

October 7, 2025

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

Attention: Jo-Anne Galarneau
Executive Director and Board Secretary

**Re: Application for Approval of a Proposed General Expenses Capitalized Deferral Account –
Hydro's Reply**

On August 12, 2025, Newfoundland and Labrador Hydro ("Hydro") filed an application with the Board of Commissioners of Public Utilities ("Board") requesting approval of a deferral account to enable the deferral and recovery of capital-related general expenses, including the proposed methodology and capitalization rates.

The Board issued a review schedule for the application, which allowed for the filing of Requests for Information ("RFIs") by the parties. Hydro replied to various RFIs issued by the Board, Newfoundland Power Inc. ("Newfoundland Power") and the Island Industrial Customer Group ("IIC Group"), with all responses filed with the Board on September 22, 2025.

Comments from the IIC Group and Newfoundland Power were received on October 1, 2025. No comments were received from any other party.

Party Comments

IIC Group

The IIC Group advised that they do not support Hydro's application. They did not provide any comment specific to Hydro's proposed methodology and capitalization rates but noted that in their view the proposals should be addressed within the context of Hydro's next general rate application ("GRA"). The IIC Group noted that the general expenses proposed to be capitalized are currently being recovered through existing base rates and argued that placing these amounts in a deferral account for future recovery constitutes a tacit rate increase without the scrutiny of a full GRA.

The IIC Group argued that the application appeared to be primarily motivated by Hydro's wish to improve its return on rate base, not for regulatory efficiency. They submitted that approval of the application could disincentivize Hydro from filing its GRA in a timely manner and recommended that the Board reject the application and require Hydro to address the matter in the upcoming GRA.

Newfoundland Power

Newfoundland Power advised that they do not oppose Hydro's application, advising that in their view Hydro's application aligns with the Board's direction in Order No. P.U. 16(2021). They noted that Hydro's methodology to capitalize only those general expenses that are incremental to its capital program is consistent with Canadian utility practice and provides a reasonable overall result. Newfoundland Power further noted that Hydro's forecast return on rate base for 2025 and 2026 falls below the approved range, and the proposed effective date of January 1, 2025, would help improve this forecast, consistent with Section 80 of the *Public Utilities Act*.

Reply

Hydro's application is consistent with the Board's directions previously issued in Board Order No. P.U. 16(2021). In that order, while the Board did not approve the proposed definition of the deferral account or the proposed interim capitalization rate, the Board did agree with the establishment of a deferral account that would allow Hydro to capitalize overhead costs effective January 1, 2022. Hydro was directed to file the proposed deferral account definition along with evidence to support the proposed methodology and capitalization rate as part of its next GRA.

In acknowledging Hydro's concerns in the prior application, that deferring the matter to the GRA would result in a negative financial impact on Hydro in 2022 if the final Order for the GRA was not released until 2023, the Board noted that, "existing regulatory processes allow for the consideration of this matter in advance of the end of 2022 if circumstances are such that the Board's Order is not issued by then."¹

Due to delays in the filing of Hydro's GRA, a deferral account for the capitalization of general expenses was not established in 2022. Hydro's present application was submitted in advance of its next GRA to establish the new General Expenses Capitalized Deferral Account, effective as of January 1, 2025, and provides the proposed account definition along with the support for the methodology utilized in capitalizing general expenses that the Board had required in the previous application. Hydro's application also provides details with respect to the specific percentages to be applied to the operating labour costs in each department to determine the annual amount of capitalized general expenses that would be transferred to the deferral account.

The effective date of January 1, 2025 will allow Hydro to improve its return on rate base which is currently below 5.25%; the lower end of the range of return on rate base approved by the Board in Board Order No. P.U. 10(2025). As Newfoundland Power noted, Hydro's application is consistent with and made pursuant to Section 80 of the *Public Utilities Act* that stipulates that a utility is entitled to earn annually a just and reasonable return as determined by the Board. Deferral of this matter to Hydro's upcoming GRA, with the intended 2027 test year and an approval date unlikely before the end of 2026 will prolong the negative financial impact on Hydro.

As Hydro noted in its response to NP-NLH-005 of this proceeding Hydro is submitting certain applications, including the present application, in advance of its next GRA in the interest of regulatory

¹ Board Order No. P.U. 16(2021), p. 7/41-43.

efficiency. Specifically, the filing of these individual applications will allow for quicker approvals of specific projects and policy changes, while the GRA focuses on broader, more comprehensive issues.

Conclusion

Hydro intends to use the incremental method of capitalizing general expenses, capitalizing only those general expenses that are incremental to the utility as a result of its capital program. This approach will increase the comparability of Hydro and Newfoundland Power's capital-related overhead costs.

Hydro completed an assessment of its capital-related operating costs, and in doing so, determined whether a change in its capital program would result in a change in general expenses. This analysis enabled Hydro to estimate the amount of general expense in each department to be allocated to capital. Details of the analysis is provided in Schedule 1 to this application. Hydro provided further detailed explanation as to how it accounted for non-regulated capital work in determining incremental positions to calculate capitalization percentages in its response to PUB-NLH-002 of this proceeding.

Hydro submits that the application, Hydro's responses to RFIs, and the response herein summarizing the application and responding to the comments filed by the IIC Group and Newfoundland Power, provides fulsome support for Hydro's proposals regarding the General Expenses Capitalized Deferral Account and proposed methodology.

Hydro respectfully requests that the Board approve the application as filed.

Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



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