Q. Please provide an illustration using the definition proposed for the AFUDC Deferral Account to support the Forecast 2027 AFUDC and IDC presented in Table 1, page 3, Schedule 1, including:

a) the calculation of the approved rate of return on average rate base used to calculate AFUDC;

b) the calculation of the embedded cost of debt used to calculate IDC; and

c) a summary of assumptions used in the calculation.

A. Since the submission of the application for approval of the Allowance for Funds Used During Construction ("AFUDC") Deferral Account, Newfoundland and Labrador Hydro ("Hydro") has filed its 2026 General Rate Application ("GRA"). The GRA includes more up-to-date Forecast 2027 AFUDC and Interest During Construction ("IDC") information, which has been reflected in the response below.

a) Hydro is proposing to use its most recently approved Weighted Average Cost of Capital ("WACC") to calculate capital financing costs under AFUDC. In the test year, the WACC percentage and approved rate of return on rate base percentage are the same. Support for the calculation of the proposed WACC, which was used in the calculation of AFUDC, is included in PUB-NLH-001, Attachment 1, as also provided in Schedule D of Hydro's 2026 GRA.

b) Support for the embedded cost of debt used to calculate IDC is included in PUB-NLH-001, Attachment 2, as also provided in Schedule D of Hydro's 2026 GRA.

c) Please refer to PUB-NLH-001, Attachment 3 for a revised calculation of the Forecast 2027 AFUDC and IDC, including assumptions used in the calculation, using updated forecast information that is included in the 2026 GRA.

Newfoundland and Labrador Hydro
Schedule D-II: Financial Results and Forecasts
Capital Structure
($000s)[1]

	2019 Test Year	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Forecast[2]	2026 Forecast	2027 Test Year
Regulated Capital Structure										
Long-Term Debt	1,794,947	1,782,533	1,772,001	2,048,049	2,039,320	2,023,540	2,008,430	2,306,930	2,207,886	2,608,723
Promissory Notes	291,930	233,000	262,000	55,000	131,000	230,000	590,000	279,853	245,261	215,969
Sinking Funds	(183,238)	(173,965)	(182,570)	(191,721)	(201,930)	(205,865)	(211,246)	(233,559)	(66,506)	(86,159)
	1,903,639	1,841,568	1,851,431	1,911,328	1,968,390	2,047,675	2,387,184	2,353,224	2,386,641	2,738,533
Cost of Service Exclusions	-	-	-	-	-	-	-	-	-	-
Non-Regulated Debt Pool	(11,067)	(22,052)	(15,576)	(14,812)	(2,711)	13,490	2,775	-	-	-
Net Regulated Debt	1,892,572	1,819,516	1,835,855	1,896,516	1,965,679	2,061,165	2,389,959	2,353,224	2,386,641	2,738,533
Funded Asset Retirement Obligation[3]	14,443	14,366	14,276	14,396	14,344	15,369	18,141	20,175	23,397	27,299
Employee Future Benefits[4]	76,085	79,680	83,790	87,830	91,509	91,513	94,773	97,479	101,171	105,102
Contributed Capital	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
Retained Earnings Cost of Service Exclusions	33,484	35,802	43,113	50,221	57,840	64,970	72,198	79,448	88,103	97,292
Retained Earnings	350,492	339,780	375,809	411,607	447,920	479,905	500,398	513,650	526,780	581,816
Total	**2,467,076**	**2,389,144**	**2,452,842**	**2,560,570**	**2,677,293**	**2,812,922**	**3,175,469**	**3,163,976**	**3,226,092**	**3,650,041**
Regulated Capital Structure (%)										
Debt	76.7%	76.2%	74.8%	74.1%	73.4%	73.3%	75.3%	74.4%	74.0%	75.0%
Asset Retirement Obligation	0.6%	0.6%	0.6%	0.6%	0.5%	0.5%	0.6%	0.6%	0.7%	0.7%
Employee Future Benefits	3.1%	3.3%	3.4%	3.4%	3.4%	3.3%	3.0%	3.1%	3.1%	2.9%
Equity	19.6%	19.9%	21.2%	21.9%	22.6%	22.9%	21.2%	21.9%	22.2%	21.3%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**
Regulated Average Capital Structure (%)										
Debt	76.80%	76.84%	75.78%	74.46%	73.74%	73.35%	74.27%	74.82%	74.18%	74.50%
Asset Retirement Obligation	0.61%	0.61%	0.58%	0.57%	0.55%	0.54%	0.56%	0.60%	0.68%	0.74%
Employee Future Benefits	3.12%	3.26%	3.25%	3.42%	3.42%	3.34%	3.12%	3.03%	3.11%	3.01%
Equity	19.48%	19.29%	20.39%	21.55%	22.28%	22.78%	22.05%	21.54%	22.03%	21.75%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**
Weighted Average Cost of Capital (WACC)										
Embedded Cost of Debt	4.91%	4.87%	4.74%	4.75%	4.66%	4.52%	4.75%	4.28%	4.02%	4.05%
Asset Retirement Obligation	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Employee Future Benefits	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Equity	8.50%	8.80%	8.50%	8.50%	8.50%	8.50%	8.50%	8.60%	8.60%	8.60%
WACC	**5.43%**	**5.44%**	**5.32%**	**5.37%**	**5.33%**	**5.25%**	**5.40%**	**5.06%**	**4.88%**	**4.88%**

[1] Numbers may not add due to rounding.
[2] 2025 Forecast is comprised of actuals for the first three quarters and forecast for the fourth quarter.
[3] Please refer to Schedule D-II, p. 7 of Newfoundland and Labrador Hydro's ("Hydro") 2026 General Rate Application ("GRA").
[4] Please refer to Schedule D-II, p. 5 of Hydro's 2026 GRA.

Newfoundland and Labrador Hydro
Schedule D-IV: Average Cost of Debt
($000s)

Series	Interest Rate	Year of Issue	Year of Maturity	2019 Test Year	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Forecast[1]	2026 Forecast	2027 Test Year
Series V	10.50%	1989	2014	200	-	-	-	-	-	-	-	-	-
Series X	10.25%	1992	2017		-	-	-	-	-	-	-	-	-
Series Y	8.40%	1996	2026	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	-	-
Series AB	6.65%	2001	2031	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000
Series AD	5.70%	2003	2033	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000
Series AF	3.60%	2014	2045	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Series AF	3.60%	2017	2045	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000
Series 1A	3.70%	2017	2048	-	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000
New Issuance - 2017	3.70%	2017	2027	300,000	-	-	-	-	-	-	-	-	-
New Issuance - 2018	3.70%	2018	2048	300,000	-	-	-	-	-	-	-	-	-
Series 1A	3.70%	2018	2048	-	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000
Series 2A	1.75%	2021	2030	-	-	-	300,000	300,000	300,000	300,000	300,000	300,000	300,000
Series 3A	4.60%	2025	2055	-	-	-	-	-	-	-	300,000	300,000	300,000
Series 4A	4.68%	2026	2056	-	-	-	-	-	-	-	-	200,000	200,000
Series 5A	4.73%	2027	2057	-	-	-	-	-	-	-	-	-	400,000
Total Debentures				**1,825,200**	**1,825,000**	**1,825,000**	**2,125,000**	**2,125,000**	**2,125,000**	**2,125,000**	**2,425,000**	**2,325,000**	**2,725,000**
Promissory Notes				291,681	233,000	262,000	55,000	131,000	230,000	590,000	279,853	245,261	215,969
Less:													
Sinking Funds				(236,976)	(237,200)	(255,982)	(275,527)	(295,804)	(316,914)	(338,859)	(361,172)	(194,119)	(213,771)
Non-regulated Debt Pool				(11,067)	(22,052)	(15,576)	(14,812)	(2,711)	13,490	2,775	-	-	-
Unamortized Debt Discount and Financing				23,161	20,768	20,413	6,855	8,194	9,589	11,043	9,543	10,499	11,335
Total Debt				**1,891,999**	**1,819,516**	**1,835,855**	**1,896,516**	**1,965,679**	**2,061,165**	**2,389,959**	**2,353,224**	**2,386,641**	**2,738,533**
Average Debt				**1,835,109**	**1,809,454**	**1,827,686**	**1,866,186**	**1,931,098**	**2,013,422**	**2,225,562**	**2,371,592**	**2,369,933**	**2,562,587**

	2019 Test Year	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Forecast[1]	2026 Forecast	2027 Test Year
Embedded Cost of Debt										
Long-Term Debt	92,475	92,475	92,475	96,220	97,749	97,725	97,725	100,025	94,425	101,992
Accretion of Long-Term Debt	(170)	(170)	(156)	885	1,339	1,394	1,454	1,521	956	836
Amortization of Foreign Exchange Losses	2,157	2,157	2,157	2,157	2,157	2,157	2,157	2,157	2,157	2,157
Debt Guarantee Fee	8,513	8,605	8,624	8,602	8,703	8,794	8,940	9,008	10,327	10,571
Other Interest	4,993	2,853	1,936	(83)	398	2,173	17,565	11,293	3,968	4,785
Interest on Sinking Fund	(11,484)	(11,386)	(12,132)	(12,895)	(13,626)	(14,449)	(15,285)	(15,663)	(8,249)	(7,902)
	96,484	94,534	92,904	94,886	96,720	97,794	112,556	108,341	103,584	112,439
Interest Cost of Service Exclusions[2]	(6,302)	(6,348)	(6,348)	(6,326)	(6,724)	(6,761)	(6,824)	(6,848)	(8,253)	(8,792)
Finance Charges	90,182	88,186	86,556	88,560	89,996	91,033	105,732	101,493	95,331	103,647
Embedded Cost of Debt	**4.91%**	**4.87%**	**4.74%**	**4.75%**	**4.66%**	**4.52%**	**4.75%**	**4.28%**	**4.02%**	**4.05%**

[1] 2025 Forecast is comprised of actuals for the first three quarters and forecast for the fourth quarter.
[2] Interest cost of service exclusions primarily relate to the disallowed portion of the debt guarantee fee.

Table 1: Illustrative Example

Approved Rate of Return[1] [A]		IDC[2] Rates[3] [B]		Average Value of Assets Under Construction Attracting Borrowing Costs [4] [C] ($)	Estimated IDC [D] = [B]*[C] ($)	Estimated AFUDC[4] [E] = [A]*[C] ($)	AFUDC-IDC Variance/ Added to Regulatory Asset[5] [E]-[D] ($)
Year	**Rate**	**Year**	**Rate**				
2027	4.88%	2027	4.05%	458,603,176	18,573,429	22,379,835	3,806,406

[1] Newfoundland and Labrador Hydro ("Hydro") is proposing to use its most recently approved Weighted Average Cost of Capital (“WACC”) to calculate capital financing costs under Allowance for Funds Used During Construction ("AFUDC"). In the test year, the WACC % and the approved rate of return on rate base % are equal. Please refer to PUB-NLH-001, Attachment 1.

[2] Interest During Construction ("IDC").

[3] Please refer to PUB-NLH-001, Attachment 2.

[4] The 2027 forecasted average value of assets under construction is taken from a more detailed support file including estimates for work-in-progress balances at the beginning of 2027, new projects starting construction in 2027, timing of capital expenditure cash flows in 2027, and estimated in-service dates for projects in 2027. It also assumes approval of a number of Major Projects, including Bay d'Espoir 8 and Avalon Combustion Turbine.

[5] The total Estimated AFUDC is not recorded separately. Hydro would record the variance between AFUDC and IDC, calculated as: Estimated AFUDC - Estimated IDC.