key recent activities include:

- 27
28 • Andritz Hydro Canada Inc. continued commissioning activities for Unit 1,
29 including continuing with wet commissioning. Minor issues arose during Unit
30 1 commission that were addressed by the contractor. The contractor advised
31 that replacement of the generator rotor rim keys was required on the Muskrat

¹ Muskrat Falls Project Monthly Report, March 2020, dated May 28, 2020, page 4, section 2.0.

1 units; and fabrication of the replacement keys was expedited by the contractor.
2 Replacement of the Unit 1 and Unit 2 generator rotor rim keys is now
3 complete.

- 4
- 5 • April's report from Nalcor indicated that Installation and testing work
6 continued to advance on Units 2, 3 and 4, and Cahill-Ganotec continued
7 mechanical completion and commissioning activities throughout the
8 Powerhouse.
- 9

10 **Labrador Transmission Assets (LTA)**

11
12 Turnover of the Churchill Falls and Muskrat Falls AC Switchyards to Nalcor Energy –
13 Power supply Operations has been completed.

14 **Labrador-Island Transmission Link (LIL)**

15
16
17 Activities for LIL continued and included:

- 18
- 19 • Continuation of HVDC Control System software development by GE Grid.
 - 20 • Prior to suspension of activities in March due to COVID-19, work continued
21 on punch list items at the Forteau Point and Shoal Cove Transition
22 Compounds.
- 23

24 On March 17, 2020, Nalcor announced that it had temporarily paused construction
25 activities at the Muskrat Falls site in response to the COVID-19 pandemic. With the
26 Muskrat Falls and Soldiers Pond sites being placed into a care and maintenance mode
27 resulting from the COVID-19 pandemic, the NS Block will not commence mid-year as
28 previously forecasted. At present, Nalcor has projected at least a four-month delay in
29 its construction schedule as a result of the COVID-19 related delays. NSPML
30 continues to be engaged with Nalcor and is closely monitoring Nalcor's plans to safely
31 resume work on its Project sites in Muskrat Falls in June and mitigate the effects to
32 schedule, including consideration of the timing of the Nova Scotia Block. Nalcor has

1 expressed its desire to resume all work at site as soon as it is safe to do so for its
2 employees, contractors, and associated communities.

3
4 Prior to the pause in construction activities, Nalcor's commissioning work on the
5 synchronous condensers had identified material vibration and binding issues -
6 vibration identified during Unit 3 work and binding during Unit 1 and 2 work.
7 Investigation of the vibration issue is ongoing, however, the binding issues have been
8 resolved. GE Power started a phased remobilization of personnel to the Soldiers Pond
9 site on May 12, 2020. Synchronous Condenser Unit 2 balancing was ongoing in
10 March 2020 but was not complete before the site ramp down. GE Power re-
11 commenced commissioning activities on Synchronous Condenser Unit 2 on May 25,
12 2020 and is making this work a priority.

13
14 With respect to the HVDC Control System Software development, since the pause of
15 work at the construction sites in NL, Nalcor and its Contractor, GE Grid, have been
16 able to safely continue development. Testing of the interim Protections & Controls
17 (P&C) Software needed for operations and the first pass of the Factory Acceptance
18 Testing (FAT) for the software has been completed. FAT testing began on April 19
19 and concluded on May 1, 2020. Nalcor management, the Independent Third Parties
20 and the Independent Engineer participated in or observed FAT activities from remote
21 locations. Certain bugs were identified during FAT that require fixing and GE is in
22 the process of investigating and resolving those bugs. Nalcor is working closely with
23 the Independent Third Parties and GE to confirm the completion and corrective action
24 plan for any identified issues.

25 26 **2.10 Status of Benefits to NS Power Customers**

27
28 Customer benefits received to date are being reported by NS Power with its Quarterly
29 Fuel Adjustment Mechanism Report.

3.0 UPDATED COST SUMMARY

As per Enerco U-31, section 6, the details below outline the DG3 forecasted costs.

Table 2 provides an updated cost summary for the Maritime Link, which includes actual costs incurred as of March 31, 2020 and forecasted total costs for the remainder of the Project's construction activities.

Costs associated with trenching the submarine cables as noted in section 2.5 (and associated with transmission line corrective work noted in section 2.7) are reflected in this report.

NSPML continues to track and report all costs, actual and forecast, consistent with the methodologies used in the cost forecast represented in the Maritime Link Project Application. Capitalized project costs include fully allocated costs for the entire Project Management Team, including contractors, employees, executives dedicated to the project, and NS Power seconded employees at affiliate mark-up rates according to the Affiliate Code of Conduct. All costs provided are in Canadian dollars.

Actual AFUDC has been tracked and recorded monthly up to December 31, 2017 and totals approximately \$209 million as of that date, which is below the \$230 million amount estimated at the time of filing of NSPML's Application.

1 **Table 2 Updated Cost Summary for the Maritime Link Project**

2

(000's of Canadian Dollars)	Actual Costs						Total Project to Date	Estimate to Completion	Total Project Estimate at Completion (A)
	Description	2011-2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019			
Emera NL Project Management Costs	185,442	2,741	1,140	2,390	538	940	193,191	1,584	194,774
Nalcor Project Support Costs	16,216	15	12	(28)	-	-	16,215	(1)	16,214
Construction and Engineering Initiatives	1,324,162	944	1,212	14,493	4,763	(108)	1,345,466	7,271	1,352,737
Environmental Approval	18,239	33	54	19	52	-	18,397	39	18,436
Submarine and related	325,422	-	-	14,711	3,593	(648)	343,078	648	343,726
Converters, structures, and other ancillary equipment	547,113	275	422	133	317	50	548,310	2,508	550,818
AC and DC Transmission	433,388	636	736	(370)	801	490	435,681	4,076	439,757
Total	1,525,820	3,700	2,364	16,855	5,301	832	1,554,872	8,854	1,563,725
Contingency							-	-	-
Escalation								13,629	13,629
Grand Total	1,525,820	3,700	2,364	16,855	5,301	832	1,554,872	22,483	1,577,354

3

4

5

6

7

Note: Total forecast for Project completion continues to be within \$1.577 M. No amount has been estimated in this forecast for the potential recovery of costs from third parties, which continue to be advanced. Any such recovery will be used to reduce the final cost.

1 **Total Actual Project Costs at end of Q3 2019 Compared to Previous Forecast**

2
3 The total actual project capital costs incurred during Q1 2020 of \$832,000 are detailed
4 below:

- 5
6 • Emera NL Project Management Costs of \$940,000: Project management costs
7 continue to be incurred as work advances relating to closing out of contracts,
8 procuring and managing punch list and corrective activities, and ensuring
9 appropriate documentation is in place for project closeout and regulatory
10 purposes. NSPML has segregated these capital costs from costs relating to
11 operating and maintenance activities and have expensed such operating and
12 maintenance costs accordingly.
- 13
14 • Submarine and related credit of \$648,000: This reflects an adjustment for final
15 costs associated with the 2019 subsea cable trenching work.
- 16
17 • Converters, structures, and other ancillary equipment of \$50,000: This reflects
18 the cost of NL Hydro and NS Power system upgrades and modifications, as
19 well as the procurement of material spares in both provinces.
- 20
21 • AC and DC Transmission of \$490,000: This reflects corrective transmission
22 activities.

23
24 The Project capital cost remains within budget.

1 **4.0 COST FLOW**

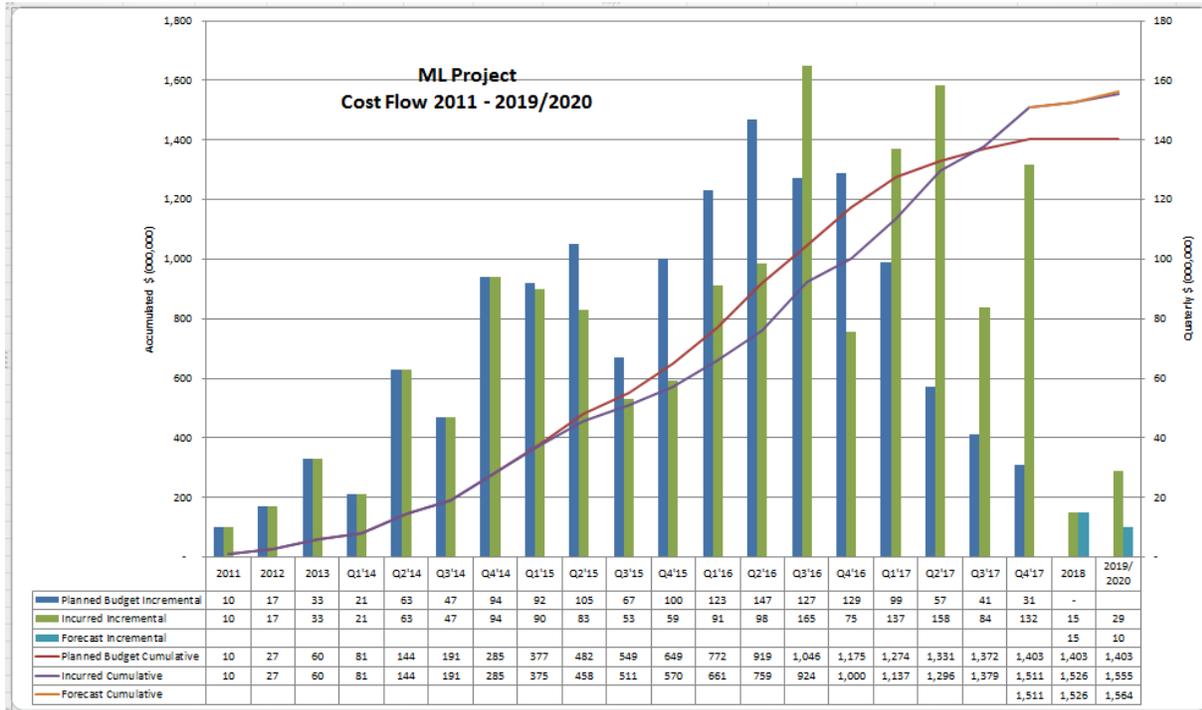
2
3 As per Enerco U-31, section 2.2, please refer to Table 3 below for the cost flow of the
4 Maritime Link. This cost flow report for the base capital spending is now forecast at
5 \$1.564 billion; a contingency draw was approved by the Company's board of directors
6 in Q1 2020. The total of the base capital spending, escalation, and contingency
7 amounts remains at or below \$1.577 billion.

8
9 The remaining budget includes forecasted costs relating to transmission corrective
10 activities, completion of documentation and close out of payments to contractors, as
11 well as regulatory and environmental requirements relating to the construction aspect
12 of the project. Certain of these costs are expected to take place in 2020 and will require
13 further draws on remaining budgeted contingency/escalation balances. The total
14 forecast of base capital spending, escalation, and contingency amounts for the project
15 remains at or below \$1.577 billion.

16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32

1 **Table 3 Maritime Link Cost Flow**

2



3

4

1 **5.0 INTERIM ASSESSMENT FINANCIAL UPDATE 2020**

2

3 With the Maritime Link placed in-service on January 15, 2018, NSPML continues to
4 receive monthly cost recovery revenues from NS Power pursuant to the Board's
5 November 27, 2019 Order. NSPML forecasts its 2020 operating and maintenance,
6 debt and equity financing costs to approximate the amounts budgeted for the year.

Operating Agreement Requirements Arising from the Formal Agreements

	Agreement	Parties	Description	Formal Agreement Source	Status
1.	Asset Interconnection Agreement (NL)	Emera, NLH	Interconnection of ML with the Island Interconnected System	ML-JDA, s. 2.1 (c)	Completed
2.	Multi-Party Pooling Agreement	Emera, NLH	NLH (SO) to have operational control of ML NLH AC Upgrades	ML-JDA, s. 2.1 (d)	Completed
3.	Transmission Operating Agreement (NL)	Emera, NLH	NLH (SO) to have operational control of ML NL HVdc Facilities	ML-JDA, s. 2.1 (e)	Completed
4.	Asset Interconnection Agreement (NS)	Emera, NSPI	Interconnection of ML with NS bulk electric transmission system	ML-JDA, s. 2.1 (f)(i)	Completed
5.	Transmission Operating Agreement (NS)	Emera, NSPI	NS SO to have general operational control of the ML	ML-JDA, s. 2.1 (f)(ii)	Completed
6.	ECA – Metering and Measuring Standards – Transmission Losses	NSPML, Nalcor	Metering and measuring standards used in the calculation of Transmission Losses	ECA, Schedule 3, s. 5	Completed
7.	Regulation Service Agreement	NS Power NLH	Nalcor’s provision of the Regulation Service with respect to the Nova Scotia Block for the Initial Term	ECA, Schedule 5	Expect completion prior to delivery of the NS Block
8.	Metering and Measuring Standards – NS NTQ transmission losses	NSPML, Nalcor	Metering and measuring standards used in calculation of NS –NTQ Path Peak and Off-Peak Hour transmission losses	NSTUA, Schedule 3, s. 6	Completed
9.	NB Back-up Capacity Agreement	Bayside Power L.P, Nalcor	Emera’s provision of backup Capacity to NB to Nalcor until March 31, 2021	NBTUA, s. 2.1(d)	No longer required given sale of Bayside to NB Power.
10.	IOA – ML Transmission Procedures	NSPI, NLH	Rules and practices applicable to administration of transmission service over the ML	IOA, Schedule D	Completed
11.	IOA – Reserve Sharing	NSPI, NLH	Sharing of energy and reserves between the Parties to improve Reliability	IOA, Schedule A	Completed
12.	IOA – Description of Interconnection Facilities	NSPI, NLH	Description of Interconnection Facilities for which each Party is responsible	IOA, Schedule B	Completed
13.	IOA – Functional Operating Relationship	NSPI, NLH	Various matters relating to operating relationship	IOA, Schedule C	Completed
14.	IOA – Operating	NSPI, NLH	IOC to develop “operating	IOA s.7.2 and s. 7.4(a)	Completed

	Procedures		procedures”		
15.	IOA – Schedule A1.0	NSPI, NLH	Parties to prepare a plan for NLH participation in Reliability Assessment Program (“RAP”)	IOA Schedule A1.0	Completed
16.	ML TSA – ML Scheduling Process	Emera and Nalcor	Scheduling process applicable to the provision of Firm Point-to-Point Transmission Service	MLTSAs, Schedule 2	Completed
17.	Amendments to Formal Agreements	Emera, Nalcor	Amendments to Formal Agreements required by Sanction Agreement	Sanction Agreement	Completed
18.	Energy Access Agreement	Emera, Nalcor	Commitments regarding access to market priced energy	Compliance Filing, Appendix A	Completed
19.	Balancing Service Agreement	Emera, Nalcor	Nalcor commitment to provide balancing services from generation sources in NL for 25 years.	Energy Access Agreement Term Sheet, s. 7(g) and Appendix 1	Completed
20.	Assignment of Transmission Rights under ML(E)TSA	Emera, Nalcor	Assignment of Transmission Rights	ML(E)TSA, s. 3.3 (h)	Expect completion in 2020
21.	Assignment of Energy Access Agreement	Emera, Nalcor, NSPI and Nalcor Energy Marketing (NEM)	Assignment/assumption of Nalcor’s rights and obligations to/by NEM	EAA s. 15.1 (a)	Expect completion in 2020
22.	Assignment of Nalcor Master Agreement (EAA Schedule 2)	Nalcor, NSPI and NEM	Assignment/assumption of Nalcor’s rights and obligations to/by NEM	Nalcor Master Agreement s. 10.5 (a)	Expect completion in 2020
23.	JOA-Joint Operating Committee (“JOC”)	Nalcor and NSPML	Establish/Operationalize JOC	JOA s. 3.1, 3.5	Completed
24.	NS Transmission Utilization Agreement	Nalcor and Emera	Status of Emera firm Point to Point Transmission Service	NSTUA s.s.2.2 (a)-(c)	Completed

