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July 17, 2026

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

Attention: Mike McNiven
Board Secretary

Dear Mr. McNiven:

Re: Newfoundland and Labrador Hydro ("Hydro") – Application for Approval of a Deferral Account for Funds Used During Construction (the "Application") – Comments of Newfoundland Power Inc. ("Newfoundland Power" or the "Company")

The Application

In the Application, Hydro is proposing to capitalize financing costs directly attributable to its capital projects under construction based on its approved rate of return on average rate base.[1] The approach, referred to as Allowance for Funds Used During Construction ("AFUDC"), includes both a return on debt and a return on equity which differs from Hydro's current Interest During Construction ("IDC") approach which only includes its cost of debt.

To provide for the use of the AFUDC approach under International Financial Reporting Standards ("IFRS"), Hydro is proposing an AFUDC Deferral Account to capture the variance between the capitalization of borrowing costs using the AFUDC approach compared to the IDC approach.

Hydro is proposing to begin using the AFUDC approach effective January 1, 2026. This will provide for the deferred recovery of financing costs associated with Hydro's return on rate base beginning in 2026 with amortization of deferred amounts to begin in Hydro's 2027 test year.

Newfoundland Power's Comments

To support the Application and the effective date of the AFUDC approach, Hydro provides that section 80(1) of the *Public Utilities Act* (the "Act") states that a public utility is entitled to earn annually a just and reasonable return.[2] Further, Hydro submits "…that AFUDC, which reflects the full cost of capital, is more consistent with the entitlement to a just and reasonable return than IDC, which reflects only debt financing costs. Accordingly, Hydro

1 Application, Schedule 2.
2 NP-NLH-001.

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proposes to begin recording AFUDC–IDC variances as of January 1, 2026, when the material under-recovery first arises."[3] Hydro indicates that if approved, the Application will provide for the deferred cost recovery of $2.1 million in 2026, which in turn, will improve Hydro's return on equity by approximately 29 basis points in 2026.[4]

Newfoundland Power also recognizes that the Board of Commissioners of Public Utilities (the "Board") has approved other Hydro proposals associated with deferred cost recovery outside of a general rate application ("GRA") since Hydro's last GRA.[5] Excluding those related to supply costs, electrification and conservation costs, and Business Systems Transformation Program costs, the approved deferred cost recoveries have improved Hydro's 2026 return on equity by an estimated $9.3 million.[6]

Finally, Hydro provides that the use of AFUDC approach to recover capital financing costs is consistent with Canadian regulatory practice, with recognition through Christensen Associates Energy Consulting, LLC's jurisdictional research that variations in approach exist among crown utilities.[7]

In the Company's view, Hydro's Application is generally consistent with section 80 of the Act, previous Board orders, and Canadian regulatory practice. For these reasons, Newfoundland Power does not object to Hydro's Application.

Yours truly,

Dominic Foley
Legal Counsel

Enclosures

ec.
Shirley A. Walsh
Newfoundland and Labrador Hydro

Paul Coxworthy
Stewart McKelvey

Glen Seaborn
Poole Althouse

Adrienne Ding
O'Dea Earle Law Offices

Darren Hennessey
Teck Resources Limited

Sheryl Nisenbaum
Linde Canada Inc.

3 *Ibid.*
4 *Ibid.*
5 NP-NLH-002. The Board also approved deferred cost recovery for Newfoundland Power associated with its 2024 return on rate base in Order No. P.U. 20 (2024).
6 NP-NLH-002. The $9.3 million estimate is based on the following deferrals: the Reliability and Resource Adequacy deferral of $0.25 million, the Holyrood Thermal Generating Station Accelerated Depreciation deferral of $2.682 million, and the General Expenses Capitalized Deferral Account of $6.389 million.
7 Application, Schedule 1, section 2.1 and Appendix A, sections 4 and 5. See also PUB-NLH-009 and PUB-NLH-010.

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