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October 3, 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 an Accounting Deviation for Rate Mitigation Funding

Enclosed is Newfoundland and Labrador Hydro's ("Hydro") application for approval of an accounting deviation necessary as a result of the amalgamation of Nalcor Energy ("Nalcor") and Hydro.

As a result of the amalgamation of the former Nalcor and Hydro, a change to the accounting for rate mitigation funding was required under International Financial Reporting Standards ("IFRS"). To facilitate the incorporation of rate mitigation funding into Hydro's test year and subsequent reporting, Hydro is requesting an accounting deviation to allow for the reporting and presentation of the rate mitigation funding to remain consistent with that which was in place prior to amalgamation.

Hydro originally requested approval of this accounting deviation within its Approval of a Proposed Long-Term Supply Cost Variance Deferral Account ("LT SCVDA") application, filed on May 23, 2025. As that application included requests for approval of modifications to Hydro's cost of service methodology related to the long-term plan for the current Supply Cost Variance Deferral Account, Hydro requested that the LT SCVDA Application be paused in light of Hydro's filing of an application for review and approval of an updated cost of service methodology. However, as the requested IFRS accounting deviation requires approval prior to the end of 2025 Hydro is filing separately for its approval. Upon the conclusion of the Cost of Service Methodology application, Hydro will amend the LT SCVDA application to remove the requests regarding the IFRS deviation.

Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO

A handwritten signature in blue ink, appearing to read "Shirley A. Walsh", is written over a horizontal line.

Shirley A. Walsh
Senior Legal Counsel, Regulatory
SAW/rr

Encl.

ecc:

Board of Commissioners of Public Utilities

Jacqui H. Glynn
Ryan Oake
Board General

Consumer Advocate

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Stephen F. Fitzgerald, KC, Browne Fitzgerald Morgan & Avis
Sarah G. Fitzgerald, Browne Fitzgerald Morgan & Avis
Bernice Bailey, Browne Fitzgerald Morgan & Avis

Labrador Interconnected Group

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Nicholas E. Kennedy, Olthuis Kleer Townshend LLP

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Sheryl E. Nisenbaum
Peter Strong

Newfoundland Power Inc.

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Glen G. Seaborn, Poole Althouse

Approval of an Accounting Deviation for Rate Mitigation Funding

October 3, 2025

An application to the Board of Commissioners of Public Utilities



IN THE MATTER OF the *Electrical Power Control Act, 1994*, SNL 1994, Chapter E-5.1 (“*EPCA*”) and the *Public Utilities Act*, RSNL 1990, Chapter P-47 (“*Act*”), and regulations thereunder; and

IN THE MATTER OF an application by Newfoundland and Labrador Hydro (“*Hydro*”) pursuant to Section 58 of the *Act*, for the approval of a deviation from International Financial Reporting Standards.

To: The Board of Commissioners of Public Utilities (“Board”)

THE APPLICATION OF HYDRO STATES THAT:

A. Background

1. Hydro is a corporation continued and existing under the *Hydro Corporation Act, 2024*, is a public utility within the meaning of the *Act*, and is subject to the provisions of the *EPCA*.
2. Under the *Act*, the Board has the general supervision of public utilities and requires that a public utility submit for the approval of the Board the rates, tolls, and charges for the service provided by the public utility and the rules and regulations which relate to that service.
3. In July 2021, Hydro applied for a new deferral account, the Supply Cost Variance Deferral Account (“*SCVDA*”), to provide a mechanism to deal with rate mitigation funding and rate changes implemented solely to recover Muskrat Falls Project (“*Project*”) costs. The Board approved Hydro’s proposals, effective November 1, 2021.¹
4. In addition to capturing the rate mitigation funding and rate changes noted above, the *SCVDA* enables the deferral of costs related to Hydro’s requirement to make payments under the Muskrat Falls Power Purchase Agreement (“*Muskrat Falls PPA*”), and the Transmission Funding Agreement (“*TFA*”) between Labrador-Island Link (“*LIL*”) Partnership and Hydro (collectively the “*Project Costs*”) prior to recovering these costs. The deferral account enables Hydro to isolate

¹ Board Order No’s. P.U. 33(2021) and P.U. 4(2022).

the net effect of Project Costs and rate mitigation (and related rate increases) in advance of Hydro's next general rate application ("GRA").

B. Application: International Financial Reporting Standards

5. Hydro adopted International Financial Reporting Standards ("IFRS") as of January 1, 2014, as approved in Board Order No. P.U. 13(2012). Hydro also elected to adopt IFRS 14 — *Regulatory Deferral Accounts* in its initial adoption of IFRS and subsequent financial statements, which permits Hydro to continue to account for regulatory deferral account balances. The adoption of IFRS 14 — *Regulatory Deferral Accounts* resulted in changes for financial statement presentation purposes only; there was no impact on ratepayers.
6. Subsequent to the amalgamation of Nalcor Energy and Hydro, effective January 1, 2025, a change to the accounting for rate mitigation funding was required under IFRS. To facilitate the incorporation of rate mitigation funding into Hydro's test year and subsequent reporting, Hydro is requesting an accounting deviation to allow for the accounting of rate mitigation funding to remain consistent with that which was in place prior to amalgamation. Further discussion of this issue is provided in Section 1.2 of Schedule 1.

C. Hydro's Requests

7. Hydro requests the Board approve Hydro's proposal to deviate from IFRS, effective January 1, 2025, to allow for the accounting of rate mitigation funding to remain consistent with that which was in place prior to amalgamation, resulting in rate mitigation funding being recognized as revenue.

D. Communications

8. Communications with respect to this application should be forwarded to Shirley A. Walsh, Senior Legal Counsel, Regulatory for Hydro.

DATED at St. John's in the province of Newfoundland and Labrador on this 3rd day of October, 2025.

NEWFOUNDLAND AND LABRADOR HYDRO



Shirley A. Walsh
Counsel for the Applicant
Newfoundland and Labrador Hydro
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St. John's, NL A1B 4K7
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Schedule 1

Evidence Supporting the Proposed Accounting Deviation



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1.0 Introduction

Newfoundland and Labrador Hydro's ("Hydro") existing Supply Cost Variance Deferral Account ("SCVDA") was approved by the Board of Commissioners of Public Utilities ("Board"), effective November 1, 2021, in Board Order No's. P.U. 33(2021) and P.U. 4(2022). The existing SCVDA enables the deferral of costs related to Hydro's requirement to make payments under the Muskrat Falls Power Purchase Agreement ("Muskrat Falls PPA"), and the Transmission Funding Agreement ("TFA") between Labrador-Island Link ("LIL") Partnership and Hydro (collectively the "Project Costs") prior to recovering these costs. The deferral account also captures rate mitigation funding and rate changes implemented solely to recover Project Costs to offset charges to Hydro. The deferral account enables Hydro to isolate the net effect of Project Costs and rate mitigation (and related rate increases) in advance of Hydro's next general rate application ("GRA").

In December 2024, the *Hydro Corporation Act, 2007* was repealed and replaced by the *Hydro Corporation Act, 2024*, which served to finalize the legal amalgamation of Nalcor Energy ("Nalcor") with Newfoundland and Labrador Hydro ("Hydro").

1.1 Application

Subsequent to the amalgamation of Nalcor and Hydro, effective January 1, 2025, a change to the accounting for rate mitigation funding was required under International Financial Reporting Standards ("IFRS"). To facilitate the incorporation of rate mitigation funding into Hydro's test year and subsequent reporting, Hydro is requesting an accounting deviation to allow for the rate mitigation funding to remain consistent with that which was in place prior to amalgamation. This will result in recognizing rate mitigation funding as revenue.

1.1.1 Rate Mitigation Funding

Rate mitigation results from a number of initiatives by the Government of Newfoundland and Labrador ("Government") to limit the impact of Project Costs on ratepayers, including the financial restructuring of the Lower Churchill Projects, the term sheets signed by the Government, Hydro and the Government

of Canada in February 2022,¹ and the Government's Rate Mitigation Plan, which was announced in May 2024.²

As part of the financial restructuring, a number of commercial agreements were executed that effectively reduce the charges to Hydro under the Muskrat Falls PPA, including a reduction in the rate of return earned under the Muskrat Falls PPA and the removal of the requirement to pay a debt guarantee fee on Federal Loan Guarantee debt proceeds.

In addition, as part of the financial restructuring, on December 22, 2022, a commercial agreement between the Government of Canada and the LIL (2021) Limited Partnership was executed, enabling access to \$1.0 billion in rate mitigation funding in the form of a convertible debenture. These funds are to be used for rate mitigation and are available in accordance with the terms of the convertible debenture. LIL (2021) Limited Partnership is entitled to make drawings in accordance with the terms and conditions of the convertible debenture and then transfers this funding to Hydro for the purpose of rate mitigation, to offset Project Costs owed from customers. To date, approximately \$445 million has been transferred to Hydro from LIL (2021) Limited Partnership and used to pay down the balance owing from customers in the existing SCVDA. This funding will continue on an annual basis until the convertible debenture is fully drawn.

The rate mitigation plan announced by the Government on May 16, 2024, included direction on rates for customers on the Island Interconnected System and also funding for balances in the SCVDA. The rate mitigation plan, as directed in Order in Council OC2024-062, requires that any additional funding required to reduce the balance in the SCVDA and achieve the 2.25% targeted increase come from Hydro's own resources. Orders in Council OC2024-062 and OC2024-063 directed the Board of Directors of Nalcor and Hydro that any additional funding required to mitigate Lower Churchill Project Costs or to retire the 2023 SCVDA balances of \$271 million be through Nalcor and Hydro's own sources.

¹ "Financial Restructuring Agreement for the Third Federal Loan Guarantee and LIL Investment Finalized," Newfoundland and Labrador Hydro, March 31, 2022

<https://nlhydro.com/financial-restructuring-agreement-for-third-federal-loan-guarantee-and-lil-investment-finalized/>.

² "Provincial Government Announces Finalization of Rate Mitigation Plan," Government of Newfoundland and Labrador, May 16, 2024 <https://www.gov.nl.ca/releases/2024/iet/0516n01/>.

Rate mitigation initiatives described above have resulted in reductions in amounts charged to Hydro through the commercial agreements, as well as providing sources of rate mitigation funding to be used by Hydro to offset the rate impacts of Project Costs.

1.2 Accounting Deviation

As a result of the amalgamation, a change to the accounting for rate mitigation funding is required pursuant to IFRS. Pre-amalgamation, rate mitigation funding was transferred from Nalcor, where it was recorded as an expense, to Hydro, where it was recorded as revenue and then deferred as part of the SCVDA, reducing the balance owing from customers.

Post-amalgamation, the recording of rate mitigation funding as revenue is not permitted under IFRS, as there is no transfer of funds from one legal entity to another. Effective January 1, 2025, in accordance with IFRS, rate mitigation funding will be recorded as an expense within the non-regulated operating segment of Hydro with a credit directly to the SCVDA to reduce the balance owing from customers. As a result, Hydro would not record the revenue relating to the rate mitigation funding.

In Hydro's next test year, Project Costs and rate mitigation funding will be reflected in customers' base rates, targeting increases of 2.25% per the Government's rate mitigation plan. When rate mitigation is reflected in customer base rates, the recognition of the funding as revenue is required to properly reflect Hydro's regulated net income. If rate mitigation funding included in customer base rates is not recognized as revenue, Hydro's regulated earnings will not include the rate mitigation contribution in the results of operations, likely resulting in a net loss.³

Hydro is proposing an accounting deviation, effective January 1, 2025, to continue with consistent accounting practice prior to amalgamation of recording rate mitigation funding as revenue in the regulated operating segment. For external financial reporting purposes, the rate mitigation revenue would be recorded as a regulatory adjustment under IFRS 14 — *Regulatory Deferral Accounts*.⁴

The requested accounting deviation will have no impact on customers.

³ Project Costs will be included as an expense, with only the variance from the test year deferred in Hydro's SCVDA; this would also be the case in Hydro's Long-Term SCVDA, proposed in Hydro's application for Approval of a Proposed Long-Term Supply Cost Variance Deferral Account filed May 23, 2025, for which the review schedule is currently paused. If rate mitigation is not recorded as revenue, Hydro's regulated operating segment will recognize a loss.

⁴ In addition, the variance from the actual rate mitigation and the test year rate mitigation will be recorded in the SCVDA, with a regulatory adjustment recorded on the income statement.

1 **2.0 Conclusion**

- 2 Hydro's proposed accounting deviation for rate mitigation funding will facilitate the consistent financial
3 reporting of rate mitigation funding pre- and post-amalgamation and the incorporation of rate
4 mitigation funding into Hydro's test year cost of service in its next GRA.

Affidavit



IN THE MATTER OF the *Electrical Power Control Act, 1994*, SNL 1994, Chapter E-5.1 (“EPCA”) and the *Public Utilities Act*, RSNL 1990, Chapter P-47 (“Act”), and regulations thereunder; and

IN THE MATTER OF an application by Newfoundland and Labrador Hydro (“Hydro”) pursuant to Section 58 of the *Act*, for the approval of a deviation from International Financial Reporting Standards.

AFFIDAVIT

I, Dana Pope, of St. John’s in the province of Newfoundland and Labrador, make oath and say as follows:

- 1) I am Vice President, Regulatory Affairs and Stakeholder Relations, Newfoundland and Labrador Hydro, the applicant named in the attached application.
- 2) I have read and understand the foregoing application.
- 3) To the best of my knowledge, information, and belief, all of the matters, facts, and things set out in this application are true.

SWORN at St. John’s in the province of Newfoundland and Labrador this 3rd day of October 2025, before me:



Barrister, Newfoundland and Labrador
Witnessed through the use of audio-visual technology in
accordance with the *Commissioners for Oaths Act* and
Commissioners for Oaths Regulations



Dana Pope, CPA (CA), MBA