

March 19, 2026

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

Attention: Colleen Jones
Assistant Board Secretary

Re: Application for the Recovery of Deferred 2025 Isolated Systems Supply Costs

Please find enclosed Newfoundland and Labrador Hydro's ("Hydro") application for approval to recover the deferred 2025 Isolated Systems Supply Costs ("Application").

In the Board of Commissioners of Public Utilities ("Board") Order No. P.U. 22(2017), the Board approved the definition of the Isolated Systems Supply Cost Variance Deferral Account. An application is required annually by March 31 for the disposition of the balance in the account. In addition, the annual application must include information regarding the proposed method of collection or refund of the balance from or to a customer class or classes, as well as Hydro's efforts during the year to minimize costs on the isolated systems.

This application is made in advance of the March 31 deadline to enable the recoverable amount to be reflected in the Utility rate, for which Hydro must file an application by April 17, as per direction from the Board.¹ Hydro has included in its evidence, as Schedule 1 of the Application, an update on the major initiatives it has utilized to minimize costs on the isolated systems.²

Hydro is seeking approval of the proposed allocation of the 2025 costs in the Isolated Systems Supply Cost Variance Deferral Account, totaling approximately \$6.3 million. The proposals are consistent with the methodologies approved for the Deferred Supply Costs from 2015 to 2024, as approved in Board Order No.'s P.U. 22(2017), P.U. 16(2019), P.U. 21(2019), P.U. 13(2020), P.U. 15(2021), P.U. 16(2022), P.U. 7(2023), P.U. 10(2024), and P.U. 13(2025).

Hydro proposes to recover the 2025 costs in the Isolated Systems Supply Cost Variance Deferral Account through a transfer of approximately \$6.1 million to Newfoundland Power Inc.'s ("Newfoundland Power") Rate Stabilization Plan Current Plan Account balance. If approved, this transfer will result in collection beginning July 1, 2026 for Newfoundland Power. The amount allocated to the Hydro Rural Labrador Interconnected customers of approximately \$0.2 million would be debited to Hydro's net income.

¹ "Newfoundland and Labrador Hydro - Application for July 1, 2022 Utility Rate Adjustments as per Order No. P.U. 19(2022) - To NLH - Response to January 26, 2023 Update and Schedule for Filing July 1, 2023 Rate Adjustments," Board of Commissioners of Public Utilities, February 21, 2023.

² Hydro will file its 2025 Report on the Rural Deficit with its 2025 Annual Return as there are inputs necessary for that report that are not available in sufficient time to include the report with this Application.

Colleen Jones
Board of Commissioners of Public Utilities

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Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



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

Encl.

ecc:

Board of Commissioners of Public Utilities

Jacqui H. Glynn
Ryan Oake
Board General

Consumer Advocate

Adrienne H.Y. Ding, O'Dea Earle
Justin W. King, O'Dea Earle

Linde Canada Inc.

Sheryl E. Nisenbaum
Peter Strong

Newfoundland Power Inc.

Dominic J. Foley
Douglas W. Wright
Regulatory Email

Teck Resources Limited

Darren Hennessey

Island Industrial Customer Group

Paul L. Coxworthy, Stewart McKelvey
Denis J. Fleming, Cox & Palmer
Glen G. Seaborn, Poole Althouse

Application for the Recovery of Deferred 2025 Isolated Systems Supply Costs

March 19, 2026

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”) for the recovery of the 2025 balances in the Isolated Systems Supply Cost Variance Deferral Account, pursuant to Sections 70(1) and 80 of the *Act* (“Application”).

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

THE APPLICATION OF HYDRO STATES THAT:

A. Background

1. Hydro, 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. The definition of the Isolated Systems Supply Cost Variance Deferral Account, proposed in Hydro’s 2013 Amended General Rate Application, was approved by the Board in Order No. P.U. 22(2017).
3. The approved account definition requires Hydro to file an application for approval of the disposition of the December 31 balance in the Isolated Systems Supply Cost Variance Deferral Account no later than March 31 of each year.
4. The Isolated Systems Supply Cost Variance Deferral Account allows Hydro the opportunity to recover variances in the price of supply sources on Hydro’s isolated systems. The account is credited or charged with the difference between the approved test year price and the actual price of fuel and variances in power purchases from the approved test year, all used to serve Hydro’s customers on its isolated systems in a calendar year.

5. The approved definition of the Isolated Systems Supply Cost Variance Deferral Account includes:
- i) A cost variance threshold of +/- \$500,000;
 - ii) The requirement for an annual application for the disposition of any balance;
 - iii) The requirement to specify the proposed method of collection or refund from a customer class or classes; and
 - iv) The requirement to provide information regarding the efforts made by Hydro during the year to minimize costs on the isolated systems.

B. Application

6. The balance of the Isolated Systems Supply Cost Variance Deferral Account include the deferred 2025 supply costs that are the subject of the application for disposition. Schedule 1 to this Application provides the evidence supporting Hydro's proposal.

Disposition of 2025 Deferred Supply Costs

7. Hydro seeks approval of the disposition of \$6,338,566 in 2025 deferred supply costs (net of the cost variance thresholds) to be transferred to the Isolated Systems Supply Cost Variance Deferral Account, as detailed in Schedule 1, Appendix A to this Application.

Allocation of Deferred Balances

8. Hydro proposes to allocate the 2025 deferred supply costs in the Isolated Systems Supply Cost Variance Deferral Account between Newfoundland Power Inc. ("Newfoundland Power") and Hydro Rural Labrador Interconnected customers based on the approved 2019 Test Year Rural Deficit allocation, which allocated 96.1% of the rural cost variances to Newfoundland Power. The remaining 3.9% allocated to Hydro Rural Labrador Interconnected Customers is proposed to be absorbed by Hydro's net income consistent with the historical allocation of similar costs in the Rate Stabilization Plan ("RSP"). This proposed allocation results in a charge to Newfoundland Power of \$6,091,362, and the remaining \$247,204 allocated to Hydro Rural Labrador Interconnected Customers applied as a debit to Hydro's net income.

Balance Recovery

9. Hydro proposes to transfer the balances associated with the 2025 Isolated Systems Supply Cost Variance Deferral Account to the respective RSP Current Plan balance for Newfoundland Power as of March 31, 2026.¹ If approved, this proposal will result in the recovery of the 2025 deferred supply costs through the RSP Current Plan adjustment starting July 1, 2026 for Newfoundland Power.

C. Order Requested

10. Hydro hereby requests that the Board make an Order pursuant to Sections 70(1) and 80 of the Act approving:
- i) A 2025 debit transfer of \$6,338,566 to the Isolated Systems Supply Cost Variance Deferral Account; and
 - ii) The transfer, effective March 31, 2026, from the Isolated Systems Supply Cost Variance Deferral Account, of a debit of \$6,091,362 to the Newfoundland Power RSP Current Plan balance, and the \$247,204 debit allocated to Hydro Rural Labrador Interconnected customers to be applied to reduce Hydro's net income.

D. Reasons for Approval

11. The balance in the Isolated Systems Supply Cost Variance Deferral Account were prudently incurred in the provision of least-cost, reliable service and calculated in accordance with the definitions approved by the Board in Order No. P.U. 22(2017).
12. Approval of this Application provides a reasonable balance of the interests of the customers and the utility and permits Hydro to recover prudently incurred supply costs consistent with Section 70(1) of the Act.

E. Communications

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

¹ Hydro will propose the disposition of the RSP and address recovery of future Isolated Systems Supply Cost Variance Deferral Account balances in an application to the Board by September 1, 2026.

DATED at St. John's, in the province of Newfoundland and Labrador, this 19th day of March 2026.

NEWFOUNDLAND AND LABRADOR HYDRO



Shirley A. Walsh
Counsel for the Applicant
Newfoundland and Labrador Hydro,
500 Columbus Drive, P.O. Box 12400
St. John's, NL A1B 4K7
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Schedule 1

Evidence



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Attachment 1: Approved Account Definition

1.0 Background

In Order No. P.U. 22(2017), the Board of Commissioners of Public Utilities (“Board”) approved the definition of the Isolated Systems Supply Cost Variance Deferral Account. The approved deferral account definition applied in computing the deferred supply costs in 2025 is included as Attachment 1.

Newfoundland and Labrador Hydro’s (“Hydro”) application is seeking approval of the balance that has accumulated in the Isolated Systems Supply Cost Variance Deferral Account and recovery of these costs.

The following provides Hydro’s proposed approach for recovery of the deferred 2025 isolated systems supply costs, totalling approximately \$6.3 million,¹ the proposed approach for allocation by customer class, and details on the calculations of the amounts in the Isolated Systems Supply Cost Variance Deferral Account.

Based on the proposed methodology, the allocations of the \$6,338,566 transferred to the Isolated Systems Supply Cost Variance Deferral Account in 2025 are:

- Newfoundland Power Inc. (“Newfoundland Power”): \$6,091,362; and
- Hydro Rural Labrador Interconnected Customers: \$247,204.²

2.0 Isolated Systems Supply Cost Variance Deferral Account

Hydro purchases diesel fuel to supply customers in its isolated systems. Due to its nature as a commodity, the price of diesel fuel is subject to the volatility of the commodity market and is outside of Hydro’s control. As such, the Isolated Systems Supply Cost Variance Deferral Account permits Hydro to defer price variances from the approved test year related to fuel and power purchases in Hydro’s isolated systems. This deferral account does not allow for the recovery of variances as a result of changes in supply volume.

Hydro has three main supply sources for its isolated systems: (i) diesel fuel consumed in its diesel generating stations, (ii) purchases from Hydro-Québec to serve customers on the L’Anse-au-Loup System, and (iii) purchases of wind energy in the community of Ramea on the south coast of the Island.³

¹ Differences may exist in dollar amounts presented in this evidence as compared to the associated appendix due to rounding.

² The Hydro Rural Labrador Interconnected customers’ portion is proposed to be written off to Hydro’s net income.

³ A power purchase agreement in Mary’s Harbour helps to reduce diesel consumption in that area but is not included in the 2019 Test Year. Singular Photovoltaic projects were put in-service between 2022 and 2025 in Hopedale, Rigolet, Nain, Postville, Black Tickle, Cartwright and Port Hope Simpson, with two in St. Lewis, which also reduce diesel consumption.

1 Changes in the price of diesel also directly impact the purchase price that Hydro pays to serve customers
 2 on the L’Anse-au-Loup System and for wind generation supplying Ramea.

3 The Isolated Systems Supply Cost Variance Deferral Account includes a supply cost variance threshold
 4 (“Deadband”) of +/- \$500,000 per calendar year. As such, Hydro is only permitted to defer annual cost
 5 variances in excess of +/- \$500,000 resulting from price changes relative to the test year cost of supply.

6 **2.1 2025 Transfer and Proposed Allocation**

7 Table 1 summarizes the 2025 transfer to the Isolated Systems Supply Cost Variance Deferral Account.

8 Detailed calculations supporting Table 1 are included in Appendix A.

Table 1: 2025 Isolated Systems Supply Cost Variance Deferral Account Summary (\$)

	Supply Cost		
Particulars	Variations	Deadband	Net
2025 Transfer	6,838,566	500,000	6,338,566

9 In 2025, Hydro incurred \$6,838,566 more isolated system supply costs as a result of higher actual fuel
 10 prices compared to the 2019 Test Year forecast. The 2025 supply costs from all sources averaged the
 11 equivalent of 8.95¢/kWh higher than the approved 2019 Test Year price. The disposition amount, after
 12 adjusting for the Deadband of \$500,000, is \$6,338,566.

13 For disposition of the Isolated Systems Supply Cost Variance Deferral Account, Hydro proposes to
 14 calculate Newfoundland Power’s portion of the 2025 transfer based on the proportion of the 2019 Test
 15 Year Rural Deficit allocated to Newfoundland Power.⁴ This allocation approach is consistent with past
 16 practice. Table 2 outlines Hydro’s proposed allocation of the 2025 transfers to the Isolated Systems
 17 Supply Cost Variance Deferral Account.

⁴ Allocation is 96.1% for Newfoundland Power and 3.9% for customers on the Hydro Rural Labrador Interconnected System for the 2019 Test Year. This allocation is consistent with the historical disposition of the balance in this account. Island Industrial Customers do not have an amount owing, as they do not pay for recovery of the Rural Deficit.

Table 2: Customer Allocation of 2025 Transfers to the Isolated Systems Supply Cost Variance Deferral Account (\$)

2025 Transfer (Net of Deadband)	Newfoundland Power	Rural Labrador Interconnected Allocation
6,338,566	6,091,362	247,204

- 1 Newfoundland Power's portion of the Isolated Systems Supply Cost Variance Deferral Account is
 2 \$6,091,362 based on the 2019 Test Year Rural Deficit allocation. Hydro further proposes that the portion
 3 of the 2025 transfer to the Isolated Systems Supply Cost Variance Deferral Account allocated to Hydro
 4 Rural Labrador Interconnected customers be written off to Hydro's net income.
- 5 Table 3 provides the historical balances in the Isolated Systems Supply Cost Variance Deferral Account
 6 for disposition.

Table 3: Isolated Systems Supply Cost Variance Deferral Account Historical Balances for Disposition (\$)⁵

Year	Amount
2015	-
2016	(2,186,570)
2017	(1,106,821)
2018	1,089,319
2019	(346,657)
2020	(3,997,976)
2021	(2,510,273)
2022	9,037,722
2023	12,059,436
2024	6,725,263
	18,763,443

- 7 Table 3 shows that the actual average supply cost for serving isolated systems was lower than the
 8 approved test year cost from 2016 to 2021, with the exception of 2018, resulting in credit balances in
 9 the deferral account being credited to Newfoundland Power. The increase in costs in 2022 to 2024 is the
 10 result of significantly higher fuel prices compared to previous years.

⁵ Net of cost variance threshold.

1 **2.2 Cost Management in Isolated Systems**

2 The definition of the Isolated Systems Supply Cost Variance Deferral Account, approved in Board
3 Order No. P.U. 22(2017), requires Hydro to provide information regarding the efforts it has made to
4 minimize costs on the isolated systems within its annual application for recovery. Additional information
5 on Hydro's efforts to minimize costs in isolated systems will be provided in the Rural Deficit Report
6 which Hydro will file with its Annual Return on or before April 30, 2026.⁶ A summary of Hydro's major
7 initiatives is as follows:

8 **Cost Effective Renewables**

9 Hydro is actively engaged with Indigenous groups and stakeholders, with a particular focus on
10 communities served primarily by diesel-powered generation, to foster development of cost-effective
11 renewables. The standard model for such developments involve a third party developing and operating
12 the renewables, with Hydro purchasing the output at a cost below that which would be incurred to
13 generate equivalent energy in Hydro's diesel generating stations. In addition to the previously
14 developed renewable projects in Makkovik, Mary's Harbour, and Ramea, nine new photovoltaic projects
15 were put into service in 2022 to 2025. The photovoltaic projects resulted in the displacement of
16 approximately 149 MWh of diesel generation in 2025. Hydro continues to work with renewable energy
17 developers to enable further renewable energy integration.

18 **Hydro-Québec Power Purchase Contract**

19 Hydro executed a new Power Purchase Agreement with Hydro-Québec for the L'Anse-au-Loup System
20 effective September 1, 2021.⁷ This agreement enables Hydro to continue to purchase surplus
21 hydroelectric energy from Hydro-Québec's Lac Robertson Plant to supply Hydro's customers in the
22 L'Anse-au-Loup area. This agreement will continue to enable Hydro to supply the majority of customer
23 load in L'Anse-au-Loup with deliveries from Hydro-Québec at 50% of the cost of diesel generation. The
24 approximate savings in 2025 were \$4.1 million relative to the cost of using diesel generation.

⁶ On March 19, 2026, Hydro requested that the Board approve an extension to the filing date of the Annual Return from April 1, 2026 to April 30, 2026.

⁷ The previous agreement expired August 31, 2021. The new agreement shall remain in force until December 31, 2045 unless it is terminated, at any time, by one party upon date of sending a written notice to the other party at least 12 months prior to the effective termination date.

1 **Mary’s Harbour Mini Hydro Facility**

2 The Mary’s Harbour mini-hydro facility began operations in September 2019. The photovoltaic and
3 battery energy storage facility began operations in November 2021. Together, they’ve generated
4 approximately 957 MWh in 2025, displacing diesel fuel generation. The purchase of energy from this
5 facility resulted in net savings of approximately \$36,000 in 2025.

6 **3.0 Conclusion**

7 In 2025, Hydro is proposing to transfer \$6,338,566 to the Isolated Systems Supply Cost Variance Deferral
8 Account with \$6,091,362 allocated to Newfoundland Power. The remaining \$247,204 , allocated to Rural
9 Labrador Interconnected customers based on the 2019 Test Year Rural Deficit allocation, will be written
10 off to Hydro’s net income.

11 Consistent with past practice, Hydro proposes to recover the amount attributable to Newfoundland
12 Power through a transfer to the Rate Stabilization Plan⁸ Current Plan balance effective March 31, 2026.
13 This approach would provide recovery from customers over a 12-month period, beginning July 1, 2026
14 for Newfoundland Power. If approved, Hydro will absorb approximately \$247,204 as a loss to its net
15 income.

16 The estimated billing impact related to this application is a 1.0% increase in the wholesale rate for
17 Newfoundland Power (0.7% increase to the end consumer) on July 1, 2026.⁹ This impact is prior to
18 updating the project cost recovery rider on July 1, 2026, which will ensure the overall impact on
19 Domestic customer rates does not exceed 2.25%, in accordance with the Government of Newfoundland
20 and Labrador’s rate mitigation plan.¹⁰

⁸ Hydro will propose the disposition of the Rate Stabilization Plan and address recovery of future Isolated Systems Supply Cost Variance Deferral Account balances in an application to the Board by September 1, 2026.

⁹ Based on 2025 Actual billing units.

¹⁰ Order in Council OC 2024-062, Government of Newfoundland and Labrador, May 7, 2024.

Appendix A

2025 Transfer to the Isolated Systems Supply Cost Variance Deferral Account

(Unaudited)



2025 Isolated Systems Supply Cost Variance Deferral Account

Particulars	Hydro-Québec			Total²
	Diesel	Purchases	Other¹	
A: 2025 Actual Supply Produced and Purchased (kWh)	54,104,560	22,263,549	-	76,368,109
B: 2025 Actual Cost / 2025 Actual Produced and Purchased (\$/kWh) [B1 / B2]	0.43093	0.18117	-	0.3581
C: 2019 Test Year Cost / 2019 Test Year Produced and Purchased (\$/kWh) [C1 / C2]	0.33300	0.13132	0.23785	0.2686
Isolated Supply Costs [A x (B-C)]				6,838,566
Cost Variance Threshold				500,000
Isolated Systems Supply Cost Variance Deferral Balance				6,338,566
B1: 2025 Actual Cost of No. 2 Fuel + Purchases (\$)	23,315,077	4,033,565	-	27,348,642
B2: 2025 Actual Supply Produced and Purchased (kWh)	54,104,560	22,263,549	-	76,368,109
C1: 2019 Test Year Cost of No. 2 Fuel + Purchases (\$)	18,200,175	3,348,796	164,000	21,712,971
C2: 2019 Test Year Supply Produced and Purchased (kWh)	54,655,724	25,501,800	689,500	80,847,024

¹ Other consists of purchases of wind generation at Ramea.

² Numbers may not add due to rounding.

Attachment 1

Approved Account Definition



NEWFOUNDLAND AND LABRADOR HYDRO
ISOLATED SYSTEMS SUPPLY COST VARIANCE DEFERRAL ACCOUNT

This account shall be charged or credited with the amount by which Hydro's Isolated Systems Supply Cost Variance exceeds the Supply Cost Variance Threshold in a calendar year.

The ***Isolated Systems Supply Cost Variance*** will be determined by the following formula:

$$A \times (B-C)$$

Where:

A = Total actual supply produced and purchased (kWh) on Hydro's isolated systems.

B = (Total actual cost of No. 2 fuel used to provide energy plus the total actual cost of purchases) divided by the total of the (actual kWh production and the actual kWh purchases) in \$/kWh.

C = (Total Test Year cost of No. 2 fuel used to provide energy plus the total Test Year cost of purchases) divided by the (total of the Test Year kWh production and the Test Year kWh purchases) in \$/kWh.

The ***Supply Cost Variance Threshold*** equals \pm \$500,000 in a calendar year.

Disposition of any Balance in this Account

Hydro shall file an Application for the disposition of any balance in this account with the Board no later than the 31st day of March each year. This Application shall detail the proposed method of collection or refund and from which customer class(s), and the efforts made by Hydro during the year to minimize costs on the Isolated systems.

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”) for the recovery of the 2025 balances in the Isolated Systems Supply Cost Variance Deferral Account, pursuant to Sections 70(1) and 80 of the Act (“Application”).

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 and Stakeholder Relations for 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 19th day of March 2026, 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