Doane Grant Thornton

Board of Commissioners of Public Utilities

Newfoundland and Labrador Hydro – 2026 General Rate Application

Report date: October 29, 2026

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1. Executive summary

Purpose

Doane Grant Thornton LLP ("we", "us", "our" or "Doane Grant Thornton") has been engaged by the Newfoundland and Labrador Board of Commissioners of Public Utilities (the "Board" or "PUB") to review the Newfoundland and Labrador Hydro (the "Company" or "Hydro") 2026 General Rate Application (the "GRA", "2026 GRA", or the "Application"), dated May 27, 2026. This report is provided for the Board's use in evaluating the Application submitted by the Company.

Scope of work

Our review was carried out in accordance with the following terms of reference:

- Examine the methodology and assumptions used by the Company for estimating revenues, expenses, and net earnings and determine whether they are reasonable and appropriate.
- Review the 2027 Test Year ("TY") revenue and energy forecasts for customer classes.
- Review the proposed 2027 Test Year Revenue Requirement of $797,713,000, including the following components operating costs, fuels, Muskrat Falls Supply Costs, power purchases, depreciation and accretion, including the 2023 Depreciation Study ("2023 Depreciation Study") and 2024 Technical Update ("2024 Technical Update") prepared by Concentric Energy Advisors, Inc ("Concentric").
- Review of 2027 Test Year average rate base of $2,802,095,000, including changes in working capital methodology.
- Review of regulatory accounting and deferrals, specifically:
    - The proposed disposition and amortization of balances in existing regulatory deferral accounts, including the new amortization and recovery treatment of the Muskrat Falls Purchase Price Agreement ("PPA") Sustaining Capital Deferral Account.
    - Revenue deficiency and recovery proposals, including the proposed creation of the new Rural Labrador Interconnected Revenue Deficiency Deferral Account.
- Review 2027 Test Year return on rate base of 4.88% in a range of 4.68% to 5.08% and capital structure with a weighted average cost of capital of 4.88%.
- Review of cost allocations (recoveries) and intercompany charges included in the 2027 Test Year data.

Our scope of work is as set out throughout this report. The procedures undertaken during our review do not constitute an audit of the Company's financial information and consequently, we do not express an audit opinion on the financial information provided by the Company. Our opinions on other matters are outlined throughout this report.

We acknowledge that our report will be communicated to the parties of the matter and may become a public document accessible through the Board's website. We have given the Board our consent to use our report for this purpose. Our report is not to be reproduced or used for any purpose other than as outlined above without prior written permission in each specific instance. Doane Grant Thornton LLP recognizes no responsibility to any third party who may rely on this report or other material provided to the Board.

Unless stated otherwise in this report, Doane Grant Thornton LLP has relied on information provided by the Company, the Board's website and third-party sources in preparing this report, whom Doane Grant Thornton LLP believes is reliable. We are not guarantors of the information upon which we have relied on in preparing the report and, except as stated, we have not audited or otherwise attempted to verify any of the underlying information or data contained in this report. We have made efforts to ensure a conservative, realistic and transparent approach; however, some of the analysis depends on the input from third parties whose opinions may influence the conclusions. All analysis, information and recommendations contained herein are based on the information available to Doane Grant Thornton LLP as of the date of this report.

Summary of findings, observations, and conclusions

The following represents a summary of our key findings, observations, and conclusions:

Figure 1 – Summary of findings, observations, and conclusions

#	Report section	Findings, observations, and conclusions
2.	**Forecasting methodology and assumptions**	Hydro's forecasting methodology and assumptions appear reasonable and appropriate for developing the 2027 Test Year forecasts. The assumptions reviewed were appropriately reflected in the supporting forecast schedules included in the Application.
3.	**Revenue and energy forecasts**	Energy sales revenue is forecast to increase to $796.2 million in 2027 Test Year, representing growth of $155 million (24%) compared to 2024 Actual ("A"), while energy sales volumes are forecast to increase to 7,831 GWh, up 545 GWh (7%) over the same period. Newfoundland Power Inc. ("NP" or Newfoundland Power") remains the largest customer group and is the primary contributor to overall revenue and energy sales volume. While Newfoundland Power contributes the largest absolute increase in sales volumes (+313 GWh versus 2024A), Industrial customers are the fastest-growing customer group, with energy sales increasing by 164 GWh (37%) and revenue increasing by $3.5 million (8%) compared to 2024A. Overall growth in energy sales is primarily driven by increased demand from Newfoundland Power and Industrial customers, partially offset by relatively stable Hydro Rural sales. Our review did not identify any discrepancies or exceptions with respect to the forecast revenue and energy sales calculations.

#	Report section	Findings, observations, and conclusions
4.	**Revenue requirement**	Our specific comments on matters included in our scope of work related to revenue requirements are outlined below and throughout our report.
5.	**Operating costs**	We have completed our procedures in the review of Hydro's operating costs. Our analysis included comparing 2027TY to 2026F, 2025A, 2024A, and 2019TY. Our analysis identified notable trends, and we made subsequent inquiries with Hydro for further clarification. We are satisfied with Hydro's explanations in response to our inquiries. We note that Hydro is currently negotiating with their union and releasing any assumptions with regards to wage adjustments proposed in the 2026 GRA could compromise the process. Therefore, Hydro is unable to provide a year-over-year breakdown of these components or indicate the salary assumptions within its 2026 Forecast or 2027 Test Year.
6.	**Fuels**	Based on the procedures performed and explanations received, nothing has come to our attention to suggest that Hydro's 2027 Test Year fuel cost forecast is unreasonable. However, we note that fuels in 2027TY were based on a forecast from August, 2025. The forecast reflects a significant reduction in No. 6 and other fuel costs due to reduced Holyrood thermal generation following the commissioning of Muskrat Falls, partially offset by higher diesel and Combustion Turbine ("CT") costs associated with forecast system requirements, including planned Bay d'Espoir outages. We note that the forecast was based on the most current forward fuel price forecasts available at the time of preparation, and any subsequent variances would be addressed through the SCVDA and Hydro's subsequent compliance filing. Given the passage of time between forecast preparation and implementation of rates, updated forward-looking fuel price from sources such as Argus Media and S&P Global Platts may provide additional insight into the extent of any changes in expected fuel costs.
7.	**Muskrat Falls supply costs**	As Muskrat Falls supply costs are largely predetermined and calculated in accordance with established agreements, our review focused on Hydro's budgeting and oversight processes. As a result, our comments are limited to those processes. We have reviewed the Muskrat Falls supply costs included in Hydro's 2027 Test Year revenue requirement. Specifically, we have reviewed the cost components included in the Muskrat Falls supply costs under both the Muskrat Falls PPA and the Muskrat Falls Transmission Funding Agreement ("TFA"). With regards to operationally managed costs, we note the following:

#	Report section	Findings, observations, and conclusions
		• Procurement controls applicable to the operationally managed portion of Muskrat Falls supply costs under both the Muskrat Falls PPA and TFA are consistent with those applied across Hydro's regulated business. • The operationally managed portion of Muskrat Falls supply costs is subject to established budgeting and governance processes, including review by the relevant Board of Directors, Joint Operations Committee, Collateral Agent, and the Government of Canada. • Management performs monthly variance analyses with variances investigated and reviewed by management, as part of the oversight of operationally managed costs. We reviewed the monthly variance process, and no significant concerns were identified with the budgeting and oversight process described by Hydro through our inquiry procedures regarding Muskrat Falls supply costs. The regulatory framework of these costs is supported by the Muskrat Falls Exemption Order, which applies to the Muskrat Falls generating facility, Labrador Transmission Assets, and LIL. [1] The order exempts Muskrat Falls-related agreements and related payments from the typical regulatory framework under the Public Utilities Act and the Electrical Power Control Act. As such, our review of these costs was limited to mathematical and internal consistencies. We did not identify any mathematical errors or internal inconsistencies in completing our procedures.
8.	**Power purchases**	We have completed our analysis of Hydro's power purchase expense (including GWhs) included in 2027 Test Year revenue requirement in dollars and GWhs. Power purchases are expected to increase from $59,357,000 in 2024A to $66,922,000 in 2027 Test Year. The largest driver of this increase is the expected increase in power purchases from other sources, specifically, Corner Brook Pulp and Paper ("CBPP") co-generation. Hydro has not included off-island energy purchases in 2027 Test Year. Specifically with regards to Maritime Link Imports, Hydro noted that they are not included in their long-term production

[1] Muskrat Falls Project Exemption Order under the Electrical Power Control Act, 1994 and the Public Utilities Act (O.C. 2013-342).

#	Report section	Findings, observations, and conclusions
		planning because such imports are considered non-firm and cannot be relied upon to meet system requirements.[2]
9.	**Depreciation**	Hydro's proposed depreciation and accretion expense for the 2027 Test Year is based on the depreciation methodology approved in Order No. P.U. 16(2019) and applies the updated depreciation parameters recommended in the 2023 Depreciation Study and the 2024 Technical Update. Based on our review, the proposed depreciation rates, service life assumptions, net salvage assumptions, and depreciation methodology included in the 2027 Test Year are consistent with the recommendations contained in the 2023 Depreciation Study and 2024 Technical Update. Our sample testing did not identify any exceptions in the calculation of depreciation expense or the application of depreciation rates and service lives to the supporting asset records reviewed. The increase in 2027 Test Year depreciation expense relative to prior periods is primarily attributable to growth in Hydro's capital asset base and the continued accelerated depreciation of Holyrood Thermal Generating System (“Holyrood TGS”) assets associated with the planned cessation of steam generation in 2030. These increases are partially offset by the impact of updated the depreciation study assumptions. We noted a difference between property, plant and equipment balances presented in the balance sheet and rate base schedules. While Hydro did not provide a numerical reconciliation, management explained the difference as relating to the treatment of Contributions in aid of construction (“CIAC”) associated with work in progress. Our reconciliation identified no significant variances and supports management’s explanation. Overall, we did not identify any matters through our review that would indicate the proposed depreciation and accretion expense is unreasonable.

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#	Report section	Findings, observations, and conclusions
10.	**Average rate base**	We reviewed Hydro's proposed 2027 Test Year average rate base, including the key components contributing to the increase from prior years. The expected increase is primarily attributable to continued investment in property, plant and equipment, the introduction of the Muskrat Falls-related working capital allowance, and higher deferred charges. We also reviewed Hydro's explanations for differences between forecast and actual balances and are satisfied with Hydro's explanations. Our review did not identify any issues with the calculation or presentation of the average rate base for purposes of the 2027 Test Year revenue requirement. However, we recommend that the Board obtain from Hydro updated 2025 actual results, capital expenditure forecasts for 2026F and 2027TY, and the fuel inventory forecast, together with the resulting impact on revenue requirement and average rate base. We note that these amounts should be updated in the compliance filing.
11.	**Regulatory accounting and deferrals**	We completed our procedures relating to Hydro's proposed disposition, amortization, and recovery of existing regulatory deferral accounts, as well as the proposed deferral and revenue deficiency recovery mechanisms associated with the 2027 Test Year. Based on our review, we note the following: • Hydro's proposals provide a defined framework for the recovery and disposition of deferred balances accumulated through prior Board-approved regulatory mechanisms. The proposed approaches generally support Hydro's stated objectives of balancing timely cost recovery with customer rate stability. • The balances proposed for recovery through this proceeding remain subject to Board approval; however, the proposed recovery mechanisms clearly identify the accounts, amounts, and recovery approaches applicable to each balance. • The proposed amortization periods generally reflect Hydro's objective of matching recovery with the period over which customers are expected to receive benefits while moderating near-term rate impacts. We observed that the recovery periods are applied consistently with Hydro's stated rationale across the principal deferral accounts.

#	Report section	Findings, observations, and conclusions
		• The proposed treatment of the Frequency Converter Depreciation Deferral Account facilitates the return of a customer-related regulatory liability through existing regulatory mechanisms, avoiding the need for a separate recovery process. • The proposed revenue deficiency recovery mechanisms, including the Rural Labrador Interconnected Revenue Deficiency Deferral Account, provide a means of separately tracking the impacts of phased rate implementation and preserving recovery of approved revenue requirements during the mitigation period. We recommend that revenue deficiencies are recalculated as part of the compliance application process following this GRA.
12.	**Return on rate base**	We completed our procedures in the review of Hydro's proposed 2027 Test Year calculations of return on rate base, return on equity, embedded cost of debt, weighted average cost of capital, capital structure, and interest coverage ratio to assess mathematical accuracy, consistency with supporting schedules, and compliance with applicable Board Orders. Our review did not note any discrepancies in Hydro's calculation of the proposed 2027 Test Year return on rate base of 4.88%, return on equity of 8.60%, embedded cost of debt of 4.05%, weighted average cost of capital ("WACC") of 4.88%, or regulated capital structure of 75% debt and 25% common equity. We also did not note any discrepancies in the calculation of Hydro's interest coverage ratio. Hydro's proposed return on equity of 8.60% is consistent with Order No. P.U. 10(2025), the regulated capital structure is consistent with Hydro's target capital structure, and overall, remains within the limits established by the Board.
13.	**Cost allocations (recoveries)**	We have completed our procedures in the review of Hydro's cost allocations (recoveries). Our analysis included the preparation of a trend analysis for cost recoveries by sub-category for 2024 Actual, 2025 Actual, 2026 Forecast and 2027 Test Year. Our analysis identified notable trends, and we made subsequent inquiries with Hydro for further clarification. We are satisfied with Hydro's explanations in response to our inquiries. Hydro forecasts recoveries of $2.9 million in the 2027 Test Year, a decrease of approximately $2.3 million (45%) from 2025 Actuals. The reduction is driven primarily by lower removal and decommissioning

#	Report section	Findings, observations, and conclusions
		recoveries ($3.6 million) and other cost recoveries ($2.2 million), partially offset by a decrease in administrative fees ($1.5 million) and the productivity allowance ($4.0 million). By division, the decline in cost recoveries from 2025A to 2027TY is driven by Operations, which moves from a net recovery of $0.2 million in 2025A to a net charge of $2.6 million in 2027TY. This is partially offset by increased recoveries within General and Administrative activities, which increase from $5.0 million to $5.5 million over the same period. Hydro's Intercompany Cost Allocation Guidelines were updated effective January 1, 2026, with revisions intended to refine allocation methodologies and cost recovery practices used to determine the intercompany cost allocations reflected in the 2027 Test Year. The revised guidelines were subsequently reviewed by KPMG, which found the updates to be reasonable and generally consistent with accepted cost allocation practices. Doane Grant Thornton completed their assessment of the reasonableness of Certain Proposed Changes to Hydro's 2026 Intercompany transactions costing guidelines which is included in the information items for the GRA. Doane Grant Thornton concluded that the proposed updates to Hydro's intercompany transaction costing framework are reasonable both individually and collectively, and result in a fair and reasonable allocation of costs to ratepayers.[3]

[3] Doane Grant Thornton LLP - Assessment of the Reasonableness of Certain Proposed Changes to Newfoundland and Labrador Hydro's 2026 Intercompany Transactions Costing Guidelines, prepared for the Board of Commissioners of Public Utilities of Newfoundland and Labrador, August 28, 2026 – Page 37 - retrieved from: Board of Commissioners of Public Utilities.

2. Forecasting methodology and assumptions

Scope

Examine the methodology and assumptions used by the Company for estimating revenues, expenses, and net earnings, and determine whether they are reasonable and appropriate.

Procedures

Our review of the Company's forecasting methodology and assumptions focused on the following three objectives:

- Reviewed the methodology used by the Company for forecasting revenues and expenses
- Reviewed the assumptions made by management with regards to future economic conditions and events; and,
- Reviewed the forecasts to ensure the described assumptions were consistently applied.

Analysis

Methodology

Hydro describes the main components of the development of annual budgets as follows[4]:

- The load forecast incorporates information from Newfoundland Power, Industrial customers, and utility customers, as well as Hydro's internal forecasts for rural and isolated systems. The forecast is used to determine generation requirements, including power purchase agreements and firm contractual commitments, to meet forecasted demand;
- Capital budgets are submitted to the Hydro Board of Directors and the Board for approval;
- The capital asset amortization budget is prepared based on capital asset additions and projected in-service dates for construction projects that are in progress;
- Depreciation and accretion expenses associated with asset retirement obligations ("AROs") are estimated based on the timing of the settlement of the obligation, Depreciation and accretion expenses are based on the methodology approved in Order No. P.U. 16 (2019) and applies to the updated depreciation parameters recommended in the 2023 Depreciation Study and the 2024 Technical Update;

[4] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-010.

- Long-term debt-related payments are forecasted based on debt repayment schedules;
- Operating expenses are estimated based on the labour forecast and costs associated with maintenance and operational activity;
- The major operating cost components are derived using a zero-based budgeting approach, including but not limited to, salaries and benefits, professional services and system equipment and maintenance costs. Operating costs that are expected to be consistent in normal year-to-year operations are derived using a historical average reflecting Hydro's recent experience and expected pattern for the coming period;
- Operating costs are prepared by business unit and reviewed and approved by the Vice President of category;
- Once the operating costs are approved by the respective Vice President, they are submitted as part of Hydro's total budget submission;
- All elements are consolidated and create a forecasted income statement by line of business;
- The budgeted income statement and detailed operating costs are then presented to the applicable Vice President for approval;
- The budgets for each line of business are then consolidated and reviewed in detail with all Vice Presidents and CEO; and,
- Final review and approval is provided by the Hydro Board of Directors.

Review of assumptions

The assumptions made by management in developing the 2027 Test Year forecast relate to the following areas:

- Hydro's August 2025 Forecast for the price of No. 2 fuel for consumption at the diesel plants located throughout isolated parts of Labrador and Newfoundland;
- Based on the load forecast, Resource and Production Planning group determines the production plan for generation and calculates and prepares the fuel budget. The purchased power estimates from Churchill Falls (Labrador) Corporation Limited and the non-utility generators ("NUG"s) are also determined at this time;
- Hydro is operating the Provincial Government's hydroelectric assets on the Exploits River and at Star Lake; supplying the energy to Hydro throughout the forecast period at 4 cents per kWh;
- A conversion factor of 563 kWh/barrel ("bbl") for annual average efficiency at the Holyrood TGS for 2027 Test Year, as per Schedule A-V of Hydro's Application;
- The expected power purchases from the non-utility generators, as per Schedule A-VI of Hydro's Application;

- Thermal and standby generation are dispatched only when required to meet demand and reserve requirements, thereby minimizing fuel costs and emissions;

- Muskrat Falls supply costs are included within Hydro's revenue requirement for 2027 Test Year through the contractual structure of the Muskrat Falls PPA and the TFA, as outlined in Chapter four of Hydro's Application;

- Rate mitigation plans have been incorporated in 2027 Test Year, mitigating the revenue requirement to approximately $798 Million, Hydro's portion of Domestic Customer annual rate increases on the Island Interconnected System ("IIS") is limited to a targeted 2.25%;

- Interest rate projections for short and long-term financing – further information included in Section 5.2.7 of Hydro's Application;

- Salaries and benefits include a vacancy allowance of 55 full-time equivalents ("FTEs") for unfilled positions;

- Labour transactions associated with providing or receiving services from or to other lines of business are governed by the Intercompany Transaction Costing Guidelines;

- Recovery of costs associated with Common Service business units to all lines of business are governed by the Intercompany Transaction Costing Guidelines;

- Expenses related to the GRA hearing have been deferred and amortized over a four-year period beginning on January 1, 2027 as per Section 5.6.9 of Hydro's Application;

- Expenses related to Phase Two hearing costs have been deferred and amortized over an eight-year period beginning on January 1, 2027 as per Section 5.6.4 of Hydro's Application;

- Hydro has excluded a portion of the debt guarantee fee payments from revenue requirement as per Schedule D-II page 6 of 7;

- Off-Island Power Purchases over the Maritime Link have been assumed to be zero for the 2027 Test Year;

- Depreciation rates and methodologies are based upon those recommended in the 2023 Depreciation Study and 2024 Technical Update as included in Hydro's Application in Exhibits seven and eight;

- Proposed disposition of the Frequency Converter Depreciation Deferral Account balance of $1.6 million owing from customers, including recovery through disposition or transfer to the Supply Cost Variance Deferral Account ("SCVDA") for Island Industrial customers and transfer to the respective Revenue Deficiency Deferral Accounts for Labrador customers as per Section 5.6.3 of Hydro's Application;

- Amortization and recovery of the Business Systems Transformation Program Deferral account balance over a period of eight years beginning January 1, 2027, as per Section 5.6.1 of Hydro's Application;

- Expenses related to the Reliability and resource adequacy ("RRA") Study review have been deferred and amortized over an eight-year period beginning on January 1, 2027, as per Section 5.6.5 of Hydro's Application;

- Proposed amortization of the Muskrat Falls PPA Sustaining Capital Deferral Account using the composite depreciation rates recommended by Concentric for the Muskrat Falls Hydroelectric Generating Facility ("Muskrat Falls Plant") and Labrador Transmission Assets ("LTAs") as per Section 5.6.6 of Hydro's Application;

- Proposed recovery of the Electrification Cost Deferral Account balance forecast on December 31, 2026, through a rate rider, using a recovery approach consistent with the Conservation and Demand Management Cost Deferral Account as per Section 5.6.7 of Hydro's Application;

- Proposed transfer of balances in the Return on Equity Rate Change Deferral Account related to Labrador Industrial and Hydro Rural Labrador Interconnected customers to the respective Revenue Deficiency Deferral Accounts for recovery in customer rates as per Section 5.6.8 of Hydro's Application;

- The creation of a new Long-term Supply Cost Variance deferral account, effective January 1, 2027, with allocations among customer classes based on the latest Cost of Service Study approved by the Board and interest calculated based on the weighted average cost of capital in Hydro's latest approved test year, as per Section 5.7 of Hydro's Application.

Hydro noted that as they are currently negotiating with their union, releasing any assumptions with regards to wage adjustments proposed in the 2026 GRA could compromise this process. Therefore, Hydro is unable to provide a year-over-year breakdown of these components or indicate the salary assumptions within its 2026 Forecast or 2027 Test Year.

Hydro also noted that where appropriate, they have used information from independent sources and/or expert consultants to establish the assumptions for the above noted items.

Budget approach by cost type

Based on written response to our inquiry procedures, we understand that operating costs for the 2027 Test Year were prepared during the 2025 Budget ("B") Cycle, where a three-year budget estimate was completed for 2025, 2026 and 2027 Test Year, which is not part of the standard budget process. During the 2026 budget process, Hydro updated operating costs for targeted and known changes, including proposals in the 2026 General Rate Application. All other items were updated during the 2026 budget cycle using the latest load forecast and production plan and finalized in early 2026. This also included updated depreciation and borrowing costs.[5]

[5] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-010.

In PUB-NLH-010, Hydro provided details on their budget approach by cost type for 2025B, 2026F and 2027TY, as summarized in the table below.

Figure 2 – Budget approach by cost type[6]

Description	2025B	2026F	2027TY
Salaries			
Salaries	Salary templates	Salary templates	Salary templates
Allowances	3 year historical average x labour inflator	2025B x labour inflator	2026B x labour inflator
Directors fees	Based on flat amount per director	Based on flat amount per director	Based on flat amount per director
Employee future benefits	Actuary report	Actuary report	Actuary report
Fringe	Updated rates from HR	2025B x labour inflator	2026B x labour inflator
Group	Updated rates from HR	Updated rates from HR	Updated rates from HR
Other salary cost	Detailed budgets	2025B x labour inflator	2026B x labour inflator
Overtime	3 year historical average x labour inflator	2025B x labour inflator	2026B x labour inflator
Recharge	Detailed budgets – based on relational file	2025B x labour inflator	2026B x labour inflator
System Equipment and Maintenance ("SEM")			
Contract labour	Detailed budgets – based on work plans	Detailed budgets – based on work plans	Detailed budgets – based on work plans
Contract materials	Detailed budgets – based on work plans	Detailed budgets – based on work plans	Detailed budgets – based on work plans
Other SEM	3 year historical average x GDP deflator	2025B x GDP deflator	2026B x GDP deflator
Professional services			
Audit	Detailed budgets – based on quote	Detailed budgets – based on quote	2026B x GDP deflator
Consulting	Detailed budgets – based on work plans	Detailed budgets – based on work plans	Detailed budgets – based on work plans
Legal	Detailed budgets – based on work plans	Detailed budgets – based on work plans	Detailed budgets – based on work plans
PUB related costs	Detailed budgets – based on work plans	Detailed budgets – based on work plans	Detailed budgets – based on work plans

[6] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-010.

Description	2025B	2026F	2027TY
Software acquisition and maintenance	Detailed budgets – based on work plans	Detailed budgets – based on work plans	Detailed budgets – based on work plans
Building rentals and safety supplies			
Building rentals	Detailed budgets – based on contract	2025B x GDP deflator	2026B x GDP deflator
Safety supplies	3 year historical average x GDP deflator	2025B x GDP deflator	2026B x GDP deflator
Customer costs			
Customer costs	Based on % of revenue	Based on % of revenue	Based on % of revenue
Equipment rental			
Computer	3 year historical average x GDP deflator	2025B x GDP deflator	2026B x GDP deflator
Equipment rental	3 year historical average x GDP deflator	2025B x GDP deflator	2026B x GDP deflator
Telecommunication equipment	Detailed budget	2025B x GDP deflator	2026B x GDP deflator
Insurance			
Insurance	Rates provided risk	Rates provided risk	Rates provided risk
Miscellaneous			
Conservation Demand Management ("CDM")	Detailed budgets	Detailed budgets	Detailed budgets
Employee expenses & sundry	3 year historical average x GDP deflator	2025B x GDP deflator	2026B x GDP deflator
Taxes	Calculated based on revenue/salaries	Calculated based on revenue/salaries	Calculated based on revenue/salaries
Training	Detailed budgets – based on HR recommendation	2025B x GDP deflator	2026B x GDP deflator
Write-offs	3 year historical average x GDP deflator	2025B x GDP deflator	2026B x GDP deflator
Office supplies and expenses			
Advertising	3 year historical average x GDP deflator	2025B x GDP deflator	2026B x GDP deflator
Books and subscriptions	3 year historical average x GDP deflator	2025B x GDP deflator	2026B x GDP deflator
Heat and light	Based on NP rate increases	2025B x GDP deflator	2026B x GDP deflator
Memberships and dues	Detailed budgets	2025B x GDP deflator	2026B x GDP deflator
Postage	3 year historical average x GDP deflator	2025B x GDP deflator	2026B x GDP deflator

Description	2025B	2026F	2027TY
Telephone	3 year historical average x GDP deflator	2025B x GDP deflator	2026B x GDP deflator
Transportation			
Aircraft costs	Detailed budget – based on contract	2025B x GDP deflator	2026B x GDP deflator
Capital fleet	3 year historical average x GDP deflator	2025B x GDP deflator	2026B x GDP deflator
Fuel	Fuel rates provided by Investment Evaluation Department	Fuel rates provided by Investment Evaluation Department	Fuel rates provided by Investment Evaluation Department
Vehicle allowance and rentals	3 year historical average x GDP deflator	2025B x GDP deflator	2026B x GDP deflator
Travel			
Relocation	Detailed budgets – based on HR recommendation	2025B x GDP deflator	2026B x GDP deflator
Travel	3 year historical average x GDP deflator	2025B x GDP deflator	2026B x GDP deflator
Cost recoveries			
Cost recoveries (excluding admin fees)	3 year historical average x GDP deflator	2025B x GDP deflator	2026B x GDP deflator

Incorporation of assumptions into forecasts

The incorporation of the key assumptions into the forecasts was reviewed and agreed to the various schedules included in the Company's pre-filed evidence and other supporting schedules. Based upon the results of our procedures, we confirm that the assumptions have been appropriately incorporated into the forecasts.

Conclusion

Hydro's forecasting methodology and assumptions appear reasonable and appropriate for developing the 2027 Test Year forecasts. Based on our procedures, the assumptions and methodology reviewed were appropriately reflected in the supporting forecast schedules included in the Application.

3. Revenue and energy forecasts

Scope

Review the 2027 Test Year revenue and energy forecasts for customer classes.

Procedures

Our review of revenue and energy forecasts for customer classes included the following procedures:

- Compiled revenue from rates in both $CAD and GWh for 2024 actual (“2024 Actual” or “2024A”), 2025 actual (“2025 Actual” or “2025A”), 2026 Forecast, and 2027 Test Year.
- Compiled a trend analysis of energy sales at the customer class level, which included Newfoundland Power, Industrial customers, and Hydro Rural.
- Judgementally selected variances and performed inquiry procedures to obtain explanations for selected variances.

Analysis

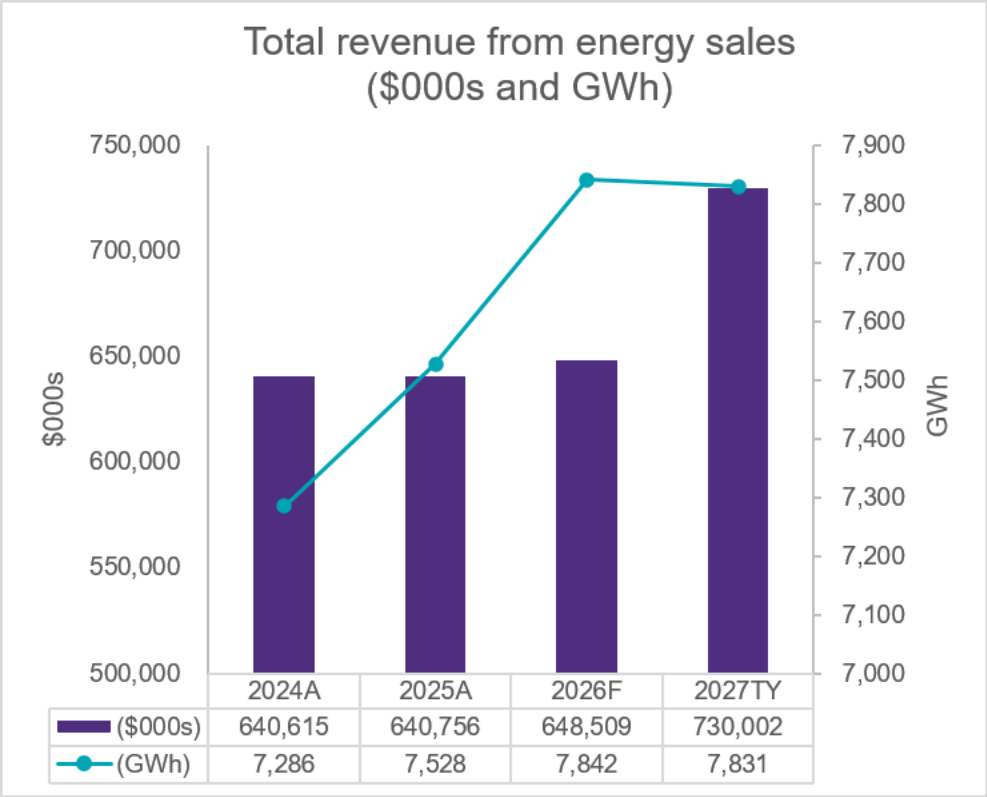
Although the analysis below focuses on energy sales revenue, the total revenue requirement also includes revenue deficiency and generation demand cost recovery, which reconcile to the GRA's overall revenue requirement. The following table presents the composition of the total revenue requirement.

Figure 3 – Total revenue requirement

($000s)	2024A	2025A	2026F	2027TY
Energy sales	640,615	640,757	648,509	730,003
Revenue deficiency	-	-	-	66,189
Generation demand cost recovery	1,560	1,560	1,560	1,522
Total revenue requirement	**642,175**	**642,317**	**650,069**	**797,714**
Annual change ($)		***142***	***7,752***	***147,645***
Annual change (%)		***0%***	***1%***	***23%***

As part of our trend analysis, we observed year over year changes in revenue from rates in both $CAD and GWh. The following chart illustrates the total revenue from rates in both $CAD and GWh for 2024A, 2025A, 2026F, and 2027TY.

Figure 4 – Total revenue from energy sales



The following tables provide breakdowns of total energy sales by customer type in both $CAD and GWh.

Figure 5 – Breakdown of total energy sales by customer ($000s)

($000s)	2024A	2025A	2026F	2027TY	2027TY vs 2024A ($)	% change	2027TY vs 2025A ($)	% change	2027TY vs 2026F ($)	% change
Newfoundland Power	512,563	511,196	514,372	636,812	124,249	24%	125,616	25%	122,440	24%
Industrial customers	46,943	46,390	48,591	50,468	3,525	8%	4,078	9%	1,877	4%
Hydro Rural	81,110	83,170	85,531	108,926	27,816	34%	25,756	31%	23,395	27%
Other adjustments	(1)	-	15	(15)	(14)		(15)		(30)	
Total revenue including revenue deficiency	640,615	640,756	648,509	796,191	155,576	24%	155,435	24%	147,682	23%
Revenue deficiency[1]	-	-	-	(66,189)	(66,189)		(66,189)		(66,189)	
Total energy sales[2]	**640,615**	**640,756**	**648,509**	**730,002**	**89,387**	**14%**	**89,246**	**14%**	**81,493**	**13%**
Annual change ($)		***141***	***7,753***	***81,493***						
Annual change (%)		***0%***	***1%***	***13%***						

Note 1: The 2027 Test Year revenue deficiency is presented as a separate line item from energy sales in Schedule D-I of the GRA, and is allocated among Newfoundland Power,

Industrial customers, and Hydro Rural customers.[7] *The breakdown of the 2027 Test Year revenue deficiency by customer group is discussed in the sections below. Revenue deficiency is discussed further in our report* ***Section 11 – Regulatory accounting and deferrals.***

Note 2: The total energy sales listed in the table above do not include generation demand cost recovery, as this is listed as a separate line item in Schedule D-I of the GRA.[8]

Figure 6 – Breakdown of total energy sales (GWh)

(GWh)	2024A	2025A	2026F	2027TY	2027TY vs 2024A	% change	2027TY vs 2025A	% change	2027TY vs 2026F	% change
Newfoundland Power	5,702	5,829	6,032	6,015	313	5%	186	3%	(17)	0%
Industrial customers[1]	449	507	612	613	164	37%	106	21%	1	0%
Hydro Rural[2]	1,135	1,192	1,198	1,203	68	6%	11	1%	5	0%
Total[3]	**7,286**	**7,528**	**7,842**	**7,831**	**545**	**7%**	**303**	**4%**	**(11)**	**0%**
Annual change (GWh)		***242***	***314***	***(11)***						
Annual change (%)		***3%***	***4%***	***0%***						

Note 1: Industrial GWh reflects Island Industrial customers only, as regulated revenue from Labrador Industrial customers only includes demand-based charges.

Note 2: Hydro Rural includes Island Interconnected customers, Island Isolated, Labrador Interconnected, Labrador Isolated, and L'Anse-au-Loup customers.

Note 3: It should be noted that Schedule A-I in the GRA reports bulk deliveries that are measured prior to distribution losses. The energy sales used to calculate the revenue associated with the revenue requirement are measured after distribution losses and are reflected in this table provided by Hydro. As a result, differences exist between the table above and the GRA schedules for Rural Interconnected and Rural Isolated customers due to the treatment of distribution losses. Distribution losses differ from transmission losses, which are reported separately in Schedules A-I through A-III. Distribution losses are not applicable to Newfoundland Power or Island Industrial customers.

Energy sales revenue is forecast to increase to $796.2 million in 2027 Test Year, representing growth of $155 million (24%) compared to 2024A while energy sales volumes are forecast to increase to 7,831 GWh, up 545 GWh (7%) over the same period.

In response to CA-NLH-010, Hydro indicated that there are numerous drivers affecting the island forecast, including population growth, customer growth, industrial demand and electric vehicles ("EVs"). Hydro noted that the load forecasting model is a custom-built, econometric-based regression model and that it is difficult to quantify the exact incremental year-over-year impact of individual drivers as drivers do not act in isolation. However, certain drivers such as industrial demand and electric vehicles, are external adjustments made to the load forecast,

[7] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Schedule D-I.

[8] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Schedule D-I.

which allows the year-over-year impact to be quantified.[9] In their response, Hydro provided the incremental impact of electric vehicles and Industrial customers on the island load forecast. Based on the impacts provided by Hydro, we have calculated the percentage of total GWh growth pertaining to electric vehicles and Industrial customers in 2025A and 2026F.

Figure 7 – Incremental impact of EVs and Industrial customers

(GWh)	2025A	2026F
Total energy sales ***– Figure 6***	7,528	7,842
Annual change (A)	242	314
EV impact[1] (B)	8	13
EV as % of total growth (C = B/A)	3%	4%
Industrial impact[2] (D)	58	107
Industrial as a % of total growth (E = D/A)	24%	34%

Note 1: Provided by Hydro in CA-NLH-010. Hydro notes that the incremental demand impact is presented on an annual peak basis, and 2025 energy value is the incremental forecast value for the full year. Incremental demand impact from 2024-2025 was not estimated during the development of the 2025 load forecast because the 2025 annual peak had already occurred.

Note 2: Provided by Hydro in CA-NLH-010. Incremental industrial load is based on the data presented in Schedule A-I of the GRA. 2025 Actual data was used in the calculation of table values.

To further understand the drivers of forecast growth, we performed a customer-class level analysis of revenue and energy sales for Newfoundland Power, Industrial customers, and Hydro Rural. The results of this analysis are presented below.

Newfoundland Power

The following table details the components of revenue from rates ($CAD) from Newfoundland Power for 2024A, 2025A, 2026F, and 2027TY.

[9] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – CA-NLH-010.

Figure 8 – Breakdown of revenue from rates ($000s) – Newfoundland Power

($000s)	2024A	2025A	2026F	2027TY	2027TY vs 2024A ($)	% change	2027TY vs 2025A ($)	% change	2027TY vs 2026F ($)	% change
Newfoundland Power	494,566	510,951	532,642	636,812	142,246	29%	125,861	25%	104,170	20%
ROE adjustment[1]	-	408	408	-	-		(408)	-100%	(408)	-100%
Utility load[2]	17,997	(163)	(18,678)	-	(17,997)	-100%	163	-100%	18,678	-100%
Total revenue including revenue deficiency	512,563	511,196	514,372	636,812	124,249	24%	125,616	25%	122,440	24%
Revenue deficiency[3]	-	-	-	(60,083)	(60,083)		(60,083)		(60,083)	
Total energy sales excluding revenue deficiency	**512,563**	**511,196**	**514,372**	**576,729**	**64,166**	**13%**	**65,533**	**13%**	**62,357**	**12%**
Annual change ($)		***(1,367)***	***3,176***	***62,357***						
Annual change (%)		***0%***	***1%***	***12%***						

Note 1: The return on equity adjustment reflects the change in Hydro's return on rate base approved in Order P.U. 10 (2025).

Note 2: Utility load represents the revenue load variances recognized through the Supply Cost Variance Deferral Account.

Note 3: Revenue deficiency has been removed to calculate total energy sales, consistent with Schedule D-I in the GRA.[10]

The following chart details the revenue from rates in both ($000s) and GWh from Newfoundland Power for 2024A, 2025A, 2026F, and 2027TY.

[10] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Schedule D-I.

Figure 9 – Newfoundland Power revenue from rates excluding revenue deficiency

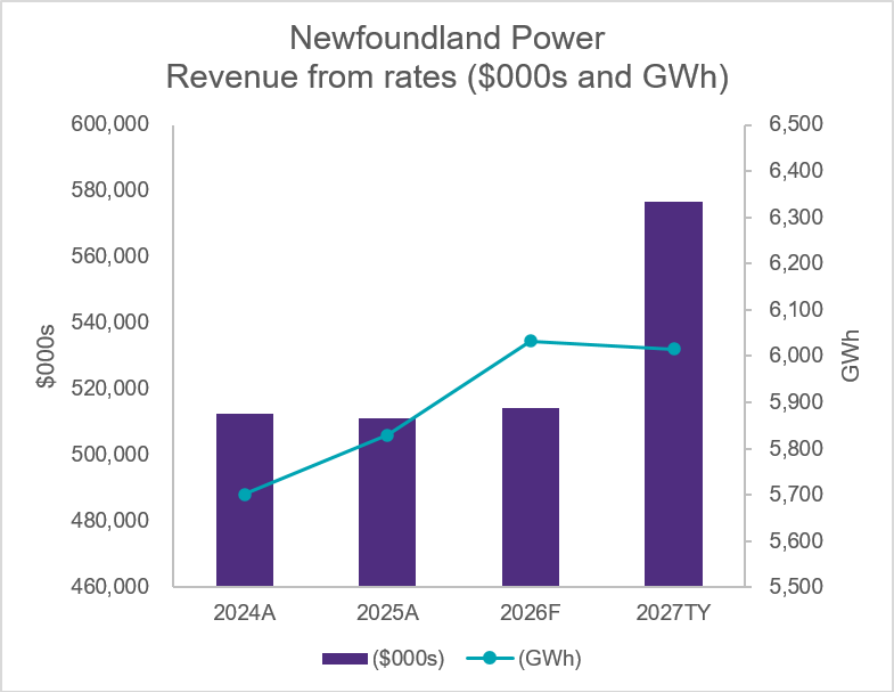


Figure 10 – Newfoundland Power revenue from rates excluding revenue deficiency

Newfoundland Power	2024A	2025A	2026F	2027TY	2027TY vs 2024A	% change	2027TY vs 2025A	% change	2027TY vs 2026F	% change
($000s)[1]	512,563	511,196	514,372	576,729	64,166	13%	65,533	13%	62,357	12%
(GWh)	5,702	5,829	6,032	6,015	313	5%	186	3%	(17)	0%

Note 1: Figures in $CAD exclude the 2027TY revenue deficiency.

As demonstrated in the chart above, we have identified the following variances:

- **Energy sales from Newfoundland Power ($CAD) in 2027TY are expected to be 13% higher than 2024A and 2025A, and 12% higher than 2026F.** According to Hydro, this is primarily due to higher base rates proposed in 2027TY. In previous years, costs associated with the Muskrat Falls project were collected through the Project Cost Recovery Rider, and the associated funds collected through the rider were transferred to the SCVDA. In the 2027TY, the Muskrat Falls Supply Costs were included in the 2027TY base rates, and the Project Cost Recovery Rider was reduced to zero, which increased the overall revenue projected to be collected.

Hydro noted that if the revenue associated with the Project Cost Recovery Rider was included in the revenue from 2024A, 2025A, and 2026F, the resulting revenue variance compared to 2027TY would be significantly lower, as illustrated below:

Figure 11 – Newfoundland Power revenue from rates – Project cost recovery rider

($000s)	2024A	2025A	2026F	2027TY
Newfoundland Power	512,563	511,196	514,372	636,812
Project cost recovery rider revenue	52,429	75,443	109,555	-
Total	**564,992**	**586,639**	**623,927**	**636,812**
Increase to 2027TY	71,820	50,173	12,885	
% increase to 2027TY	13%	9%	2%	

The largest variance is between 2024 Actual and the 2027 Test Year. This represents a variance of approximately $71.8 million. The difference is largely attributable to higher energy requirements in the 2027 Test Year relative to 2024 and the 2.25% annual rate increase in accordance with the rate mitigation plan.

Additionally, energy demand increased from 5,702 GWh in 2024 to 6,015 GWh in the 2027 Test Year, representing an increase of 313 GWh. The increase can be attributed to the addition of the electric boilers at Memorial University, the reclassification of Newfoundland Power customers to all-electric in 2025 and the impacts of the conversions from Oil to Electric. Additionally, 2024 had less Heating Degree Days than average, which would have resulted in lower sales during the winter period.

Industrial customers

The following table details the components of revenue from rates ($CAD) from Industrial customers for 2024A, 2025A, 2026F, and 2027TY, including both island industrial and Labrador Industrial customers.

Figure 12 – Breakdown of revenue from rates ($000s) – Industrial customers

($000s)	2024A	2025A	2026F	2027TY	2027TY vs 2024A ($)	% change	2027TY vs 2025A ($)	% change	2027TY vs 2026F ($)	% change
Island industrial	30,020	31,745	38,876	42,815	12,795	43%	11,070	35%	3,939	10%
Labrador industrial[1]	3,935	3,941	4,159	7,653	3,718	94%	3,712	94%	3,494	84%
Industrial load variation[2]	13,217	10,901	5,753	-	(13,217)	-100%	(10,901)	-100%	(5,753)	-100%
Frequency convertor deferral adjustment	(229)	(229)	(229)	-	229	-100%	229	-100%	229	-100%
ROE adjustment	-	32	32	-	-		(32)	-100%	(32)	-100%
Total revenue including revenue deficiency	46,943	46,390	48,591	50,468	3,525	8%	4,078	9%	1,877	4%
Revenue deficiency[3]	-	-	-	(4,426)	(4,426)		(4,426)		(4,426)	
Total energy sales[4]	**46,943**	**46,390**	**48,591**	**46,042**	**(901)**	**-2%**	**(348)**	**-1%**	**(2,549)**	**-5%**
Annual change ($)		***(553)***	***2,201***	***1,877***						
Annual change (%)		***-1%***	***5%***	***4%***						

Note 1: The regulated transmission revenue earned from Labrador Industrial customers is demand-based. Other revenues associated with Labrador Industrial customers are non-regulated.

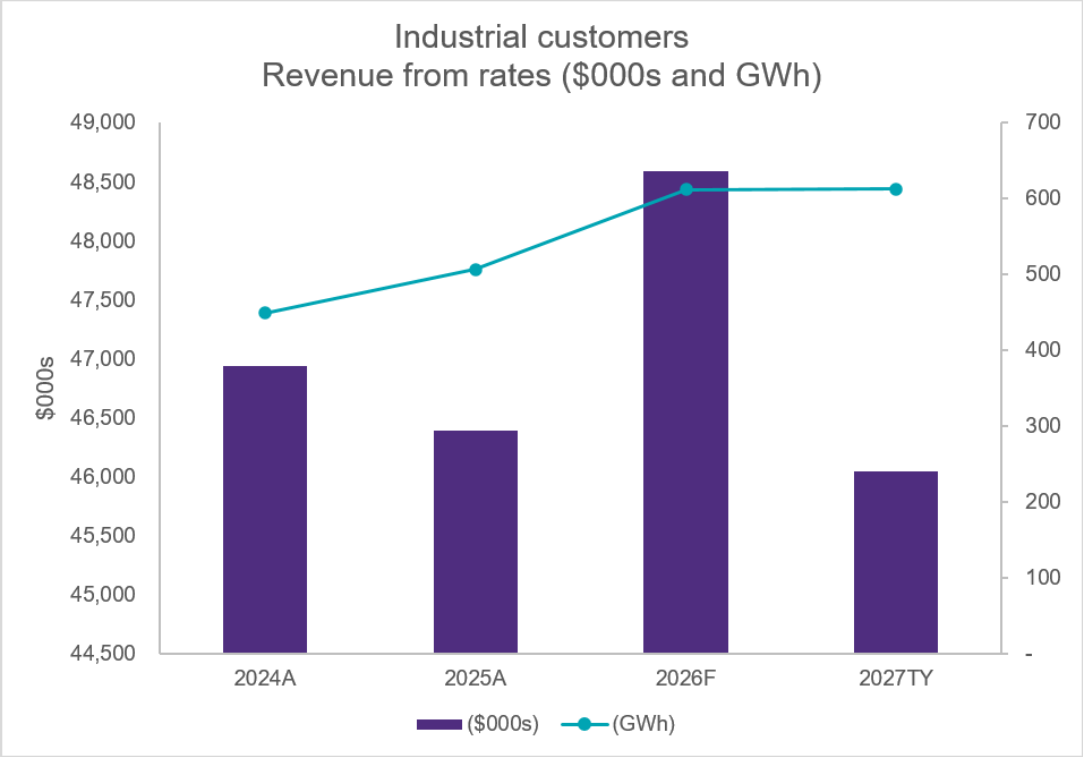
Note 2: Industrial load variation represents the revenue load variances recognized through the SCVDA.

Note 3: Revenue deficiency has been removed to calculate total energy sales, consistent with Schedule D-I in the GRA.[11]

Note 4: Generation demand cost recovery, which pertains entirely to Labrador industrial, has not been included in the table above, as it is listed as a separate line item from Schedule D-I in the GRA.[12]

The following chart details the revenue from rates in both ($000s) and GWh from Industrial customers for 2024A, 2025A, 2026F, and 2027TY.

Figure 13 – Industrial customers revenue from rates excluding revenue deficiency



[11] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Schedule D-I.

[12] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Schedule D-I.

Figure 14 – Industrial customers revenue from rates excluding revenue deficiency

Industrial customers	2024A	2025A	2026F	2027TY	2027TY vs 2024A	% change	2027TY vs 2025A	% change	2027TY vs 2026F	% change
($000s)[1]	46,943	46,390	48,591	46,042	(901)	-2%	(348)	-1%	(2,549)	-5%
(GWh)[2]	449	507	612	613	164	37%	106	21%	1	0%

Note 1: Figures in $CAD exclude the 2027TY revenue deficiency.

Note 2: Given that regulated revenues from Labrador Industrial customers are demand-based, there are no GWh provided and the GWh total above is comprised entirely of Island Industrial.

As demonstrated in the chart above, we have identified the following variances:

- **Energy sales from Industrial customers (GWh) in 2027TY are expected to be 37% higher than 2024A and 21% higher than 2025A.** According to Hydro, this increase is primarily attributable to the addition of a new Industrial customer in 2024 and the continued ramp-up of that customer's operations. Energy sales to this customer were approximately 3 GWh in 2024 and 33 GWh in 2025, compared to forecast sales of 103 GWh in both 2026 and 2027. While this customer was ramping up operations, a second Industrial customer reduced its operations in 2025, resulting in a significant decline in load. Energy sales to this customer were approximately 94 GWh in 2025. The customer has since resumed operations, with forecast energy sales of approximately 141 GWh in 2027, an increase of approximately 47 GWh relative to 2025 levels.

Hydro Rural

The following tables detail the components of revenue from rates from Hydro Rural for 2024A, 2025A, 2026F, and 2027TY.

Figure 15 – Breakdown of revenue from rates excluding revenue deficiency ($000s) – Hydro Rural

($000s)	2024A	2025A	2026F	2027TY	2027TY vs 2024A ($)	% change	2027TY vs 2025A ($)	% change	2027TY vs 2026F ($)	% change
Island interconnected	50,426	50,973	51,996	68,920	18,494	37%	17,947	35%	16,924	33%
Labrador interconnected[1]	18,431	19,569	20,295	22,239	3,808	21%	2,670	14%	1,944	10%
Labrador isolated	7,935	8,264	8,860	11,971	4,036	51%	3,707	45%	3,111	35%
Island isolated	1,290	1,316	1,293	1,718	428	33%	402	31%	425	33%
L'anse-au-loup	3,027	3,048	3,088	4,078	1,050	35%	1,030	34%	990	32%
Total revenue including revenue deficiency	81,110	83,170	85,531	108,926	27,816	34%	25,756	31%	23,395	27%
Revenue deficiency[2]	-	-	-	(1,680)	(1,680)		(1,680)		(1,680)	
Total energy sales excluding revenue deficiency	**81,110**	**83,170**	**85,531**	**107,246**	**26,136**	**32%**	**24,076**	**29%**	**21,715**	**25%**
Annual change ($)		***2,060***	***2,361***	***21,715***						
Annual change (%)		***3%***	***3%***	***25%***						

Note 1: Labrador Interconnected revenue excludes deferred non-firm revenue of $1,199,000 in 2024 and $2,126,000 in 2025.

Note 2: Revenue deficiency has been removed to calculate total energy sales, consistent with Schedule D-I in the GRA.[13]

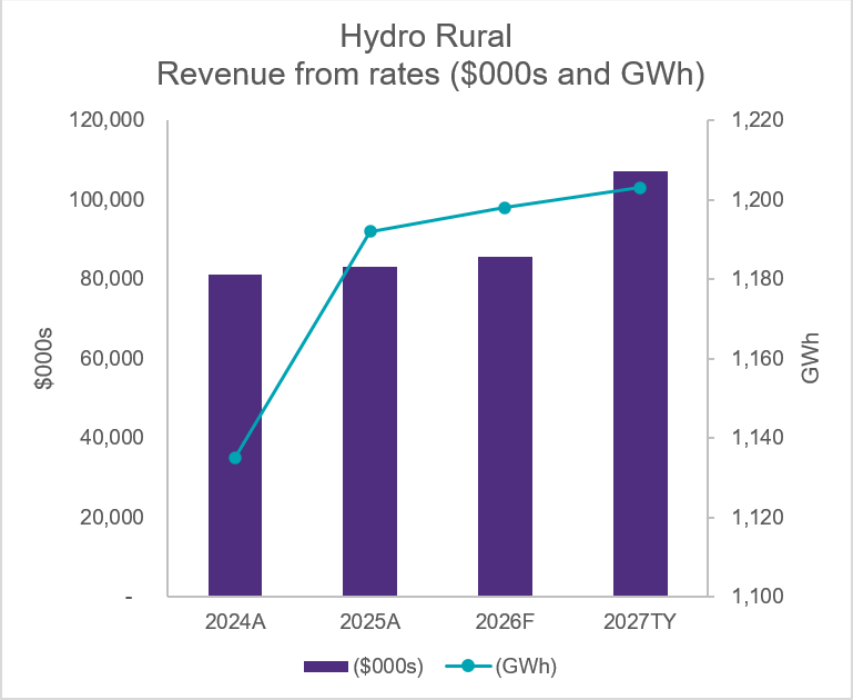
Figure 16 – Breakdown of revenue from rates (GWh) – Hydro Rural

(GWh)	2024A	2025A	2026F	2027TY	2027TY vs 2024A	% change	2027TY vs 2025A	% change	2027TY vs 2026F	% change
Island interconnected	400	423	428	426	26	7%	3	1%	(2)	0%
Labrador interconnected[1]	665	696	695	702	37	6%	6	1%	7	1%
Labrador isolated	41	43	44	44	3	7%	1	2%	-	0%
Island isolated	5	5	6	6	1	20%	1	20%	-	0%
L'anse-au-loup	24	25	25	25	1	4%	-	0%	-	0%
Total energy sales	**1,135**	**1,192**	**1,198**	**1,203**	**68**	**6%**	**11**	**1%**	**5**	**0%**
Annual change (GWh)		***57***	***6***	***5***						
Annual change (%)		***5%***	***1%***	***0%***						

Note 1: Reported energy in Labrador Interconnected includes non-firm energy sales and the rural accrual.

The following chart details the revenue from rates in both ($000s) and GWh from rural customers for 2024A, 2025A, 2026F, and 2027TY.

Figure 17 – Rural revenue from rates excluding revenue deficiency



[13] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Schedule D-I.

Figure 18 – Rural revenue from rates excluding revenue deficiency

Hydro rural	2024A	2025A	2026F	2027TY	2027TY vs 2024A	% change	2027TY vs 2025A	% change	2027TY vs 2026F	% change
($000s)[1]	81,110	83,170	85,531	107,246	26,136	32%	24,076	29%	21,715	25%
(GWh)	1,135	1,192	1,198	1,203	68	6%	11	1%	5	0%

Note 1: Figures in $CAD exclude the 2027TY revenue deficiency.

As demonstrated in the chart above, we have identified the following variances:

- **Energy sales from Hydro Rural ($CAD) 2027TY are expected to be 32% higher than 2024A, 29% higher than 2025A and 25% higher than 2026F.** According to Hydro, this increase is primarily attributable to increases in the island interconnected rural revenue, associated with the establishment of a new 2027TY and the implementation of associated rates. Prior to 2027, revenue collected by Hydro was adjusted through the Rural Revenue Alteration mechanism, which normalizes revenues according to the formula based on 2019TY values. The result of the calculation was transferred to the SCVDA. In 2027, Rural Revenue will be rebased, resulting in higher recorded revenue. The following table shows the Rural Revenue with Rural Revenue Alteration included.

Figure 19 – Rural revenue from rates

(000s)	2024A	2025A	2026F	2027TY
Island rural revenue	50,426	50,973	51,996	68,920
Rural revenue alteration	7,807	14,525	17,599	-
Total	**58,233**	**65,498**	**69,595**	**68,920**
% increase to 2027TY	18%	5%	-1%	

With the Rural Revenue Alteration included, the largest variance is between 2027 Test Year revenue and 2024 Actual, a variance of $10.7 million or 18%. The amount of revenue transferred to the Rural Revenue Altercation was lower than it was in successive years. This is because the 2024 revenue was calculated using July 1, 2023, rates, from January to June 2024, and July 1, 2024 rates from July 1, 2024 to December 31, 2024, compared to the higher July 1, 2025 rates used to project the 2027 Test Year revenue. The variance is also due to higher projected energy sales in the 2027 Test Year compared to the 2024 rural island load. 2027 Test Year energy sales were 426 GWh compared to 400 GWh in 2024. Hydro estimated that the rate increases have contributed approximately $6.9 million and the increase in volume contributed approximately $3.8 million.

Conclusion

Energy sales revenue is forecast to increase to $796.2 million in 2027 Test Year, representing growth of $155 million (24%) compared to 2024A while energy sales volumes are forecast to increase to 7,831 GWh, up 545 GWh (7%) over the same period. Newfoundland Power remains the largest customer group and is the primary contributor to overall revenue and energy sales volume. While Newfoundland Power contributes the largest absolute increase in sales volumes (+313 GWh versus 2024A), Industrial customers are the fastest-growing customer group, with energy sales increasing by 164 GWh (37%) and revenue increasing by $3.5 million (8%) compared to 2024A. Overall growth in energy sales is primarily driven by increased demand

from Newfoundland Power and Industrial customers, partially offset by relatively stable Hydro Rural sales. Our review did not identify any discrepancies or exceptions with respect to the forecast revenue and energy sales calculations.

4. Revenue requirement

Scope

Revenue requirement reflects the total annual revenue that Hydro has requested to recover forecasted test year costs and their proposed rate of return. Hydro's proposed 2027 Test Year revenue requirement consists of the following:

- Operating costs;
- Fuels;
- Muskrat Falls supply costs;
- Power purchases;
- Depreciation and accretion;
- Other adjustments;
- Rate mitigation; and,
- Return on rate base.

Procedures

Our procedures with respect to Hydro's revenue requirement calculations were focused on the assessment of accuracy and reasonableness of the calculation, the underlying assumptions including the support for those assumptions, and the internal consistency between information included in the Application. The specific procedures we performed included the following:

- Recalculated revenue requirement to confirm mathematical accuracy of the financial schedules, reviewed financial schedules for internal consistency, performed trend analysis, and conducted inquiry procedures on judgementally selected variances.
- Reviewed Hydro's forecast methodology for components of the revenue requirement calculation.

Analysis

Comparison of 2019 and 2027 Test Years

The following table details revenue requirement for the 2019 test year ("2019 Test Year" or "2019TY") and 2027 Test Year.

Figure 20 – Operating costs in 2019TY and 2027TY[14]

($ millions)	2019TY	2024A	2027TY	2027TY vs 2019TY ($)	% change	2027TY vs 2024A ($)	% change
Operating costs	136.9	145.2	156.4	19.5	14%	11.2	8%
Fuels	219.9	244.7	106.3	(113.6)	-52%	(138.4)	-57%
Muskrat Falls supply costs	-	-	780.4	780.4		780.4	
Power purchases	81.7	59.4	66.9	(14.8)	-18%	7.5	13%
Depreciation and accretion	85.8	91.2	117.7	31.9	37%	26.5	29%
Other adjustments	(7.0)	(6.9)	(64.7)	(57.7)	824%	(57.8)	835%
Rate mitigation	-	-	(502.0)	(502.0)		(502.0)	
Return on rate base	125.8	108.1	136.7	10.9	9%	28.6	26%
Total revenue requirement[1]	**643.1**	**642.2**	**797.7**	**154.6**	**24%**	**155.5**	**24%**

Note 1: Number may not add due to rounding.

The primary drivers of the $154.6 million increase in revenue requirement from the 2019 Test Year to the 2027 Test Year are Muskrat Falls supply costs, partially offset by rate mitigation and a decrease in fuel costs. The rate mitigation plan reduces the revenue requirement to just over 60% of forecast costs to supply customers.[15]

2027 Test Year Revenue Requirement

Based on evidence included in Hydro's 2026 GRA, Hydro has indicated that its revenue requirement for the 2027 Test Year is $797.7M. The requirement can be broken down by cost category as follows:

Figure 21 – Breakdown of revenue requirement by category

($ millions)	2027TY	Report section
Operating costs	156.4	Section 5
Fuels	106.3	Section 6
Muskrat Falls supply costs	780.4	Section 7
Power purchases	66.9	Section 8
Depreciation and accretion	117.7	Section 9
Other adjustments[1]	(64.7)	Out of scope
Rate mitigation[2]	(502.0)	Out of scope
Return on rate base	136.7	Section 12
Total revenue requirement	**797.7**	

[14] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 5.2.

[15] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 5.2.

Note 1: Other adjustments are outside the scope of our review, as the Board did not request an assessment of those items.

Note 2: Rate mitigation is outside the scope of our review, as an assessment of this item was not requested by the Board.

Conclusion

Our specific comments on matters included in our scope of work related to revenue requirement are outlined in the various individual sections of this report.

5. Operating costs

Scope

Conduct a review of the operating costs of $156.40 million proposed to be included in 2027 Test Year revenue requirement.

Procedures

Our procedures with respect to operating costs included the following:

- Performed a trend analysis comparing 2019TY to 2027TY.
- Reviewed the methodology and assumptions used in the operating costs forecast for reasonableness.
- Reconciled 2024A and 2025A results to Hydro's quarterly and annual returns to confirm internal consistency; and,
- Performed a trend analysis on the costs categories, judgmentally selected cost category variances, and completed the following:
    - Requested and reviewed additional detailed explanations from Hydro.
    - Assessed the reasonableness of Hydro's explanations provided.

Analysis

Comparison of 2019 and 2027 Test Years

The table below details the total operating costs included in revenue requirement in 2019 and 2027 Test Years.

Figure 22 – Operating costs in 2019TY and 2027TY[16]

($000s)	2019TY	2027TY	2027TY vs 2019TY ($)	% change
Labour:				
Salaries	77,365	96,212	18,847	24%
General expenses capitalized deferral	-	(6,578)	(6,578)	
Overtime	4,901	7,361	2,460	50%
Other labour-related costs	3,236	(574)	(3,810)	-118%
Total labour	85,502	96,421	10,919	13%
System equipment and maintenance	26,796	27,538	742	3%
Other:				
Office supplies and expenses	2,520	2,541	21	1%
Professional services	8,825	13,644	4,819	55%
Insurance	3,425	4,624	1,199	35%
Equipment rentals	3,746	1,833	(1,913)	-51%
Travel	2,759	2,306	(453)	-16%
Miscellaneous expenses	5,868	6,121	253	4%
Building rental and maintenance	1,100	1,151	51	5%
Transportation	1,274	2,993	1,719	135%
Customer costs	118	85	(33)	-28%
Total other	29,635	35,298	5,663	19%
Cost allocations	(4,970)	(2,894)	2,076	-42%
Total operating costs	**136,963**	**156,363**	**19,400**	**14%**

As illustrated in the table above, operating costs in the 2027 Test Year of $156.4 million are $19.4 million higher than the 2019 Test Year of $137.0 million. This increase is primarily a reflection of the following variances:

- Salaries expense in 2027TY is expected to be 24% higher than 2019TY.
- Overtime expense in 2027TY is expected to be 50% higher than 2019TY.
- Professional services expense in 2027TY is expected to be 55% higher than 2019TY.
- Transportation expense in 2027TY is expected to be 135% higher than 2019TY.
- Insurance expense in 2027TY is expected to be 35% higher than 2019TY.

[16] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Schedule B-1.

The primary drivers of Hydro's increase in labour cost in the 2027 Test Year include forecasted salary and benefits adjustments aligned with market indicators and an increase in FTEs between the 2019 (836 FTEs) and the 2027 Test Years (882 FTEs). Inflationary impacts on non-labour costs have also been significant since Hydro's last GRA, resulting in increased pressure across all of Hydro's operating segments. Hydro notes that these costs, including professional services, materials, contract labour and other maintenance-related expenses, are necessary to operate Hydro's assets in accordance with Good Utility Practice. [17]

Operating costs by category

Hydro's operating costs are broadly classified into the following categories:

- Labour;
- System equipment and maintenance;
- Other; and,
- Cost allocations (recoveries).

Our observations and findings based on our detailed review of the individual expense categories are noted below. Where we have identified unusual trends or other concerns with forecast expenses, we have noted these in the respective sections of our report that follow.

[17] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 2.3.1.

Figure 23 – Breakdown of operating costs by cost type[18]

($000s)	2024A	2025A	2026F	2027TY	2027TY vs 2024A ($)	% change	2027TY vs 2025A ($)	% change	2027TY vs 2026F ($)	% change
Labour:										
Salaries	82,042	90,060	92,003	96,212	14,170	17%	6,152	7%	4,209	5%
General expenses capitalized deferral	-	(6,286)	(6,389)	(6,578)	(6,578)		(292)	5%	(189)	3%
Overtime	7,171	7,318	7,192	7,361	190	3%	43	1%	169	2%
Other labour-related costs	(723)	(1,949)	575	(574)	149	-21%	1,375	-71%	(1,149)	-200%
Total labour	88,490	89,143	93,381	96,421	7,931	9%	7,278	8%	3,040	3%
System equipment and maintenance	24,623	30,414	29,845	27,538	2,915	12%	(2,876)	-9%	(2,307)	-8%
Other:										
Office supplies and expenses	2,214	2,306	2,486	2,541	327	15%	235	10%	55	2%
Professional services	11,411	15,092	12,575	13,644	2,233	20%	(1,448)	-10%	1,069	9%
Insurance	4,885	4,684	4,670	4,624	(261)	-5%	(60)	-1%	(46)	-1%
Equipment rentals	2,667	2,070	1,788	1,833	(834)	-31%	(237)	-11%	45	3%
Travel	2,355	2,411	2,267	2,306	(49)	-2%	(105)	-4%	39	2%
Miscellaneous expenses[1]	5,045	5,955	5,989	6,121	1,076	21%	166	3%	132	2%
Building rental and maintenance	1,290	1,296	1,128	1,151	(139)	-11%	(145)	-11%	23	2%
Transportation	2,368	2,067	2,793	2,993	625	26%	926	45%	200	7%
Customer costs	23	590	85	85	62	270%	(505)	-86%	-	0%
Total other	32,258	36,471	33,781	35,298	3,040	9%	(1,173)	-3%	1,517	4%
Cost allocations[2]	(122)	(5,236)	(4,113)	(2,894)	(2,772)	2272%	2,342	-45%	1,219	-30%
Total operating costs	**145,249**	**150,792**	**152,894**	**156,363**	**11,114**	**8%**	**5,571**	**4%**	**3,469**	**2%**
Annual change ($)		***5,543***	***2,102***	***3,469***						
Annual change (%)		***4%***	***1%***	***2%***						

Note 1: Miscellaneous expenses reported in the 2026 GRA for 2024A and 2025A differ from the amounts reflected in the 2024 and 2025 annual returns. The 2024 annual return reports miscellaneous expenses of $5,004,883, resulting in a $39,668 variance from the 2026 GRA, while the 2025 annual return reports miscellaneous expenses of $5,933,327, resulting in a $21,690 variance from the 2026 GRA. Hydro explained that these variances are due to the presentation of supplier discounts and miscellaneous recoveries. In the GRA, these amounts are recorded as other revenue, whereas in the annual returns they are reclassed to operating costs.

Note 2: Refer to ***Section 13 – Cost allocations (recoveries)*** *for analysis of cost allocations.*

Based on our review of operating costs, the most notable variance is between 2024A and the 2027 Test Year, with total operating costs forecast to increase by $11.1 million (8%). The increase is primarily driven by higher labour costs, system equipment and maintenance expenses, and professional services costs, partially offset by increased favorable cost allocations. The specific drivers of the variances between 2027TY and each comparison year are discussed further by operating cost category below.

[18] Newfoundland and Labrador Hydro 2026 General Rate Application Supplemental Material, July 17, 2026 – Schedule B-I.

Labour costs

The following chart and table outline the total labour costs under the scope of our review for 2024A, 2025A, 2026F and 2027TY.

Figure 24 – Total labour costs before capitalization

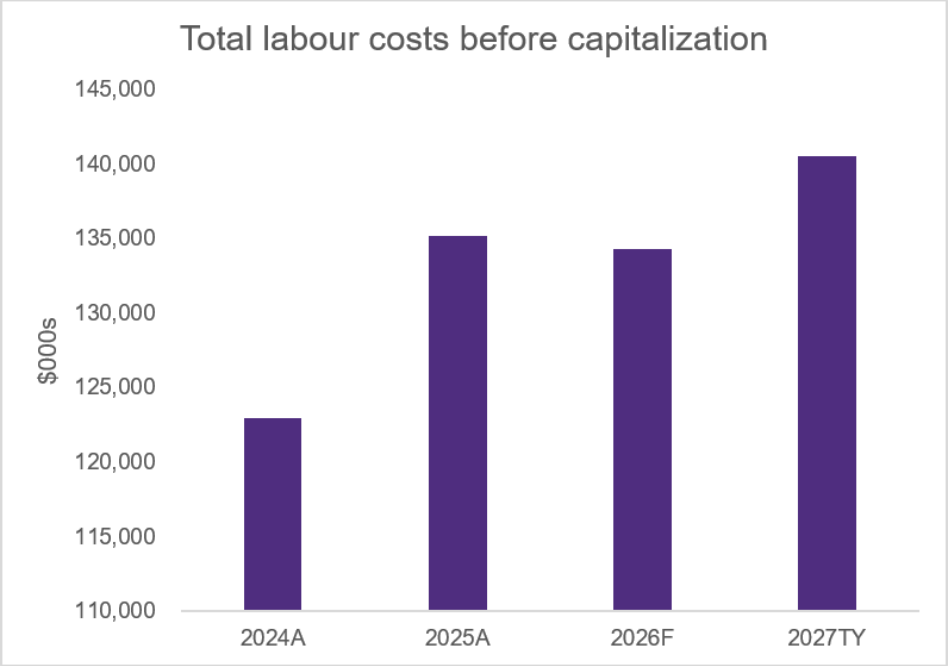


Figure 25 – Total labour costs before capitalization

($000s)	2024A	2025A	2026F	2027TY	2027TY vs 2024A ($)	% change	2027TY vs 2025A ($)	% change	2027TY vs 2026F ($)	% change
Total labour costs before capitalization	122,931	135,141	134,299	140,517	17,586	14%	5,376	4%	6,218	5%
Annual change ($)		***12,210***	***(842)***	***6,218***						
Annual change (%)		***10%***	***-1%***	***5%***						

A breakdown of the total salaries and benefits costs by category is detailed in the following table.

Figure 26 – Breakdown of labour costs by category

($000s)	2024A	2025A	2026F	2027TY	2027TY vs 2024A ($)	% change	2027TY vs 2025A ($)	% change	2027TY vs 2026F ($)	% change
Salaries	82,042	90,060	92,003	96,212	14,170	17%	6,152	7%	4,209	5%
Other salary costs	1,631	650	30	31	(1,600)	-98%	(619)	-95%	1	3%
Net labour recharge	989	119	(104)	250	(739)	-75%	131	110%	354	-340%
Subtotal	84,662	90,829	91,929	96,493	11,831	14%	5,664	6%	4,564	5%
Allowances	2,512	2,489	2,614	2,687	175	7%	198	8%	73	3%
Directors fees	86	96	175	176	90	105%	80	83%	1	1%
Overtime	13,783	16,448	13,048	13,392	(391)	-3%	(3,056)	-19%	344	3%
Employee future benefits	4,695	5,635	6,734	7,081	2,386	51%	1,446	26%	347	5%
Fringe benefits	13,535	15,142	15,502	16,113	2,578	19%	971	6%	611	4%
Group insurance	3,465	4,302	4,101	4,374	909	26%	72	2%	273	7%
Labrador travel benefit	193	200	196	201	8	4%	1	1%	5	3%
Subtotal	38,269	44,312	42,370	44,024	5,755	15%	(288)	-1%	1,654	4%
Total labour costs before capitalization	122,931	135,141	134,299	140,517	17,586	14%	5,376	4%	6,218	5%
Capital salaries	(27,830)	(30,585)	(28,674)	(31,486)	(3,656)	13%	(901)	3%	(2,812)	10%
Capital overtime	(6,612)	(9,130)	(5,856)	(6,031)	581	-9%	3,099	-34%	(175)	3%
General expenses capitalized deferral[1]	-	(6,286)	(6,389)	(6,578)	(6,578)		(292)	5%	(189)	3%
Labour costs included in operating expenses	**88,490**	**89,143**	**93,381**	**96,421**	**7,931**	**9%**	**7,278**	**8%**	**3,040**	**3%**
Annual change ($)		***653***	***4,238***	***3,040***						
Annual change (%)		***1%***	***5%***	***3%***						

Note 1: Hydro's operating costs in 2025A, 2026F, and 2027TY are shown net of deferred salaries to the General Expenses Capitalized ("GEC") Deferral account, as approved in Order No. P.U. 32 (2025). [19]

During our review, we verified the totals per category with Hydro and conducted a trend analysis. Our findings on judgementally selected variances by category are detailed throughout this section of our report.

Salaries

The following chart and table detail the trends for salaries for 2024A, 2025A, 2026F, and 2027TY.

[19] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 2.28. Footnote 60.

Figure 27 – Salaries

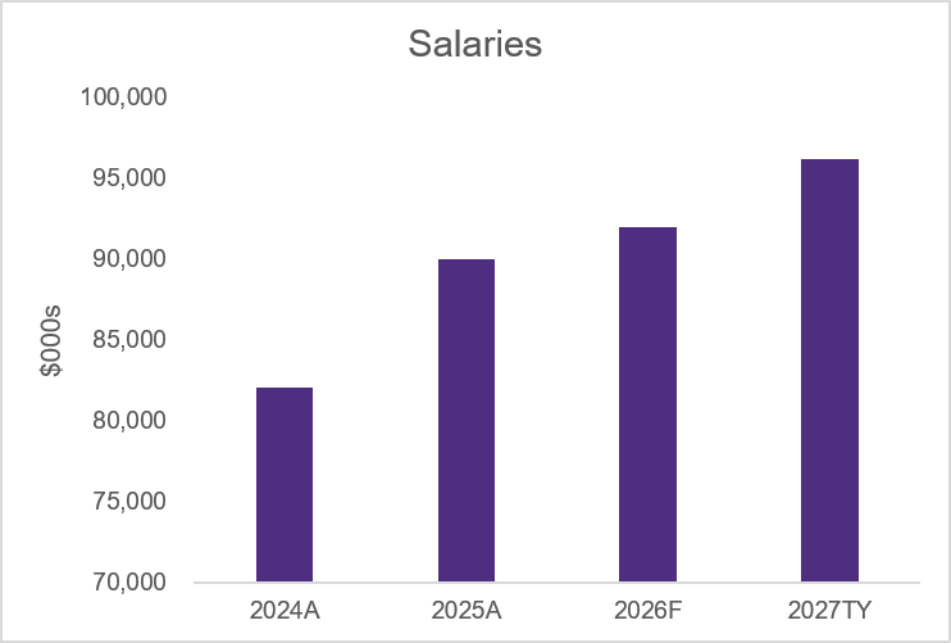


Figure 28 – Salaries[20]

($000s)	2024A	2025A	2026F	2027TY	2027TY vs 2024A ($)	% change	2027TY vs 2025A ($)	% change	2027TY vs 2026F ($)	% change
Salaries	82,042	90,060	92,003	96,212	14,170	17%	6,152	7%	4,209	5%
Annual change ($)		*8,018*	*1,943*	*4,209*						
Annual change (%)		*10%*	*2%*	*5%*						

Based on the table above we identified the following significant variances:

- **Salaries in 2027TY were 17% higher than 2024A.** According to Hydro, increases in salary costs from 2024A to 2027TY are primarily driven by salary adjustments to address the outcome of Southlea Group's review and begin to realign Hydro with its comparator market. Hydro increased its non-union compensation levels beginning in 2023, administering economic increases of 2% in 2023, 4% in 2024, and 4% in 2025; similar increases were implemented during this time frame for its unionized employees.[21] Hydro provided the following breakdown for the $14.2 million increase:[22]

[20] Newfoundland and Labrador Hydro 2026 General Rate Application Supplemental Material, July 17, 2026 – Schedule B-I.

[21] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – CA-NLH-071.

[22] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-023.

- $6.1 million increase because of FTE changes.
- $6.5 million attributable to economic increases.
- $1.6 million due to other adjustments.

The salaries component of total labour costs is expected to maintain an upward trend from 2024A to 2027TY. The breakdown of salaries by business unit and functional area for 2024A, 2025A, 2026F, and 2027TY is summarized in the table below.

Figure 29 – Breakdown of salaries by functional area[23]

(000s)	2024A	2025A	2026F	2027TY	2027TY vs 2024A	% change	2027TY vs 2025A	% change	2027TY vs 2026F	% change
Operations:										
Transmission and distribution	$ 23,900	$ 25,193	$ 25,632	$ 26,431	$ 2,531	11%	$ 1,238	5%	$ 800	3%
Production	18,761	19,818	20,880	21,540	2,779	15%	1,722	9%	660	3%
Engineering services	13,030	14,494	13,862	14,928	1,898	15%	434	3%	1,066	8%
System planning	2,104	2,886	2,467	2,545	441	21%	(341)	-12%	78	3%
NLSO	2,990	3,193	3,014	3,109	119	4%	(84)	-3%	95	3%
Asset management	1,126	1,202	1,376	1,420	294	26%	218	18%	44	3%
Major projects	1,391	2,563	3,000	3,937	2,546	183%	1,374	54%	937	31%
Operations technology	3,350	3,593	3,796	3,908	559	17%	315	9%	112	3%
Total operations	**66,652**	**72,942**	**74,027**	**77,818**	**11,167**	**17%**	**4,876**	**7%**	**3,792**	**5%**
General and administration:										
Executive	871	943	906	935	64	7%	(8)	-1%	29	3%
Financial services and other	5,618	6,270	6,192	6,385	767	14%	115	2%	193	3%
People, culture and corporate	4,754	5,516	6,215	6,367	1,613	34%	851	15%	152	2%
Regulatory, customer service & energy optimization	4,148	4,389	4,663	4,707	559	13%	318	7%	44	1%
Total general and administration	**15,391**	**17,118**	**17,976**	**18,393**	**3,002**	**20%**	**1,275**	**7%**	**417**	**2%**
Total salaries	**$ 82,043**	**$ 90,060**	**$ 92,003**	**$ 96,212**	**$ 14,170**	**17%**	**$ 6,152**	**7%**	**$ 4,210**	**5%**
Annual change		***$ 8,018***	***$ 1,943***	***$ 4,210***						
Annual change (%)		***10%***	***2%***	***5%***						

As demonstrated in the table above, the functional areas contributing most to the expected 17% increase in salaries in 2027TY compared to 2024A are transmission and distribution, production, and major projects.

Hydro explained that the increase is primarily attributable to organizational changes undertaken during this period, including the establishment of a major projects department and the restructuring of various functions. Additionally, the Company has experienced growth in FTE positions, primarily a reflection of major capital investment requirements, electrification, internal talent pipeline development and succession planning for key and critical roles. Net FTEs have increased from 821 in 2024A to 882 in 2027TY. A significant portion of this growth is major projects related.

[23] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – CA-NLH-071.

Other salary costs

The following chart and table detail the trends for other salary costs for 2024A, 2025A, 2026F, and 2027TY.

Figure 30 – Other salary costs

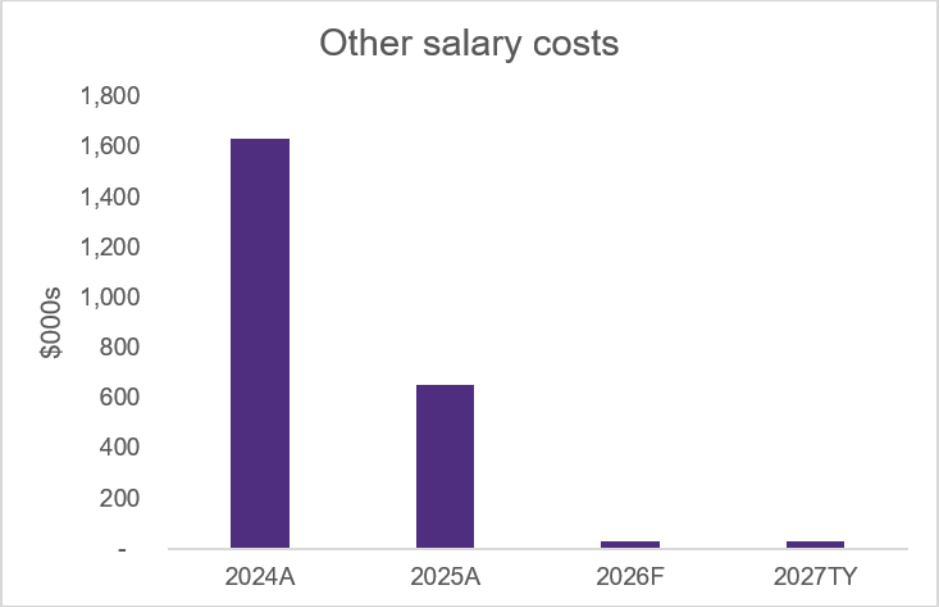


Figure 31 – Other salary costs

($000s)	2024A	2025A	2026F	2027TY	2027TY vs 2024A ($)	% change	2027TY vs 2025A ($)	% change	2027TY vs 2026F ($)	% change
Other salary costs	1,631	650	30	31	(1,600)	-98%	(619)	-95%	1	3%
Annual change ($)		***(981)***	***(620)***	***1***						
Annual change (%)		***-60%***	***-95%***	***3%***						

Based on the table above, we identified the following significant variances:

- **2027TY other salary costs are expected to be 98% lower than 2024A and 95% lower than 2025A.** According to Hydro, 2024A and 2025A included retroactive salary adjustments for employees. Beginning in 2026F, these adjustments are reflected in the salaries line and are therefore no longer included in other salary costs.

Overtime

The following chart and table detail the trends for overtime for 2024A, 2025A, 2026F, and 2027TY.

Figure 32 – Overtime

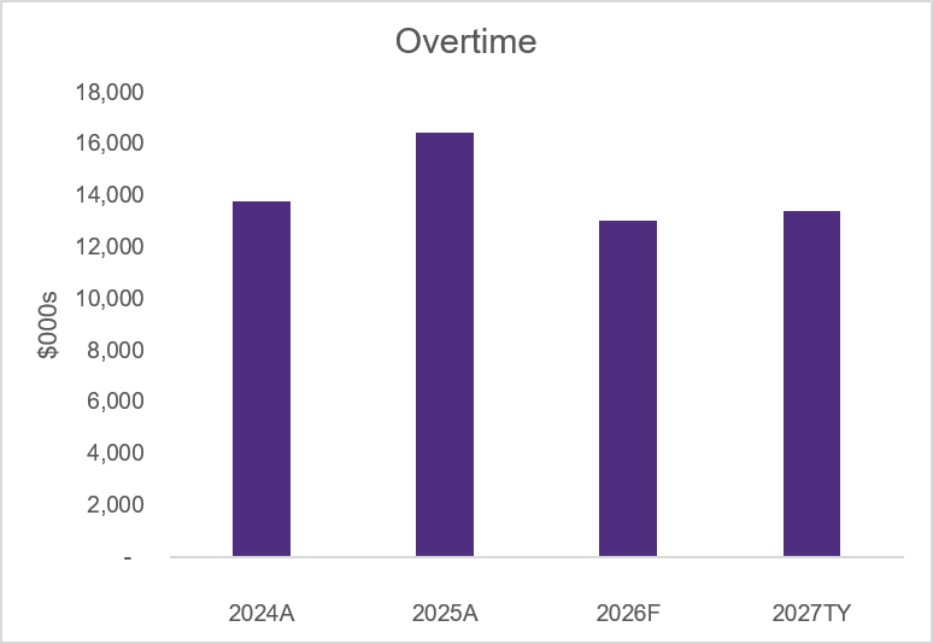


Figure 33 – Overtime

($000s)	2024A	2025A	2026F	2027TY	2027TY vs 2024A ($)	% change	2027TY vs 2025A ($)	% change	2027TY vs 2026F ($)	% change
Overtime	13,783	16,448	13,048	13,392	(391)	-3%	(3,056)	-19%	344	3%
Annual change ($)		***2,665***	***(3,400)***	***344***						
Annual change (%)		***19%***	***-21%***	***3%***						

According to Hydro, the 2027 Test Year was budgeted based on historical average overtime costs derived from the 2025 Budget for overtime , which was based on a historical three-year average of 2022-2024, and then escalated using a labour inflator for the 2026 Budget and 2027 Test Year.

Employee future benefits

The following chart and table detail the trends for employee future benefits for 2024A, 2025A, 2026F, and 2027TY.

Figure 34 – Employee future benefits

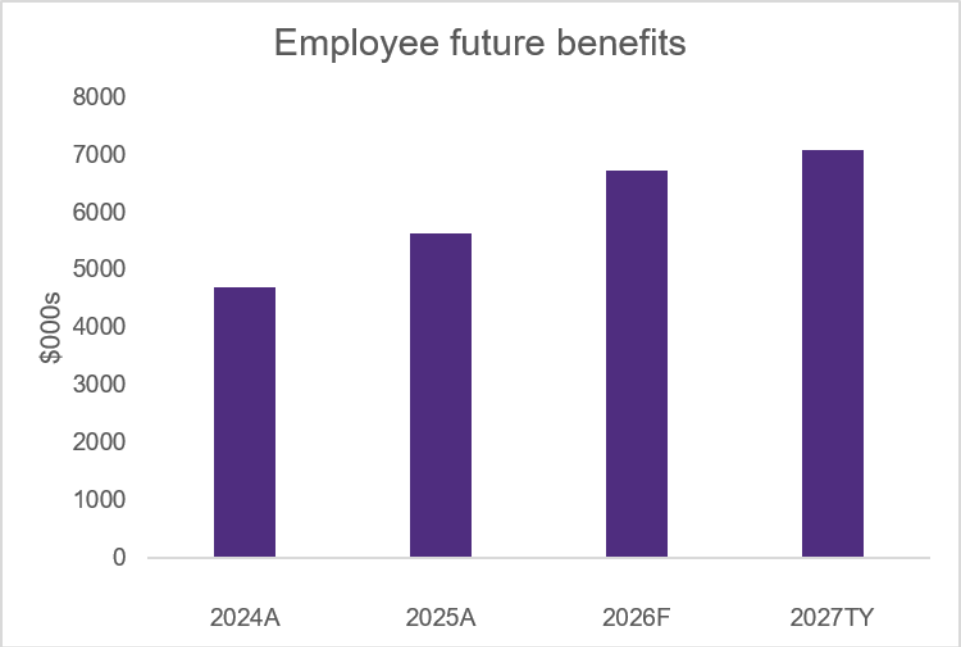


Figure 35 – Employee future benefits[24]

($000s)	2024A	2025A	2026F	2027TY	2027TY vs 2024A ($)	% change	2027TY vs 2025A ($)	% change	2027TY vs 2026F ($)	% change
Current service	2,016	2,274	2,486	2,603	587	29%	329	14%	117	5%
Interest	3,676	4,014	4,396	4,579	903	25%	565	14%	183	4%
Amortization of actuarial losses	(996)	(653)	(149)	(102)	894	-90%	551	-84%	47	-32%
Total employee future benefits	**4,696**	**5,635**	**6,733**	**7,080**	**2,384**	**51%**	**1,445**	**26%**	**347**	**5%**
Annual change ($)		***939***	***1,098***	***347***						
Annual change (%)		***20%***	***19%***	***5%***						

Based on the table above, we identified the following significant variances:

- **2027TY employee future benefits are expected to be 51% higher than 2024A and 26% higher than 2025A.** According to Hydro, the forecast is based on the actuarial valuation estimate and reflects higher salary levels incorporated in the 2027 Test Year.

[24] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 Supplemental Filing – Schedule D-II – Page 5 of 7.

Fringe benefits

The following chart and table detail the trends for fringe benefits for 2024A, 2025A, 2026F, and 2027TY.

Figure 36 – Fringe benefits

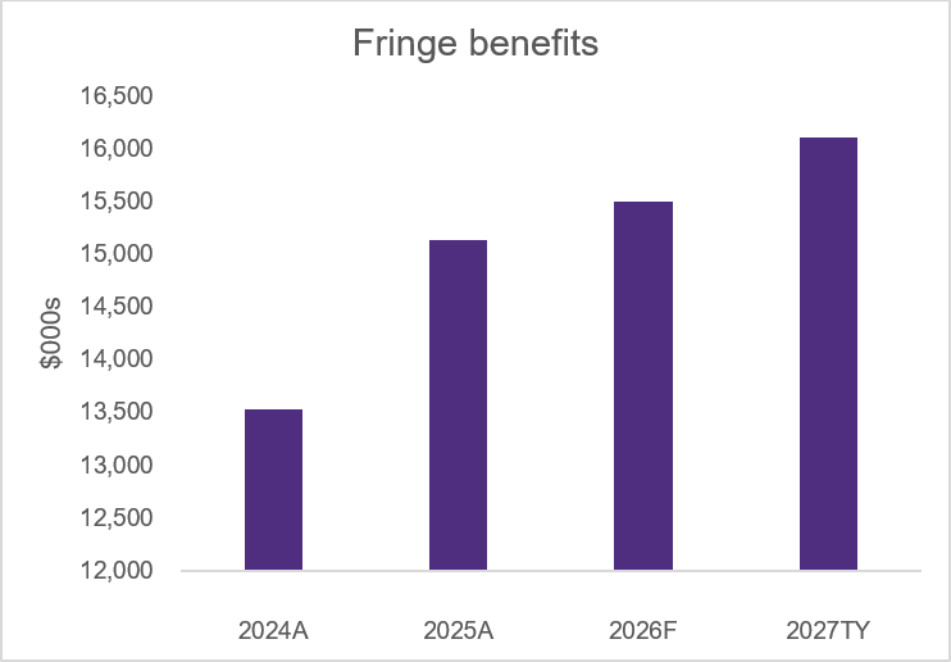


Figure 37 – Fringe benefits

($000s)	2024A	2025A	2026F	2027TY	2027TY vs 2024A ($)	% change	2027TY vs 2025A ($)	% change	2027TY vs 2026F ($)	% change
Fringe benefits	13,535	15,142	15,502	16,113	2,578	19%	971	6%	611	4%
Annual change ($)		*1,607*	*360*	*611*						
Annual change (%)		*12%*	*2%*	*4%*						

Based on the table above, we identified the following significant variances:

- **2027TY fringe benefits are expected to be 19% higher than 2024A.** According to Hydro, this increase is primarily attributable to salary escalations, as fringe benefits are calculated as a percentage of overall salary costs.[25]

[25] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – NP-NLH-146.

Capital salaries

Capitalized salaries include the salaries and benefits of the Company's employees whose time is charged directly to capital projects. The gross payroll costs for 2024A, 2025A, 2026F, and 2027TY were allocated to operations and capital as follows:

Figure 38 – Gross payroll costs allocated to operations and capital

($000s)	2024A	2025A	2026F	2027TY
Payroll charged to operating - ***Figure 26***	88,490	89,140	93,380	96,422
General expenses capitalized deferral[1]	-	6,286	6,389	6,578
Payroll charged to capital	34,442	39,715	34,530	37,517
Total payroll	**122,931**	**135,141**	**134,299**	**140,517**

Note 1: The GEC Deferral Account represents labour costs associated with supporting capital projects that do not meet Hydro's criteria for direct capitalization. These costs are deferred for future recovery rather than recorded as operating expenses in the year incurred. As the objective of this analysis is to present total payroll costs incurred by Hydro, the GEC Deferral has been added back to operating and capital payroll to calculate total payroll.

In response to request for information PUB-NLH-024, Hydro provided the following breakdown of the GEC Deferral for 2025A, 2026F, and 2027TY.

Figure 39 – Breakdown of GEC deferral by functional area[26]

($000s)	2025A	2026F	2027TY
Regulatory affairs	440	462	452
Engineering and technology	1,078	958	957
Finance	806	825	851
Production operations	782	894	922
Human resources	223	256	264
Transmission operations	318	329	339
Information systems	598	670	696
Supply chain	816	805	832
Major projects	1,223	1,189	1,264
Total	**6,286**	**6,388**	**6,578**

As shown in the table above, the 2027TY GEC Deferral totals approximately $6.6 million. The largest contributors are major projects ($1.3 million), Engineering & Technology ($1.0 million), Production Operations ($0.9 million), Finance ($0.9 million), and Supply Chain ($0.8 million). The GEC Deferral is calculated by applying Board-approved capitalized overhead percentages

[26] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-024.

to departmental salary costs, with the allocation rates approved in Order No. P.U. 32(2025). These amounts reflect capitalization rates ranging from 1% to 100%, with major projects fully capitalized and Engineering & Technology, and Regulatory Affairs capitalized at rates of 22% and 21%, respectively.[27]

Payroll charged to capital consists of both capital salaries and overtime as detailed below:

Figure 40 – Capital salaries and overtime

($000s)	2024A	2025A	2026F	2027TY
Capital salaries	27,830	30,585	28,674	31,486
Capital overtime	6,612	9,130	5,856	6,031
Payroll charged to capital	**34,442**	**39,715**	**34,530**	**37,517**

The following chart and table detail the trends for capitalized salaries excluding overtime for 2024A, 2025A, 2026F, and 2027TY.

Figure 41 – Capital salaries



[27] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-024.

Figure 42 – Capital salaries

($000s)	2024A	2025A	2026F	2027TY	2027TY vs 2024A ($)	% change	2027TY vs 2025A ($)	% change	2027TY vs 2026F ($)	% change
Capital salaries	27,830	30,585	28,674	31,486	3,656	13%	901	3%	2,812	10%
Annual change ($)		*$ 2,755*	*$ (1,911)*	*$ 2,812*						
Annual change (%)		*10%*	*-6%*	*10%*						

Based on the table above we identified the following significant variances:

- **Capital salaries in 2027TY are expected to be 13% higher than 2024A and 10% higher than 2026F.** According to Hydro, this increase is primarily due to increased capital work activity, particularly Major Project activity, as well as salary adjustments.

The following chart and table detail the trends for capitalized overtime, including 2024A, 2025A, 2026F, and 2027TY.

Figure 43 – Capital overtime

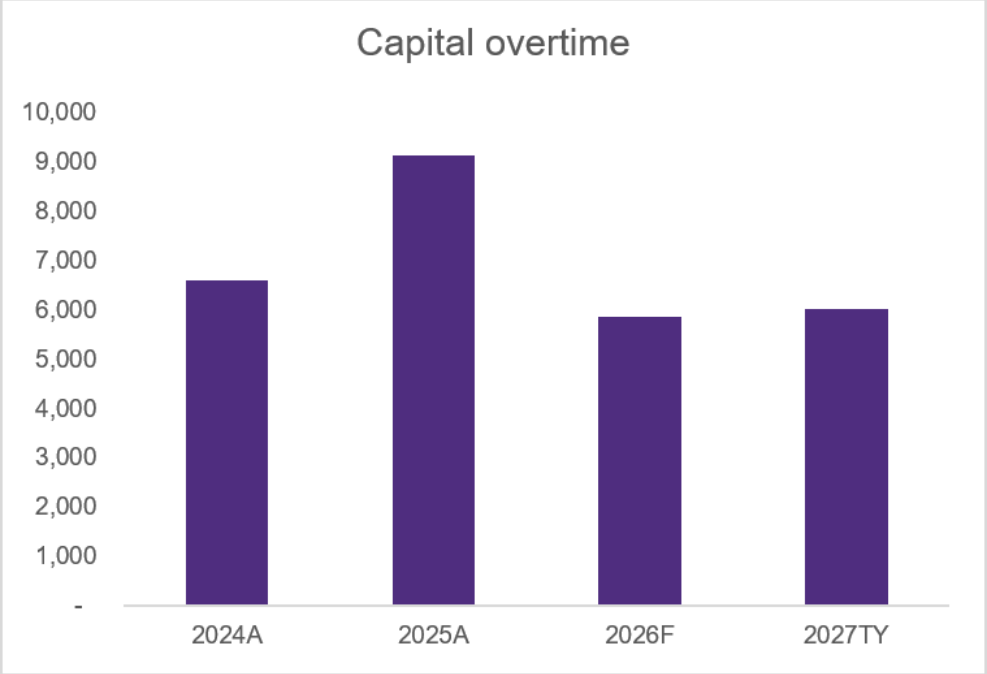


Figure 44 – Capital overtime

($000s)	2024A	2025A	2026F	2027TY	2027TY vs 2024A ($)	% change	2027TY vs 2025A ($)	% change	2027TY vs 2026F ($)	% change
Capital overtime	6,612	9,130	5,856	6,031	(581)	-9%	(3,099)	-34%	175	3%
Annual change ($)		*$ 2,518*	*$ (3,274)*	*$ 175*						
Annual change (%)		*38%*	*-36%*	*3%*						

Based on the table above we identified the following significant variance:

- **Capital overtime in 2027TY is expected to be 34% lower than 2025A.** According to Hydro, the decrease primarily reflects higher capital overtime requirements in 2025, driven by a larger Wood Pole Line Management program, where work was completed during outages and required additional overtime, as well as an expanded scope of work within Hydro Generation.

Salary administration matrix

The below matrix illustrates a scale for salary increases and bonuses based on performance ranging from 0 - 6.5% for non-union employees. The compensation matrix allows for pay adjustments above the revised job rate based on an employee's "rating of performance". Ratings of performance include unacceptable, partially achieved, successful, excellent, and outstanding.

The following table details the merit compensation matrix for non-union employees, with salary adjustments effective April 1, 2026.

Figure 45 – Merit compensation matrix (non-union employee)

Rating of Performance	Expected distribution	Salary adjustment to the scale job rate (100%)
Outstanding	5%	6.5%
Excellent	30%	5.5%
Successful	60%	4%
Partially achieved	4%	0%
Unacceptable	1%	0%

As shown in the table above, majority of employees (60%) are expected to receive a salary adjustment of 4%, followed by 30% of employees expected to receive a salary adjustment of 5.5%.

According to Hydro, there were no changes made from the 2025 salary administration matrix. Salaries in the 2027 Test Year were estimated by escalating the 2025 administration matrix. All salary adjustments are subject to the scale maximum (100%) however, employees will be able to proceed beyond 100% of scale through to 110% if they receive two consecutive years of excellent and/or outstanding performance ratings. Once an increase has been applied, the employee requires an additional two years of excellent and/or outstanding performance ratings before they are entitled to another increase. Employees hired in the fourth quarter are not eligible for any increases, while merit increases for employees with a hire date prior to the fourth quarter will be prorated based on their start date.

Full-time equivalents

Hydro noted that their workforce requirements are driven by operational and capital requirements and are assessed annually through its workforce planning and budgeting processes. These processes consider the resources, and skill sets necessary to maintain safe and reliable operations, execute planned capital work, and support Hydro's strategic priorities.

The determination of workforce requirements is informed by Hydro's integrated workforce planning framework that contemplates the organization's corporate strategy and priorities, current and future workforce needs in light of both internal workforce and external labour market conditions.

The labour requirements reflected in the 2027 Test Year were developed during the 2025 budget cycle, during which each line of business was required to identify its FTE requirements for 2025, 2026, and the 2027 Test Year. As part of this process, departments assessed their existing workforce complement against anticipated operational and capital requirements, including the nature and volume of work, required skill sets, and organizational priorities, as well as known and/or anticipated attrition (e.g., retirements) and other succession planning considerations.

Existing filled positions supporting ongoing operations formed the baseline for this assessment, while departments were required to provide business justifications for additional, vacant, and temporary/term positions. Proposed changes to departmental FTE budgets were subject to executive review and approval to ensure alignment with business requirements and organizational priorities.

As discussed in Hydro's 2026 General Rate Application, workforce growth in recent years has primarily reflected major capital investment requirements, electrification initiatives, internal talent pipeline development, and succession planning for key and critical roles. These considerations inform both the overall size and composition of Hydro's workforce, ensuring resources are appropriately aligned with its operational and capital commitments.

Net FTEs represent the workforce supporting Newfoundland and Labrador Hydro’s regulated operations (“Regulated Hydro”). The calculation starts with Hydro employees, less vacancies, adds employee time provided to Regulated Hydro by Non-Regulated business units, and subtracts Regulated Hydro employee time spent supporting Non-Regulated business units. FTEs related to administrative services recovered through administration fees are removed. FTEs associated with administrative services provided by non-regulated businesses are excluded.

The following table details the average number of net full-time equivalent employees by functional area for 2024A, 2025A, 2026F and 2027TY.

Figure 46 – Average net FTE employees by functional area[28]

	2024A	2025A	2026F	2027TY	2027TY vs 2024A	% change	2027TY vs 2025A	% change	2027TY vs 2026F	% change
Operations:										
Transmission and distribution	255	255	263	263	8	3%	8	3%	0	0%
Production	193	194	201	201	8	4%	8	4%	0	0%
Engineering services	110	115	112	117	7	7%	2	1%	5	4%
System planning & NLSO	42	47	43	43	2	4%	(3)	-7%	-	0%
Major projects & asset management	18	28	34	41	23	127%	13	44%	7	19%
Operations technology	30	30	32	32	2	7%	2	6%	-	0%
Total operations	**647**	**669**	**685**	**697**	**49**	**8%**	**28**	**4%**	**12**	**2%**
General and administration:										
Executive	9	9	5	5	(3)	-38%	(4)	-42%	-	0%
Financial services and other	63	64	68	68	6	9%	4	6%	0	0%
People, culture and corporate affairs	50	54	56	57	7	13%	3	6%	1	2%
Regulatory, customer service & energy optimization	52	51	55	55	2	4%	3	7%	(1)	-1%
Total general and administration	**174**	**178**	**185**	**185**	**11**	**6%**	**7**	**4%**	**0**	**0%**
Total FTEs[1]	**821**	**847**	**870**	**882**	**60**	**7%**	**35**	**4%**	**12**	**1%**
Annual change		***25***	***23***	***12***						
Annual change (%)		***3%***	***3%***	***1%***						

Note 1: Actual vacancies in 2025A were 62 positions, as reported in PUB-NLH-022. This differs from the vacancy allowance of 55 used in the FTE table above, which is based on information presented in Hydro's response to Newfoundland Power's request for information NP-NLH-034. Using the actual vacancy count results in a revised 2025A FTE total of 854. Refer to ***Figure 48*** *for the detailed FTE and vacancy factor calculation.*

Hydro's current and future workforce requirements are driven by its operational and capital requirements and are assessed on an annual basis utilizing workforce planning practices. Growth in its workforce in recent years has primarily reflected major capital investment requirements, electrification, internal talent pipeline development, and succession planning for key and critical roles.[29]

Based on the table above, we identified the following significant variances:

- **FTEs in the Major Projects and Asset Management division in 2027TY are expected to be 127% higher than 2024A, 44% higher than 2025A, and 19% higher than 2026F.** The variances reflect organizational changes implemented since 2024A, including the establishment of Hydro's Major Projects department in late 2023 and the

[28] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – NP-NLH-034.

[29] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 2.25.

restructuring of various functions. Hydro indicated that FTE growth is primarily driven by major capital investment requirements, electrification initiatives, internal talent pipeline development, succession planning for key and critical roles, and the need to build and retain expertise to support the long-term execution of major capital projects. Additional resources are also required to support consultant studies, resource planning analyses, and regulatory processes associated with Hydro's system expansion requirements.[30]

- **FTEs in the Executive division in 2027TY are expected to be 38% lower than 2024A and 42% lower than 2025A.** According to Hydro, the decrease in the Executive division reflects changes to the organizational structure and how Executive team members charge their time. Beginning in 2025, time charges for certain Executive positions (Chief Executive Officer, VP Chief Financial Officer, VP Chief Legal Officer and Corporate Secretary, and VP People and Corporate Affairs) was allocated to various lines of business through an administration fee. As a result, there is a forecasted reduction in labour recharge within 2026F and 2027TY. The costs associated with the administration fees are incurred within Hydro's cost allocations category.

- **FTEs in the People, Culture, and Corporate Affairs division in 2027TY are expected to be 13% higher than 2024A.** According to Hydro, growth within the People, Culture & Corporate Affairs group was primarily driven by additional FTEs required to support the Company's apprenticeship program.

Average salary costs per net FTE for 2024A, 2025A, 2026F, and 2027TY are included in the following table:

Figure 47 – Average salary cost per net FTE

	2024A	2025A	2026F	2027TY	2027TY vs 2024A ($)	% change	2027TY vs 2025A ($)	% change	2027TY vs 2026F ($)	% change
Salary costs, including temporary salaries ($000s)	82,042	90,060	92,003	96,212	14,170	17%	6,152	7%	4,209	5%
Net labour recharge ($000s)	989	119	(104)	250	(739)	-75%	131	110%	354	-340%
Total salary costs ($000s)	83,031	90,179	91,899	96,462	13,431	16%	6,283	7%	4,563	5%
Net FTE (in units)	821	847	870	882	60	7%	35	4%	12	1%
Average salary per net FTE ($000s)	**101,113**	**106,532**	**105,655**	**109,417**	**$ 8,304**	**8%**	**$ 2,885**	**3%**	**$ 3,762**	**4%**
Annual change ($)		***5,419***	***(876)***	***3,762***						
Annual change (%)		***5%***	***-1%***	***4%***						

The above analysis indicated the average salary per net FTE in 2027TY is expected to increase by 8%, 3%, and 4% compared to 2024A, 2025A, and 2026F respectively. This is primarily attributable to expected increases in salary costs.

Hydro provided a breakdown of the FTE vacancy allowance in their response to PUB-NLH-022. The vacancy allowance included in 2027TY is 55 employees for a total of approximately $6.0 million. In compiling labour costs for the 2027TY, Hydro reduced its budgeted total salaries by

[30] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 2.25.

the $6.0 million vacancy allowance. The vacancy allowance is calculated by multiplying the average salary by the number of FTEs included within the vacancy allowance. [31] The table below provides a breakdown of the budgeted and actual FTEs, including vacancy factors from 2024A to 2027TY.

Figure 48 – FTEs and vacancy factors[32]

	2024A	2025A	2026B	2027TY
Gross FTEs (A)	893	917	928	937
Vacancy Allowance / Actual Vacancy (B)	67	62	55	55
Home-Based FTEs (A-B=C)	826	855	873	882
Net Labour Recharge (D)	-5	-1	-2	0
Total Net FTEs (C+D=F)	**821**	**854**	**871**	**882**
% Vacancy (B/A)	**8%**	**7%**	**6%**	**6%**

Executive salaries

In 2021, Hydro announced a reorganization of its executive structure to reduce costs and focus on better serving its customers. Thus, a number of the Regulated and Non-Regulated functions were combined with a focus on business function, rather than line of business under the prior structure. The organizational restructuring transferred executive positions supporting shared services departments to Non-Regulated Hydro, meaning executive salaries are first charged to Non-Regulated Hydro, and are then transferred to Regulated Hydro in accordance with Hydro's updated 2026 intercompany guidelines.[33]

According to Hydro, executive salaries charged from Non-Regulated Hydro to Regulated Hydro for 2024A, 2025A, 2026F, and 2027TY are as follows:

[31] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-022.

[32] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-022-1.

[33] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I - Page 2.40

Figure 49 –Executive salaries charged to Regulated Hydro

Position	2024A	2025A	2026F	2027TY
President & CEO[1]	407,000	-	-	-
VP Churchill and Muskrat Falls[2]	15,000	-	43,779	45,092
VP Chief Legal Officer and Corporate Secretary[1]	115,000	-	-	-
VP People and Corporate Affairs[1]	311,000	-	-	-
VP Chief Financial Officer[1]	113,000	-	-	-
Total	**$ 961,000**	**$ -**	**$ 43,779**	**$ 45,092**

Note 1: Position in Administration Fee Business Unit 1996. Costs associated with this position are allocated to Regulated Hydro through the administration fee.

Note 2: Budgeted to reflect Operating Technology oversight (Regulated Hydro Operations).

According to Hydro, executive salaries charged to Non-Regulated Hydro out of Regulated Hydro for 2024A, 2025A, 2026F, and 2027TY are as follows:

Figure 50 – Executive salaries charged out of Regulated Hydro

Position	2024A	2025A	2026F	2027TY
VP Hydro Engineering & NLSO	-	-	-	-
VP Regulatory Affairs & Stakeholder Relations[1]	(53,000)	(67,409)	(32,147)	(33,112)
VP Hydro Operations[2]	-	-	(11,165)	(11,500)
Total	**$ (53,000)**	**$ (67,409)**	**$ (43,312)**	**$ (44,612)**

Note 1: Budgeted to reflect Stakeholder Relations oversight. Costs associated with this position are charged directly to Non-Regulated Hydro Operations and are not allocated through the administration fee.

Note 2: Budgeted to reflect Exploits Generation oversight. Costs associated with this position are charged directly to Non-Regulated Hydro Operations and are not allocated through the administration fee.

The following table outlines the executive salaries by position, including the annual salary, benefits, and vehicle allowance for 2024A, 2025A, 2026F, and 2027TY.

Figure 51 – Executive salaries by position

Position	2025 Salary actual	2025 Benefits[1]	2026 Salary forecast	2026 Benefits[1] forecast	2027 Salary forecast	2027 Benefits[1] forecast
VP Engineering & NLSO	$ 265,621	$ 43,701	$ 265,200	$ 45,084	$ 273,156	$ 45,617
VP People & Corporate Affairs	259,718	42,921	289,396	43,190	289,396	43,190
VP Hydro Operations[2]	259,718	42,921	265,200	45,084	273,156	45,617
VP Churchill Falls & Muskrat Falls	298,585	47,857	309,600	48,126	309,600	48,126
VP Chief Financial Officer	298,585	47,857	309,600	48,126	309,600	48,126
VP Chief Legal Officer & Corp Secretary	275,065	44,937	306,496	45,206	306,496	45,206
VP Transmission & Business Development[3]	271,524	44,480	126,063	44,749	-	-
VP Commercial & Business Development (Acting)[4]	-	-	225,120	29,965	225,120	30,238
VP Regulatory Affairs & Stakeholder Relations	244,927	40,967	265,200	45,084	273,156	45,617
VP Major Projects[5]	82,800	12,285	252,356	20,268	252,356	40,368
President and CEO	411,154	61,466	468,048	61,764	468,048	61,764
Other[6]	-	-	190,187	28,793	64,930	10,730
Total	**$2,667,697**	**$ 429,392**	**$3,272,466**	**$ 505,439**	**$3,045,014**	**$ 464,599**

Note 1: Benefits include Company paid portions of life insurance, worker's compensation, Canada pension plan, accidental death and dismemberment, medical, dental, and employment insurance.

Note 2: Previous permanent incumbent concluded active employment effective April 30, 2026. Acting role filled February 16, 2026 to provide overlap. Acting role transitioned to permanent effective September 28, 2026.

Note 3: The VP Transmission & Business Development position is vacant effective May 29, 2026. Transmission responsibility moved to VP Churchill Falls & Muskrat Falls.

Note 4: The VP Commercial & Business Development moved into Acting VP role effective May 11, 2026.

Note 5: The VP Major Projects moved into VP role effective August 29, 2025.

Note 6: Other is considered confidential and there are salary continuance obligations in 2026 and 2027.- Note Hydro is sending a revised RFI as this is not included in 2027TY

System equipment and maintenance

The following chart and table detail the trends for system equipment and maintenance, including 2024A, 2025A, 2026F and 2027TY.

Figure 52 – System equipment and maintenance[34]

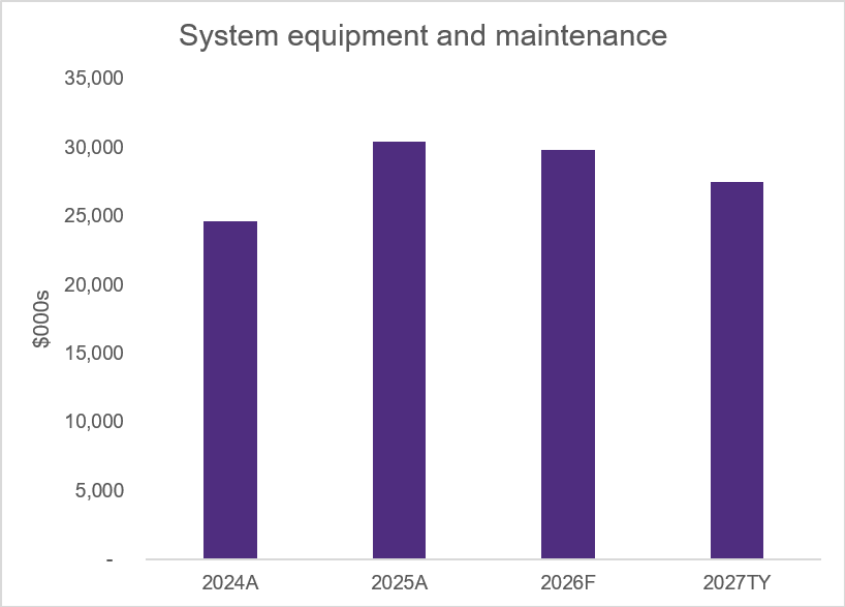


Figure 53 – System equipment and maintenance breakdown[35]

($000s)	2024A	2025A	2026F	2027TY	2027TY vs 2024A ($)	% change	2027TY vs 2025A ($)	% change	2027TY vs 2026F ($)	% change
Direct purchases	16	976	18	18	2	13%	(958)	-98%	-	0%
Materials	8,154	8,289	8,873	9,023	869	11%	734	9%	150	2%
Contract labour	14,469	19,162	18,818	16,323	1,854	13%	(2,839)	-15%	(2,495)	-13%
Inventory consumables	-	8	-	-	-		(8)	-100%	-	
Contract materials	239	51	275	280	41	17%	229	449%	5	2%
Tools & operating supplies	215	244	237	241	26	12%	(3)	-1%	4	2%
Lubes, chemicals, & gases	944	1,118	1,006	1,025	82	9%	(93)	-8%	19	2%
Freight	587	566	618	628	42	7%	62	11%	10	2%
Total	**24,623**	**30,414**	**29,845**	**27,538**	**2,915**	**12%**	**(2,876)**	**-9%**	**(2,307)**	**-8%**
Annual change ($)		***5,791***	***(569)***	***(2,307)***						
Annual change (%)		***24%***	***-2%***	***-8%***						

Based on the table above we identified the following significant variances:

- **System equipment and maintenance expense in 2027TY is expected to be 12% higher than 2024A.** As demonstrated in the table above, the primary categories

[34] Newfoundland and Labrador Hydro 2026 General Rate Application Supplemental Material, July 17, 2026 – Schedule B-I.

[35] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – NP-NLH-055.

contributing to this increase are materials and contract labour. Hydro noted that this is due to market-driven cost escalations.[36]

- **System equipment and maintenance expense in 2027TY is expected to be 9% lower than 2025A.** According to Hydro, 2025A included higher maintenance activity associated with the Holyrood Thermal Generation Station boiler maintenance and inspections, information systems ("IS") project implementation costs, and the removal of Transmission Line TL202 and associated distribution assets. These costs were either non-recurring or forecast at lower levels in the 2027TY.[37]

- **System equipment and maintenance expense in 2027TY is expected to be 8% lower than 2026F.** According to Hydro, the completion of the Nain site removal operating project is included in the 2026F however, it is not required in the 2027TY. Costs associated with this removal project are deferred as part of Hydro's deferral provision and have no impact on total operating costs.[38]

Office supplies and expenses

The following chart and table detail the trends for office supplies and expenses, including 2024A, 2025A, 2026F and 2027TY. Membership fees, which are included within the total office supplies and expenses presented in the GRA, have been presented separately to facilitate review of this specific cost category and its associated variances.

[36] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 3.6.

[37] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – NP-NLH-055.

[38] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – NP-NLH-055.

Figure 54 – Office supplies and expenses[39]

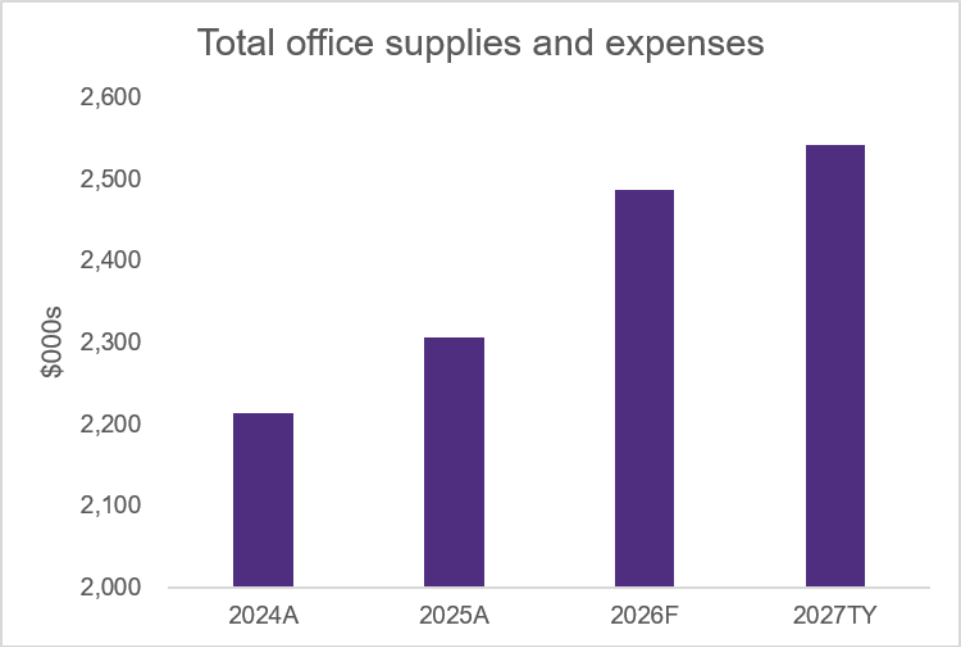


Figure 55 – Office supplies and expenses breakdown

($000s)	2024A	2025A	2026F	2027TY	2027TY vs 2024A ($)	% change	2027TY vs 2025A ($)	% change	2027TY vs 2026F ($)	% change
Membership fees	438	477	457	470	32	7%	(7)	-1%	13	3%
Remainder of office supplies and expenses	1,776	1,829	2,028	2,071	295	17%	242	13%	43	2%
Total office supplies and expenses	**2,214**	**2,306**	**2,486**	**2,541**	**327**	**15%**	**235**	**10%**	**55**	**2%**
Annual change ($)		***92***	***180***	***55***						
Annual change (%)		***4%***	***8%***	***2%***						

Based on the table above we identified the following significant variances:

- **Office supplies and expenses in 2027TY are expected to be 15% higher than 2024A.** According to Hydro, this is primarily due to higher forecast heat and light costs resulting from estimated electricity cost increases, higher forecast advertising costs, and other inflationary increases. Expenditures in the advertising cost category vary based on operational requirements.

- **Office supplies and expenses in 2027TY are expected to be 10% higher than 2025A.** Hydro explained that this is primarily attributable to higher forecast heat and light

[39] Newfoundland and Labrador Hydro 2026 General Rate Application Supplemental Material, July 17, 2026 – Schedule B-I.

costs resulting from estimated electricity cost increases, and higher forecast advertising costs.

Professional services

The following chart and table detail the trends for professional services, including 2024A, 2025A, 2026F and 2027TY.

Figure 56 – Professional services[40]

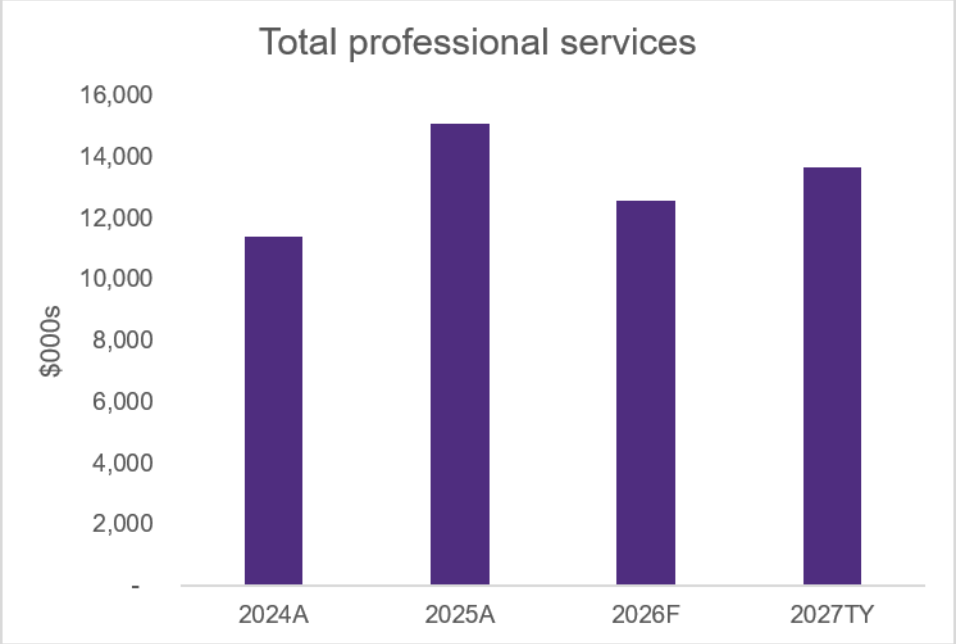


Figure 57 – Professional services breakdown

($000s)	2024A	2025A	2026F	2027TY	2027TY vs 2024A ($)	% change	2027TY vs 2025A ($)	% change	2027TY vs 2026F ($)	% change
Consultants	6,966	9,938	7,670	7,265	299	4%	(2,673)	-27%	(405)	-5%
Audit	109	125	131	133	24	22%	8	6%	2	2%
Legal	243	393	471	328	85	35%	(65)	-17%	(143)	-30%
PUB related costs	1,679	1,996	1,403	2,886	1,207	72%	890	45%	1,483	106%
Software expenditures	2,415	2,640	2,900	3,032	617	26%	392	15%	132	5%
Total professional services	**11,412**	**15,092**	**12,575**	**13,644**	**2,232**	**20%**	**(1,448)**	**-10%**	**1,069**	**9%**
Annual change ($)		***3,680***	***(2,517)***	***1,069***						
Annual change (%)		***32%***	***-17%***	***9%***						

As demonstrated in the table above, expenses pertaining to consultants, rate regulation related costs, and software expenditures make up majority of the total professional services.

[40] Newfoundland and Labrador Hydro 2026 General Rate Application Supplemental Material, July 17, 2026 – Schedule B-I.

Based on the table above we identified the following significant variances:

- **Professional services in 2027TY are expected to be 20% higher than 2024A.** Hydro explained that this is largely driven by the amortization of previously deferred studies such as Phase Two of the Board's Investigation into the January 2014 Outages, Holyrood TGS Life Extension Condition Assessment and the RRA Study Review, as well as amortization of forecast GRA hearing costs.[41] Per Hydro, this increase is also driven by software expenditures, which increased due to new requirements, including cybersecurity initiatives and cloud-related subscription fees, as well as inflationary increases.[42]

- **Professional services in 2027TY are expected to be 10% lower than 2025A**. Hydro identified the following primary drivers contributing to the decrease:

    - **$0.8 million decrease in engineering services.** This variance is primarily attributable to legal costs associated with procurement and commercial support incurred in 2025 ($0.2 million) and costs incurred in 2025 to support study work undertaken in preparation for filing the RRA Study ($0.2 million). In addition, consulting costs in the Major Projects team are capitalized as part of the GEC in the 2027 Test Year ($0.4 million).

    - **$0.4 million decrease in information systems cloud projects.** This variance is primarily due to consulting costs related to IS cloud projects incurred in 2025 ($0.4 million). Projects are classified as cloud projects once their scope and details have been determined. No IS cloud projects have been included in the 2027 Test Year.

    - **$0.7 million decrease in Asset Management and Resource and Production Planning.** This variance is primarily due to costs incurred in 2025 for the Labrador West System Impact Studies ($0.8 million) and study work completed in preparation for filing the RRA Study ($0.5 million). These costs were partially offset by lower Asset Management costs in 2025 ($0.6 million), as activities were completed using internal resources rather than consultants.

    - **$0.6 million increase in Regulatory and Customer Service.** This variance is primarily due to an increase in forecast with Board related costs in Regulatory Affairs ($0.7 million), partially offset by a decrease in Energy Efficiency professional services costs ($0.2 million). The increase in Board related costs is primarily attributable to the commencement of amortization of the RRA, Phase II, and GRA hearing costs deferral account balances in the 2027 Test Year ($1.0 million), as well as lower costs in 2025 resulting from the deferral of prior year RRA study costs ($0.4 million). These increases are partially offset by lower

[41] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 3.6.

[42] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 3.6.

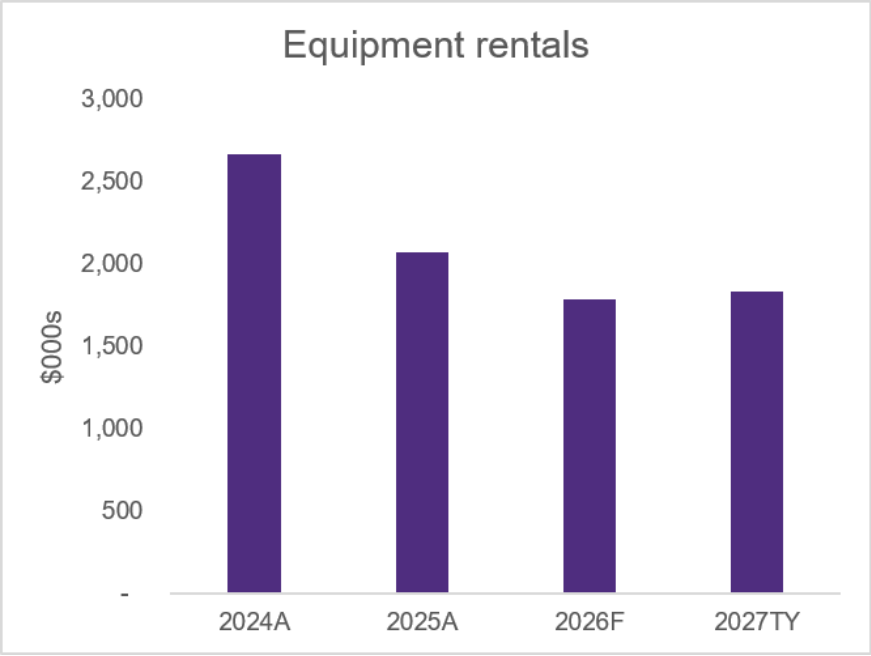
costs associated with major projects applications compared to 2025, including the Application for Early Execution Capital Work for Bay d'Espoir Unit 8 and Avalon Combustion Turbine ("The 2025 Build Application") ($0.9 million). The remainder of the variance reflects differences in the timing and nature of regulatory proceedings. The decrease in Energy Efficiency professional services costs is primarily due to the Green Industrial Facilities Manufacturing Program, which is federally funded and time-limited and is expected to wind down in 2027. Costs recorded in Professional Services are fully offset by a credit in Cost Recoveries.

- **Professional services in 2027TY are expected to be 9% higher than 2026F**. Hydro explained that this is primarily due to higher Regulatory Affairs costs associated with the commencement of amortization of the RRA, Phase II, and GRA Hearing Costs Deferral Account balances in 2027.

Equipment rentals

The following chart and table detail the trends for equipment rentals, including 2024A, 2025A, 2026F and 2027TY.

Figure 58 – Equipment rentals[43]



[43] Newfoundland and Labrador Hydro 2026 General Rate Application Supplemental Material, July 17, 2026 – Schedule B-I.

Figure 59 – Equipment rentals

($000s)	2024A	2025A	2026F	2027TY	2027TY vs 2024A ($)	% change	2027TY vs 2025A ($)	% change	2027TY vs 2026F ($)	% change
Equipment rentals	2,667	2,069	1,788	1,833	(834)	-31%	(236)	-11%	45	3%
Annual change ($)		*(598)*	*(281)*	*45*						
Annual change (%)		*-22%*	*-14%*	*3%*						

Based on the table above we identified the following significant variances:

- **Equipment rentals in 2027TY are expected to be 31% lower than 2024A.** This variance partially relates to equipment rental expenses incurred in 2024 relating to a generator and power transformer rental required in Charlottetown due to the loss of a unit, and a mobile generator rental required in Hawke's Bay, neither of which are budgeted in 2027TY. This variance also relates to an expected decrease in telecommunications equipment due to a reduction in the 2027TY budget for very high frequency ("VHF") radio fees. The Government of Newfoundland and Labrador have implemented a new VHF radio alternative in 2026 and the department of Transportation and Works will use this alternative going forward.[44]

- **Equipment rentals in 2027TY are expected to be 11% lower than 2025A**. Hydro explained that the variance is primarily attributable to higher generator rental costs incurred in L'Anse-au-Loup in 2025 to maintain reserve capacity and continuity of service, as well as higher heater rental costs in the Thermal Productions department. These additional costs were not included in the 2027 Test Year, as the budget was based on a three-year historical average (2022, 2023 and 2024 Forecast) escalated by GDP deflator.

Miscellaneous expenses

The following chart and table detail the trends for miscellaneous expenses, including 2024A, 2025A, 2026F and 2027TY. Training, which is included within the total miscellaneous expenses presented in the GRA, has been presented separately to facilitate review of this specific cost category and its associated variances.

[44] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-013.

Figure 60 – Miscellaneous expenses[45]

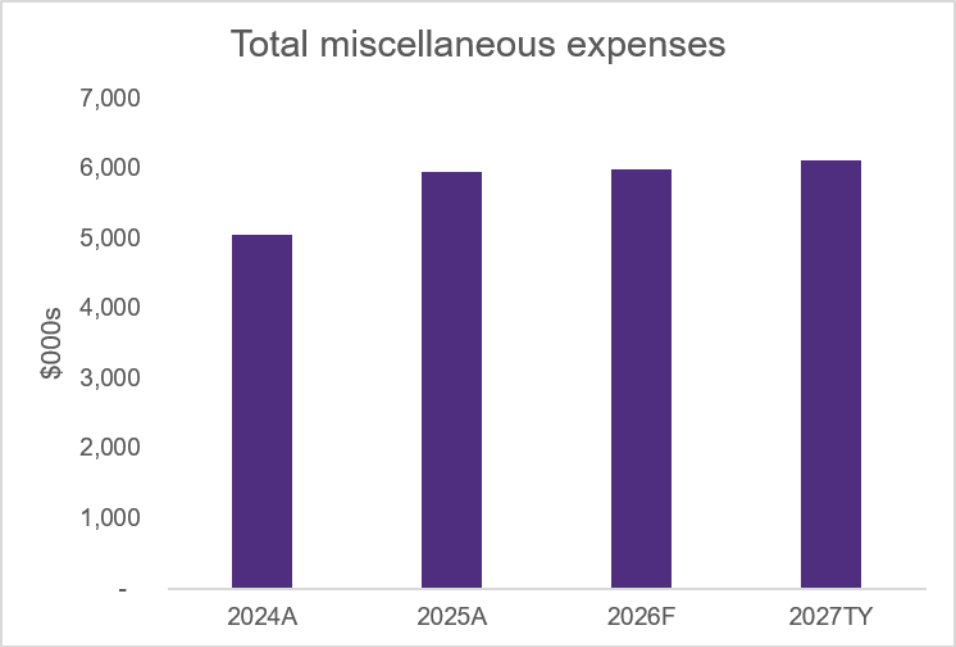


Figure 61 – Miscellaneous expenses breakdown

($000s)	2024A	2025A	2026F	2027TY	2027TY vs 2024A ($)	% change	2027TY vs 2025A ($)	% change	2027TY vs 2026F ($)	% change
Training	271	781	590	600	329	121%	(181)	-23%	10	2%
Remainder of miscellaneous expenses	4,774	5,174	5,399	5,520	746	16%	346	7%	121	2%
Total miscellaneous expenses	**5,045**	**5,955**	**5,989**	**6,121**	**1,076**	**21%**	**166**	**3%**	**132**	**2%**
Annual change ($)		***910***	***34***	***132***						
Annual change (%)		***18%***	***1%***	***2%***						

Based on the table above we identified the following significant variances:

- **Total miscellaneous expense in 2027TY is expected to be 21% higher than 2024A.** Per Hydro, this increase primarily relates to the following:
    - Training expense in 2027TY is expected to be 121% higher than 2024A. This increase is primarily a reflection of an accounting adjustment in 2024 ($0.2 million) related to the review and reconciliation of training accruals, which reduced reported 2024 expenditures. Excluding this adjustment, 2024 training expenditures were approximately $0.5 million and are more comparable to 2027TY. The remaining increase of approximately $0.1 million reflects the

[45] Newfoundland and Labrador Hydro 2026 General Rate Application Supplemental Material, July 17, 2026 – Schedule B-I.

continued development and delivery of Hydro's training programs and organizational needs.

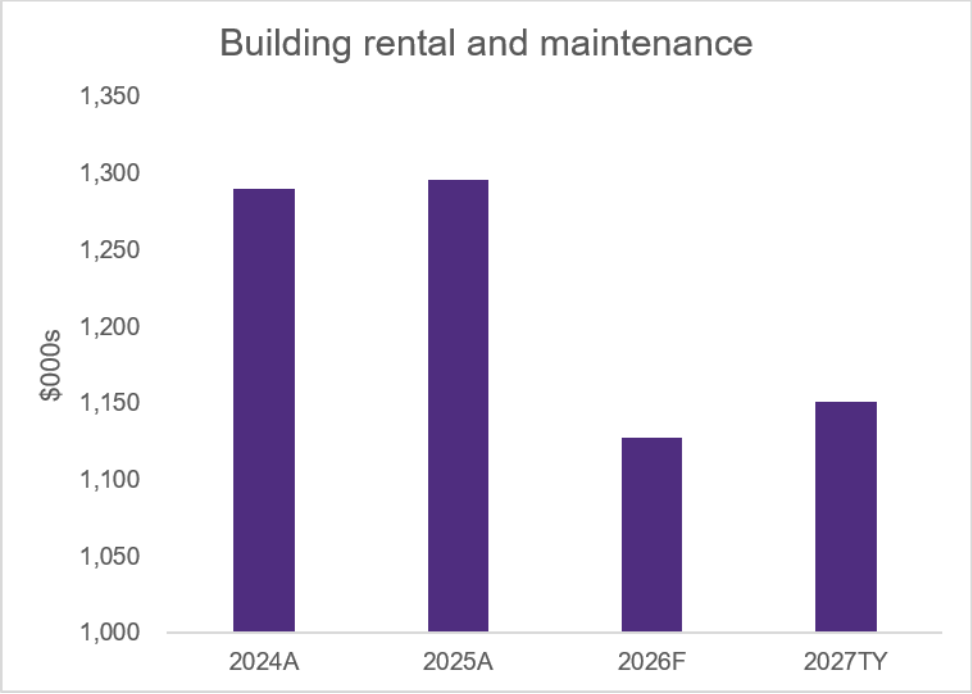
- Variance associated with municipal tax due to rural revenue growth and higher payroll taxes due to increases in salary costs.
- Variance associated with planned conservation and demand management programs.[46]

- **Training expense in 2027TY is expected to be 23% lower than 2025A.** 2025 Actuals were slightly higher reflective of the priorities within the organization and legislative, mandatory and job-related requirements. The decrease in 2027TY reflects year-to-year variations in training requirements and program delivery.

Building rental and maintenance

The following chart and table detail the trends for building rental and maintenance, including 2024A, 2025A, 2026F and 2027TY.

Figure 62 – Building rental and maintenance[47]



[46] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-013.

[47] Newfoundland and Labrador Hydro 2026 General Rate Application Supplemental Material, July 17, 2026 – Schedule B-I.

Figure 63 – Building rental and maintenance

($000s)	2024A	2025A	2026F	2027TY	2027TY vs 2024A ($)	% change	2027TY vs 2025A ($)	% change	2027TY vs 2026F ($)	% change
Building rental and maintenance	1,290	1,296	1,128	1,151	(139)	-11%	(145)	-11%	23	2%
Annual change ($)		*6*	*(168)*	*23*						
Annual change (%)		*0%*	*-13%*	*2%*						

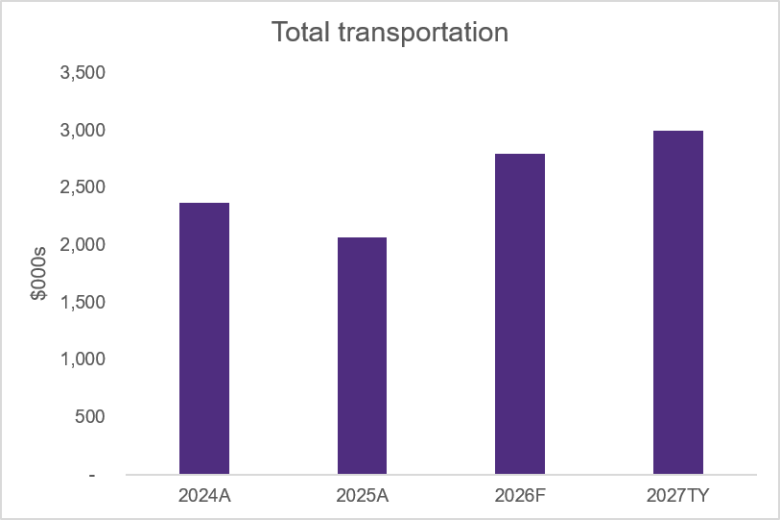
Based on the table above we identified the following significant variances:

- **Building rental and maintenance in 2027TY is expected to be 11% lower than 2025A.** According to Hydro, this is primarily due to lower safety supplies forecast expenses. Expenditures in 2025 were higher, mainly related to a new contract for safety supplies that both increased overall costs and offered improved arc-rated rain gear. The 2027 Test Year budget was developed using a three-year historical average of 2022A, 2023A, and 2024F. As a result, the budget methodology did not capture the impact of the new safety supplies vendor or the associated increase in costs experienced, as this was not known at the time the 2025–2027 budgets were compiled.

Transportation

The following chart and table detail the trends for transportation, including 2024A, 2025A, 2026F and 2027TY. Capital fleet, which is included within the total transportation presented in the GRA, has been presented separately to facilitate review of this specific cost category and its associated variances.

Figure 64 – Transportation[48]



[48] Newfoundland and Labrador Hydro 2026 General Rate Application Supplemental Material, July 17, 2026 – Schedule B-I.

Figure 65 – Transportation breakdown

($000s)	2024A	2025A	2026F	2027TY	2027TY vs 2024A ($)	% change	2027TY vs 2025A ($)	% change	2027TY vs 2026F ($)	% change
Capital fleet	(1,864)	(2,119)	(1,838)	(1,871)	(7)	0%	248	-12%	(33)	2%
Remainder of transportation	4,231	4,186	4,632	4,865	634	15%	679	16%	233	5%
Total transportation	**2,368**	**2,067**	**2,794**	**2,993**	**625**	**26%**	**926**	**45%**	**199**	**7%**
Annual change ($)		***(301)***	***727***	***199***						
Annual change (%)		***-13%***	***35%***	***7%***						

Based on the table above we identified the following significant variances:

- **Transportation expense in 2027TY is expected to be 26% higher than 2024A**. This is primarily related to higher aircraft costs because of increases in standby fees and hourly usage rates, partially offset by higher recoveries from other lines of business.[49]

- **Transportation expense in 2027TY is expected to be 45% higher than 2025A.** Hydro explained the $0.9 million variance primarily consists of the following:

  - **Aircraft expenses are forecast to be $0.4 million higher in the 2027Test Year compared to 2025 Actual.** This is primarily due to contractual annual price increases of $0.3 million under the current aircraft services contract, which reflects increased costs associated with new pilot hours of service requirements, a national pilot shortage and inflation. The remaining $0.1 million increase is attributable to forecast higher flying hours in the 2027 Test Year. Flying hours and standby amounts were lower in 2025 due in part to government utilization of Hydro's contracted aircraft during the August forest fires. Aircraft costs are budgeted in accordance with contractual rates and anticipated usage. This increase is partially offset by a decrease in capital fleet as a result of additional capital work completed in 2025A compared to the 2027TY estimate. The 2027TY estimate for capital fleet is based on a three-year average using 2022A, 2023A, and 2024F.

  - **Vehicle fuel expenses are forecast to be $0.2 million higher in the 2027 Test Year than 2025 Actual**. This is primarily due to a forecast fuel price increase of $0.28 per litre, resulting in a $0.3 million increase in costs, partially offset by a $0.1 million decrease related to lower consumption volumes. Fuel volumes are budgeted based on a three-year historical average, using 2022 and 2023 Actuals and the 2024 Forecast with fuel prices based on forecast Standard and Poor ("S&P") Global Platts indices.

  - **Capital fleet credits are forecasted to be $0.2 million lower in the 2027 Test Year than 2025 Actual.** Capital fleet credits were higher in 2025 as a result of increased capital project activity, resulting in lower transportation expenses in

[49] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-013.

that year. The 2027 Test Year estimate is based on a three-year average using 2022 Actual, 2023 Actual, and the 2024 Forecast.

Customer costs

The following chart and table detail the trends for customer costs, including 2024A, 2025A, 2026F and 2027TY.

Figure 66 – Customer costs[50]

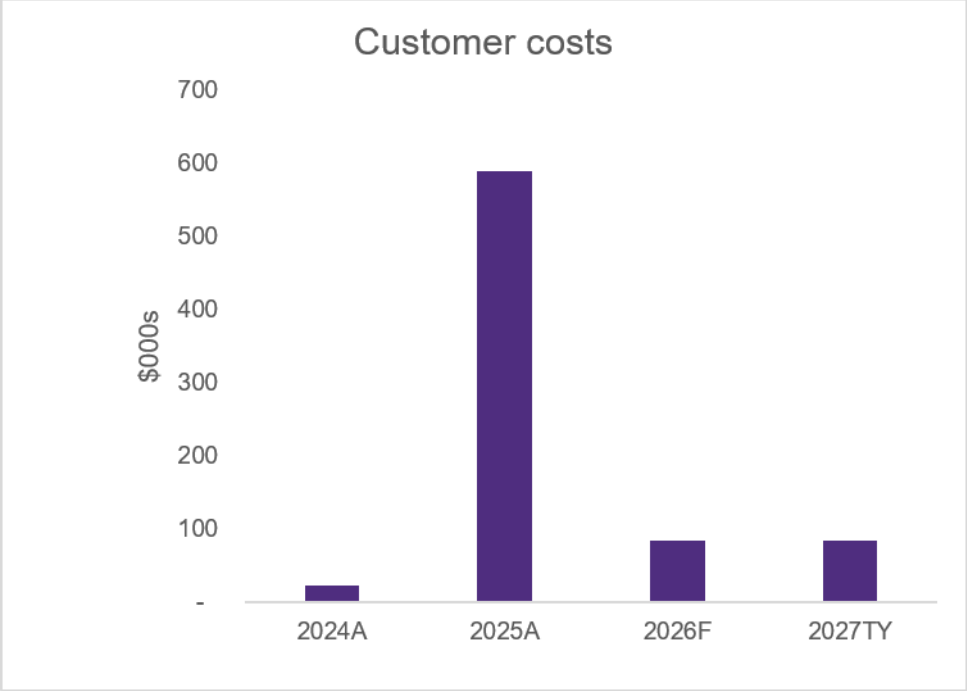


Figure 67 – Customer costs

($000s)	2024A	2025A	2026F	2027TY	2027TY vs 2024A ($)	% change	2027TY vs 2025A ($)	% change	2027TY vs 2026F ($)	% change
Customer costs	23	590	85	85	62	270%	(505)	-86%	-	0%
Annual change ($)		*567*	*(505)*	*-*						
Annual change (%)		*2465%*	*-86%*	*0%*						

[50] Newfoundland and Labrador Hydro 2026 General Rate Application Supplemental Material, July 17, 2026 – Schedule B-I.

Based on the table above we identified the following significant variances:

- **Customer costs in 2027TY are expected to be 270% higher than 2024A**. Per Hydro, this is primarily attributable to an expected increase in bad debt expense due to normal variations in allowances for doubtful accounts for balances greater than 90 days.[51]

- **Customer costs in 2027TY are expected to be 86% lower than 2025A**. Per Hydro, this is due to allowance for doubtful accounts recognized in 2025 and not budgeted in 2027TY, as it is not expected to reoccur.

Operating costs by functional area

The table below provides a breakdown of operating costs by functional area for 2024A, 2025A, 2026F, and 2027TY.

Figure 68 – Breakdown of operating costs by functional area[52]

($000s)	2024A	2025A	2026F	2027TY	2027TY vs 2024A ($)	% change	2027TY vs 2025A ($)	% change	2027TY vs 2026F ($)	% change
Operations										
Transmission and distribution	39,329	42,229	44,006	45,138	5,809	15%	2,909	7%	1,132	3%
Production	40,947	41,822	43,477	44,565	3,618	9%	2,743	7%	1,088	3%
Engineering services	5,581	5,436	5,080	5,107	(474)	-8%	(329)	-6%	27	1%
System planning	3,757	5,233	4,289	4,321	564	15%	(912)	-17%	32	1%
Newfoundland and Labrador system operator	4,893	5,173	5,521	5,661	768	16%	488	9%	140	3%
Asset management	1,599	1,474	2,346	2,420	821	51%	946	64%	74	3%
Major projects	739	642	32	40	(699)	-95%	(602)	-94%	8	25%
Operations technology	13,507	13,109	14,776	14,079	572	4%	970	7%	(697)	-5%
Total operations	110,352	115,118	119,527	121,331	10,979	10%	6,213	5%	1,804	2%
General and administration										
Executive	2,661	3,225	2,605	2,689	28	1%	(536)	-17%	84	3%
Financial services and other	12,323	11,128	9,454	9,153	(3,170)	-26%	(1,975)	-18%	(301)	-3%
People, culture and corporate affairs	9,686	10,973	10,932	11,529	1,843	19%	556	5%	597	5%
Regulatory, customer service and energy optimization	10,228	10,349	10,374	11,661	1,433	14%	1,312	13%	1,287	12%
Total general and administration	34,898	35,675	33,365	35,032	134	0%	(643)	-2%	1,667	5%
Total operating expenses	**145,250**	**150,793**	**152,892**	**156,363**	**11,113**	**8%**	**5,570**	**4%**	**3,471**	**2%**
Annual change ($)		***5,543***	***2,099***	***3,471***						
Annual change (%)		***4%***	***1%***	***2%***						

[51] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-013.

[52] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Schedule B-II.

Based on the table above, we identified the following judgmentally selected variances in operations costs by functional area:

Transmission and distribution

Transmission and distribution costs are expected to reach $45.1 million in 2027TY. In PUB-NLH-014, Hydro provided a breakdown of costs included in this functional area. The largest cost categories included in the $45.1 million include total labour costs of $28.9 million, system equipment and maintenance costs of $12.7 million, and transportation costs of $2.7 million.[53] Hydro also provided the following explanations for annual changes:

- 2027TY costs are expected to be $5.8 million higher than 2024A. This increase is primarily due to higher salary costs and variations in maintenance activity.
- 2027TY costs are expected to be $2.9 million higher than 2025A. This increase is primarily related to increased labour costs ($4.5 million) that are partially offset by the addition of productivity allowance ($1.1 million) and work scopes completed in 2025 that are not anticipated to re-occur in 2027 ($0.4 million).[54]
- 2027TY is expected to be $1.1 million higher than 2026A. This increase is primarily related to increased labour costs ($0.9 million) and contractor cost escalations ($0.2 million).[55]

Production

Production costs for 2027TY are expected to reach $44.6 million. Hydro also provided the following explanations for variances:

- 2027TY costs are expected to be 7% higher than 2025A. Hydro explained that this increase is primarily related to increased labour costs ($4.5 million), partially offset by the addition of productivity allowance ($1.1 million) and work scopes completed in 2025 that are not expected to re-occur in 2027 ($0.4 million).[56]

System planning and Newfoundland and Labrador System Operator

System planning and Newfoundland and Labrador System Operator (“NLSO”) costs for 2027TY are expected to reach $4.3 million and $5.7 million, respectively, for a combined total of

[53] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-014-1.

[54] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-014.

[55] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-014.

[56] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-014.

approximately $10 million. In PUB-NLH-014 Attachment 1, Hydro provided a breakdown of the combined costs of these functional areas by category. The largest cost categories include total labour of $7.9 million, professional services of $1.2 million, and cost allocations of $752,000.[57] Hydro also provided the following explanations for annual variances:

- 2027TY System planning costs of $4.3 million are expected to be $600,000 higher than 2024A primarily due to higher salary related costs and variations in professional services costs associated with system planning studies.

- 2027TY NLSO costs of $5.7 million are expected to be $800,000 higher than 2024A primarily due to higher salary related costs and higher administrative fees charged to NLSO.

Asset management and major projects

Asset management and major project costs for 2027TY are expected to reach $2.4 million, and $40,000, respectively, for a combined total of approximately $2.5 million. In PUB-NLH-014 Attachment 1, Hydro provided a breakdown of the combined costs of these functional areas by category. The largest cost categories include total labour of $1.5 million, professional services of $800,000, and travel expenses of $121,000.[58] Hydro also provided the following explanations for annual variances:

- 2027TY asset management costs of $2.4 million are expected to be $800,000 higher than 2024A primarily due to higher salary related costs and higher consulting support in the 2027TY.

- 2027TY asset management costs of $2.4 million are expected to be $900,000 higher than 2025A primarily due to higher salary related costs and increased use of external consulting support in 2027. In contrast, comparable activities in 2025 were completed using internal resources.

- 2027TY major projects costs of $40,000 are $700,000 lower than 2024A primarily due to capitalization of costs as part of the GEC deferral in the 2027 Test Year.

- 2027TY major projects costs of $40,000 are $600,000 lower than 2025A primarily due to capitalization of costs as part of the GEC deferral in the 2027 Test Year.

[57] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-014-1.

[58] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-014-1.

Operating technology

Operating technology costs are expected to reach $14.1 million in 2027TY. This is a 4% increase from 2024A, 7% increase from 2025A, and 5% decrease from 2026F. In PUB-NLH-014, Hydro provided the following explanation for the 7% increase from 2025A[59]:

- Higher software costs in 2027TY are driven by cost escalations ($0.4 million).
- 2027TY has increased labour costs ($0.6 million).

Executive

Executive costs are expected to reach $2.7 million in 2027TY. In PUB-NLH-016, Hydro provided a breakdown of executive costs by cost category. The largest cost categories include total labour costs of $1.8 million, office supplies and expenses of $166,000, and professional services of $140,000.[60] Hydro also provided the following explanation for annual variances:

- 2027TY executive costs of $2.7 million are expected to be $536,000 lower than 2025A. This decrease is primarily driven by additional intercompany legal charges associated with Hydro-specific projects and initiatives in 2025 ($500,000) and other variances.[61]

Financial services and other

Financial services and other costs are expected to reach $9.2 million in 2027TY. In PUB-NLH-016, Hydro provided a breakdown of executive costs by cost category. The largest cost categories include total labour costs of $6.7 million, insurance costs of $4.6 million, and system equipment and maintenance costs of $1.5 million.[62] Hydro also provided the following explanations for annual variances:

- 2026F financial services and other costs of $9.5 million are expected to be approximately $1.7 million lower than 2025A. Per Hydro, this decrease is primarily driven by the following:
    - As of January 1, 2026, new information systems assets are to be included in the regulated business instead of non-regulated. The increase in depreciation related

[59] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-014-1.

[60] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-016-1.

[61] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-016.

[62] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-016-1.

to these assets is included in the intercompany administrative fees and charged to non-regulated lines of business by the average user allocator ($1.0 million).

- Allowance for doubtful accounts recognized in 2025A, not budgeted for either the 2026F or 2027TY as they are not anticipated to reoccur ($500,000)
- Other changes ($100,000).[63]

- 2027TY financial services and other costs of $9.2 million are expected to decrease by $300,000 from 2026F. Per Hydro, this decrease is primarily driven by the following:
  - Order No. P.U. 18(2026) approved the transfer of shared information systems assets from non-regulated to regulated business and for the depreciation of those assets to be included in the rate base. This increase in depreciation is also approved to be included in the intercompany transaction costing and charged to non-regulated lines of business based on average user allocation. ($2.9 million).
  - Other variances ($100,000).
  - These cost increases are partially offset by Hydro's proposal in 2027TY to no longer defer costs related to the business systems program ($1.5 million) and commence amortization of the December 31, 2026 balance of business systems program deferral ($1.8 million).[64]

People, cultural and corporate affairs

People, culture, and corporate affairs are expected to reach $11.5 million in 2027TY. In PUB-NLH-016, Hydro provided a breakdown of people, culture and corporate affairs by cost category. The largest cost categories include total labour costs of $7.0 million, miscellaneous expenses of $2.8 million, and cost allocations of $782,000.[65] Hydro also provided the following explanation for annual variances:

- 2027TY costs of $11.5 million are $1.8 million higher than 2024A primarily due to higher salary related costs and costs needed for legislative and safety related training.

Regulatory, customer service, and energy optimization

Regulatory, customer service, and energy optimization are expected to reach $11.7 million in 2027TY. In PUB-NLH-016, Hydro provided a breakdown of costs by category. The largest cost categories include total labour costs of $5.8 million, professional services of $4.7 million, and

[63] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-016.

[64] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-016.

[65] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-016-1.

miscellaneous expenses of $2.8 million.[66] Hydro also provided the following explanation for annual variances:

- 2027TY costs of $11.7 million are $1.4 million higher than 2024A primarily due to higher salary related costs and higher regulatory related costs attributable to the commencement of amortization of the RRA, Phase II, and GRA Hearing Costs deferral account balances in the 2027 Test Year.

- 2027TY costs of $11.7 million are expected to be approximately $1.3 million higher than 2025A primarily due to the following:

    - Increased salary and benefits ($600,000).

    - The addition of the RRA Deferral amortization in 2027 Test Year ($400,000).

    - The addition of the proposed General Rate Application Hearing Cost Deferral amortization in the 2027 Test Year ($400,000).

    - The addition of proposed Phase Two Deferral amortization in the 2027 Test Year ($200,000).

    - A one-time adjustment recorded in 2025 to defer RRA costs incurred in 2024 ($400,000).

    - Increase in miscellaneous costs such as payroll taxes and energy management ($300,000).

    - These increases are partially offset by Board costs associated with the mix of regulatory proceedings which were ongoing in 2025 versus those forecast to be ongoing in 2027. For example, those related to major projects such as the 2025 Build Application were higher in 2025 than forecast in 2027 ($900,000) which were, in turn, partially offset by costs associated with the transmission tariff proceeding forecast to occur in 2027 ($200,000). These increases are also partially offset by the commencement of the productively allowance ($300,000).[67] Please refer to the productivity allowance section below for further details.

- 2027TY costs of $11.7 million are expected to increase by $1.3 million from 2026F. Per Hydro, this increase is primarily drive by the addition of the RRA Deferral amortization ($400,000), the addition of the GRA hearing cost deferral amortization ($400,000), and the addition of the phase two deferral amortization ($200,000) in 2027TY. The increase

[66] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-016-1.

[67] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-016.

is also the result of forecast Board costs associated with the transmission tariff proceeding in the 2027TY ($200,000).[68]

Conclusion

We have completed our procedures in the review of Hydro's operating costs. Our analysis included comparing 2027TY to 2026F, 2025A, 2024A, and 2019TY. Our analysis identified notable trends, and we made subsequent inquiries with Hydro for further clarification. We are satisfied with Hydro's explanations in response to our inquiries.

We note that Hydro is currently negotiating with their union and releasing any assumptions with regards to wage adjustments proposed in the 2026 GRA could compromise the process. Therefore, Hydro is unable to provide a year-over-year breakdown of these components or indicate the salary assumptions within its 2026 Forecast or 2027 Test Year.

[68] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-016.

6. Fuels

Scope

Conduct a review of the fuels expense of $106.3 million proposed to be included in 2027 Test Year revenue requirement.

Procedures

Our procedures with respect to fuels included the following:

- Performed analytical procedures with respect to the 2027 fuel costs presented in the GRA and investigated variances between 2027 Test Year and 2024 Actual, 2025 Actual, and 2026 Forecast results.
- Reviewed the methodology and assumptions used in the fuel costs forecast for reasonableness.
- Reconcile 2024A and 2025A results to Hydro's quarterly and annual returns to confirm internal consistency; and,
- Performed a trend analysis on the fuel costs. For categories with significant variances, we completed the following procedures:
    - Requested and reviewed additional detailed explanations from Hydro.
    - Assessed reasonableness of Hydro's explanations provided.

Analysis

Hydro's fuel costs are classified into the following two categories:

- No. 6 and other; and,
- Diesel and Combustion Turbine.

Hydro utilizes CTs and diesel generating units as critical resources for peaking, emergency backup, area supply requirements, and synchronous condensing support. Typically, CT and diesel generation are only dispatched in situations where load or reserve requirements cannot be met by Labrador-Island-Link ("LIL") imports, hydroelectric generation, or the Holyrood TGS. This typically occurs in hours with high load or when other units are out of service. As a result, CT generation varies greatly from year to year depending on system conditions.[69]

[69] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume II – Exhibit 4 – Page 8.

The following chart details the year-over-year trends for fuels expense including 2024A, 2025A, 2026F, and 2027TY, while the table below provides a breakdown of the components comprising total fuel expense.

Figure 69 – Total fuel costs

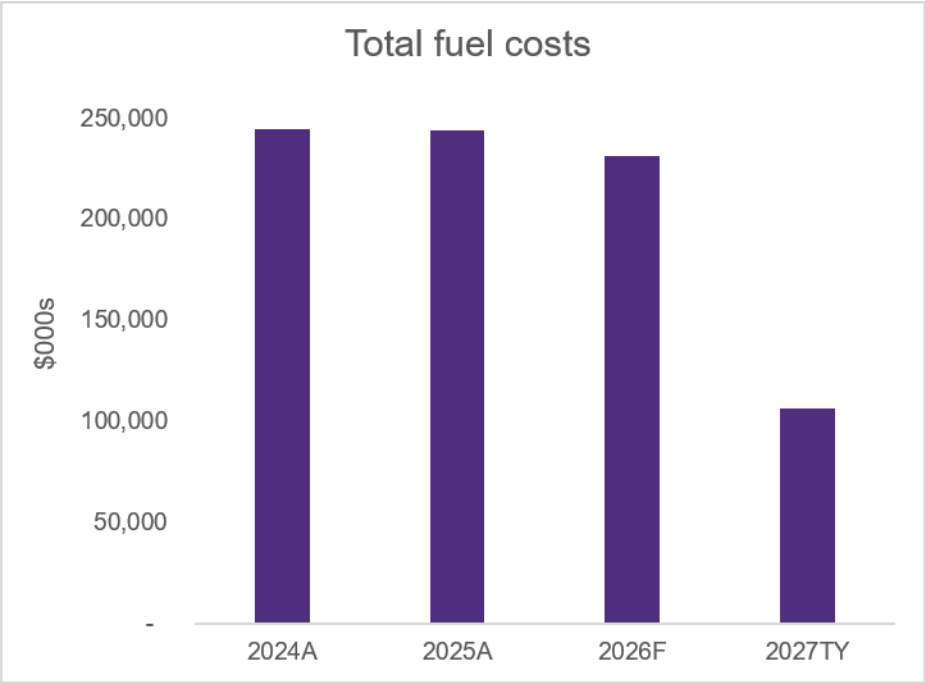


Figure 70 – Total fuel costs breakdown

($000s)	2024A	2025A	2026F	2027TY	2027TY vs 2024A ($)	% change	2027TY vs 2025A ($)	% change	2027TY vs 2026F ($)	% change
No. 6	140,703	141,599	71,043	65,010	(75,693)	-54%	(76,589)	-54%	(6,033)	-8%
Deferral (SCVDA)	55,267	54,742	123,664	-	(55,267)	-100%	(54,742)	-100%	(123,664)	-100%
No. 6 plus deferral	**195,969**	**196,341**	**194,706**	**65,010**	(130,959)	-67%	(131,331)	-67%	(129,696)	-67%
Diesel/CT	29,605	27,748	34,671	41,301	11,696	40%	13,553	49%	6,630	19%
Deferral - Diesel/CT (SCVDA & energy supply)	(6,072)	(3,043)	(11,561)	-	6,072	-100%	3,043	-100%	11,561	-100%
Deferral - Power purchase (SCVDA)[1]	25,179	22,883	13,738	-	(25,179)	-100%	(22,883)	-100%	(13,738)	-100%
Total fuels	**244,682**	**243,928**	**231,555**	**106,311**	**(138,371)**	**-57%**	**(137,617)**	**-56%**	**(125,244)**	**-54%**

Note 1: The other IIS supply cost variance component of the SCVDA includes variances related to fuel and power purchased that are captured in the fuel line and is presented separately.

Hydro explained that actual fuel costs are impacted by the recognition of fuel-regulated regulatory deferrals. To improve transparency and present actual fuel expenditures separately from deferral activity, the table has been updated to separately disclose fuel costs and the related deferral amounts. In 2027TY, as the underlying components of the deferral accounts are included in the revenue requirement, there are no deferral accounts required in 2027TY.

Based on the chart above we identified the following significant variances:

- **Total fuel costs in 2027TY are expected to decrease by 57%, 56%, and 54% compared to 2024A, 2025A, and 2026F respectively.** Fuel costs were significantly higher in 2022A, 2023A, 2024A and 2025A prior to the drop in 2026F and 2027TY. Hydro explained that there was an increase in Holyrood fuel costs in the period between 2022A and 2025A, primarily due to increased fuel price, despite similar levels of generation in each year.[70] Further analyses on No.6 and other, and diesel and CT are provided in the sections below.

No. 6 and other

The following chart and table detail the year-over-year trends for No.6 and other costs including 2024A, 2025A, 2026F, and 2027TY.

Figure 71 – No.6 and other

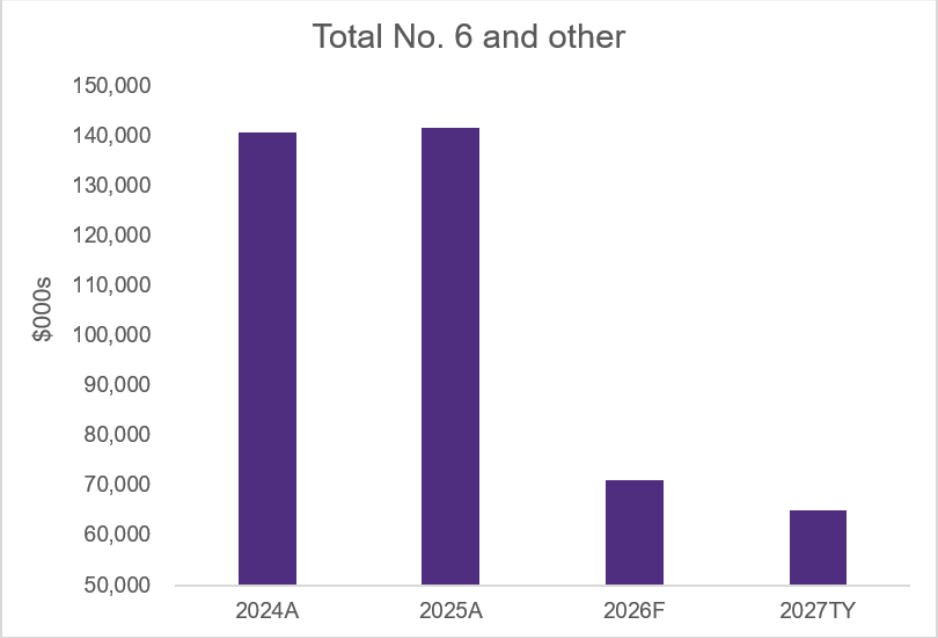


Figure 72 – No.6 and other

($000s)	2024A	2025A	2026F	2027TY	2027TY vs 2024A ($)	% change	2027TY vs 2025A ($)	% change	2027TY vs 2026F ($)	% change
Bunker C	140,281	140,641	70,654	64,607	(75,674)	-54%	(76,034)	-54%	(6,047)	-9%
Indirect cost	60	339	54	43	(17)	-28%	(296)	-87%	(11)	-20%
Environmental handling fee	23	29	34	34	11	51%	5	17%	-	0%
Ignition fuel	339	590	301	326	(13)	-4%	(264)	-45%	25	8%
Total No. 6 and other	**140,702**	**141,599**	**71,043**	**65,010**	**(75,692)**	**-54%**	**(76,589)**	**-54%**	**(6,033)**	**-8%**

[70] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – CA-NLH-087.

As shown in the table above, No.6 and other costs are expected to decrease in 2027TY. The primary driver for this decrease is the commissioning of the Muskrat Falls assets, creating materially lower thermal generation at Holyrood TGS to be replaced by clean hydro generation from Muskrat Falls.[71] Based on the chart above we identified the following significant variances:

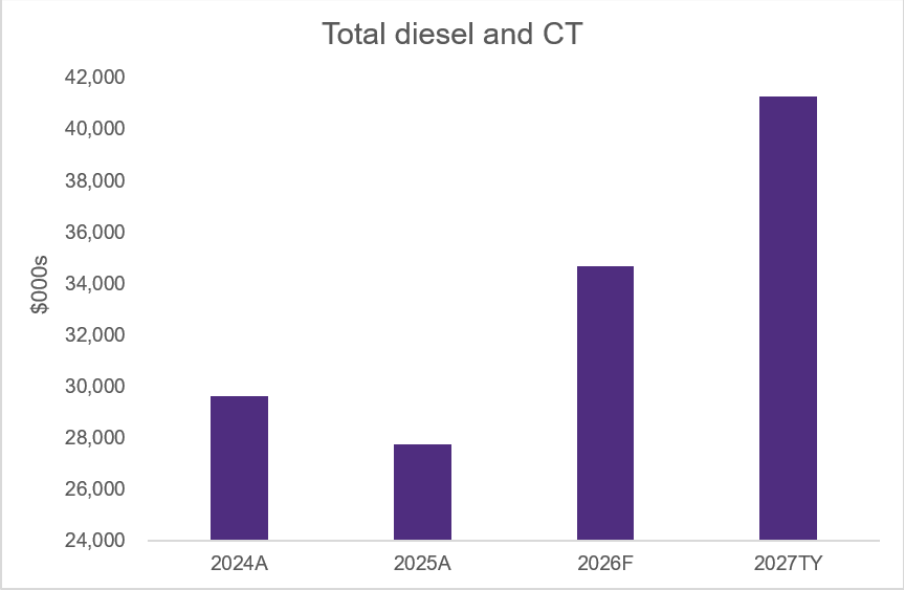
- **Fuel expenses classified under No. 6 and other in 2027TY are expected to be 54% lower than 2024A.** According to Hydro, the decrease is due to a decrease in volume of $45.4 million (2027TY volume was 808,571 bbls, a decrease of 385,074 bbls from 2024A volume of 1,193,645 bbls) and a decrease in price of $30.3 million (2027TY price was $80.40/bbl, a decrease of $37.48/bbl from 2024A price of $117.88/bbl). Holyrood generation has decreased due to system reliability improvements, reduced operational requirements with increasing reliability of the LIL and reservoir storage improvements.

- **Fuel expenses classified under No. 6 and other in 2027TY are expected to be 54% lower than 2025A.** According to Hydro, the decrease is due to a decrease in volume of $52.6 million (2027TY volume was 808,571 bbls, a decrease of 478,170 bbls from 2025A volume of 1,286,741 bbls) and a decrease in price of $24.0 million (2027TY price was $80.40/bbl, a decrease of $29.64/bbl from 2025A price of $110.04/bbl). Holyrood generation was higher in 2025 for system reliability and reservoir storage.

Diesel and CT

The following chart details the year-over-year trends for diesel and CT costs including 2024A, 2025A, 2026F, and 2027TY.

Figure 73 – Diesel and CT



[71] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 5.3.

Figure 74 – Diesel and CT

($000s)	2024A	2025A	2026F	2027TY	2027TY vs 2024A ($)	% change	2027TY vs 2025A ($)	% change	2027TY vs 2026F ($)	% change
Additives	133	-	-	-	(133)	-100%	-		-	
Gas turbine fuels	165	140	249	167	2	1%	27	20%	(81)	-33%
Gas turbine fuel: Hardwoods gas turbine	747	1,000	2,192	2,823	2,076	278%	1,823	182%	631	29%
Gas turbine fuel: S'vill gas turbine	238	696	1,338	1,960	1,722	723%	1,265	182%	623	47%
Gas turbine fuel: Black Start	-	39	65	64	64		25	63%	(1)	-1%
Gas turbine fuel: NF Power gas turbine	32	151	-	-	(32)	-100%	(151)	-100%	-	
Holyrood CT	5,371	2,636	12,999	13,982	8,611	160%	11,346	430%	983	8%
Diesel: Diesel fuel	22,674	23,315	16,696	20,295	(2,378)	-10%	(3,020)	-13%	3,600	22%
Diesel: St. Anthony	73	170	1,043	1,232	1,159	1593%	1,062	624%	189	18%
Diesel: Hawkes Bay	38	17	745	785	746	1950%	767	4462%	39	5%
Labrador Inter-Connect: LAB Inter-Co	134	(417)	(655)	(8)	(142)	-106%	409	-98%	647	-99%
Total diesel and CT	**29,605**	**27,748**	**34,671**	**41,301**	**11,696**	**40%**	**13,553**	**49%**	**6,630**	**19%**

Based on the chart above we identified the following variances:

- **Fuel expenses classified under diesel and CT in 2027TY are expected to be 49% higher than 2025A.** According to Hydro, the increase is primarily attributable to a $11.3 million increase in Holyrood CT relating to an increase in volume of $14.9 million (2027TY volume was 14,145,147L, an increase of 12,015,387L from 2025A volume of 2,129,760L), partially offset by a decrease in price of $3.5 million (2027TY price was $0.99/L, a decrease of $0.25/L from the 2025A price of $1.24/L).

  Fuel expenses classified under diesel and CT in 2027TY are expected to be 40% higher than and 2024A. According to Hydro, one of the primary drivers for this is the increase in Holyrood CT, which is due to an increase in volume of $11.8 million (2027TY volume was 14,145,147L, an increase of 9,710,141L from the 2024A volume of 4,435,006L), partially offset by a decrease in price of $3.2 million (2027TY price was $0.99/L, a decrease of $0.22/L from the 2024A price of $$1.21/L).

Volume of CT fuel is expected to increase in the 2027TY due an extended outage of Bay d'Espoir Units 5 and 6 due to the planned replacement of Penstock 3, resulting in a higher level of thermal support. In response to the Island Industrial Customer Group's ("IIC") request for information IIC-NLH-016, Hydro explained that in any given year, outages of Hydro's generation may be required to facilitate sustaining capital work necessary to maintain the reliability and long-term performance of the system. The 2027 Test Year reflects Hydro's best forecast of costs and operating conditions expected during that year, including the planned outage of Bay d'Espoir Units 5 and 6. In the 2027 to 2030 period, Hydro is forecasting a significant amount of ongoing work at the Bay d'Espoir facility that will require outages of units for varying periods of time, such as the planned replacement of Penstock 2. This work was also considered during the preparation and review of Hydro's test year forecast. It is Hydro's position that the forecast increase in fuel volumes associated with this outage does not make the 2027 Test Year inappropriate for establishing rates that will remain in effect in 2028 and beyond. Once Bay d'Espoir Units 5 and 6 return to service, and if fuel consumption is lower than reflected in the 2027 Test Year forecast, the resulting fuel cost variance would be captured through Hydro's proposed Long-Term Supply Cost Variance Deferral Account. Accordingly, such variances

would be addressed through a regulatory mechanism rather than being retained by Hydro through net income.[72]

Geopolitical events

Hydro explained that current geopolitical events have increased short-term fuel price forecasts. As a result, monthly actual and forecast fuel prices for 2026 are higher than previously projected. Given the uncertainty surrounding the duration and long-term impact of these events, Hydro did not adjust the forecast for the 2027 Test Year fuel expense at this time.[73]

Conclusion

Based on the procedures performed and explanations received, nothing has come to our attention to suggest that Hydro's 2027 Test Year fuel cost forecast is unreasonable. However, we note that fuels in 2027TY were based on a forecast from August, 2025. The forecast reflects a significant reduction in No. 6 and other fuel costs due to reduced Holyrood thermal generation following the commissioning of Muskrat Falls, partially offset by higher diesel and Combustion Turbine costs associated with forecast system requirements, including planned Bay d'Espoir outages. We note that the forecast was based on the most current forward fuel price forecasts available at the time of preparation, and any subsequent variances would be addressed through the SCVDA and Hydro's subsequent compliance filing. Given the passage of time between forecast preparation and implementation of rates, updated forward-looking fuel price from sources such as Argus Media and S&P Global Platts may provide additional insight into the extent of any changes in expected fuel costs.

[72] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – IIC-NLH-016.

[73] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-034.

7. Muskrat Falls supply costs

Scope

Conduct a review of the Muskrat Falls supply costs of $780.40 million proposed to be included in 2027 Test Year revenue requirement.

Procedures

Review of the Muskrat Falls supply costs including:

- Obtaining an understanding of the main components of the cost, which includes Muskrat Falls Power Purchase Agreement and the Transmission Funding Agreement costs;
- Review operationally managed costs included under the agreements, including:
    - Inquiry with Hydro regarding the oversight functions completed by Regulated Hydro; and,
    - Trending analysis to identify and understand the nature of annual variances.

Analysis

Background

Muskrat Falls supply costs represent the costs incurred by Hydro to acquire and deliver energy from Muskrat Falls to customers on the Island Interconnected System. The regulatory framework of these costs is supported by the Muskrat Falls Exemption Order, which applies to the Muskrat Falls generating facility, Labrador Transmission Assets, and LIL. [74] The order exempts Muskrat Falls-related agreements and related payments from the typical regulatory framework under the Public Utilities Act and the Electrical Power Control Act. Additionally, Order in Council OC2013-343 states that all Muskrat Falls supply costs must be included in Hydro's cost of service calculation without disallowance, reduction, or alteration to those amounts, and shall be recovered in full through Island Interconnected rates. [75]

Components of the Muskrat Falls Supply Costs

The following table details the total Muskrat Falls supply costs for 2024A, 2025A, 2026F and 2027TY.

[74] Muskrat Falls Project Exemption Order under the Electrical Power Control Act, 1994 and the Public Utilities Act (O.C. 2013-342).

[75] Government of Newfoundland and Labrador, Order in Council OC2013-343.

Figure 75 – Total Muskrat Falls supply costs[76]

($000s)	2024A	2025A	2026F	2027TY
Muskrat Falls PPA	273,300	318,100	323,600	323,900
Transmission Funding Agreement	448,100	460,800	466,800	465,100
Subtotal per agreements	**721,400**	**778,900**	**790,400**	**789,000**
Muskrat Falls PPA sustaining capital deferral	(10,800)	(6,300)	(18,900)	(8,600)
Total Muskrat Falls supply costs	**710,600**	**772,600**	**771,500**	**780,400**

Muskrat Falls supply costs consist of amounts Hydro is required to pay under two contractual agreements; The Muskrat Falls PPA and the TFA. The Muskrat Falls PPA is an agreement between Hydro and Muskrat Falls Corporation which recovers the costs of the Muskrat Falls Generating Facility and the LTA. Costs from this agreement are reduced by the Muskrat Falls PPA sustaining capital deferral. The TFA is an agreement between Hydro, LIL Limited Partnership and LIL Operating Corporation which recovers the costs of the LIL. Together, the two agreements result in total costs of 780.40 million.

Muskrat Falls PPA

As noted by Hydro in their response to information request CA-NLH-049, the costs associated with the Muskrat Falls PPA are governed by the Amended and Restated PPA between Hydro and the Muskrat Falls Corporation. Under the Muskrat Falls PPA, Hydro Regulated is required to pay Muskrat Falls the Base Block Energy on the first day of each operating month, during the supply period of the Muskrat Falls PPA.

Muskrat Falls PPA invoice components

The table below details the three main components included in each monthly invoice from Muskrat Falls to Hydro.

[76] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 4.2. Table 4-1.

Figure 76 - Muskrat Falls PPA monthly invoice components[77]

Muskrat Falls PPA component	Process
Base block payment	The Base Block Capital Cost Recovery recovers the development costs (capital and financing costs) of the Muskrat Falls Plant and Labrador Transmission Assets as well as the assigned internal rate of return. The total balance for recovery is calculated by Hydro's Financial Planning team in accordance with Schedule 1 and Schedule 2 of the Muskrat Falls PPA. The calculation takes the Base Block Capital Supply Price, which is the escalating supply price in dollars per MWh applied to the Base Block Energy scheduled for delivery over the supply period of the Muskrat Falls PPA. These calculations are reviewed by the Team Lead, Finance Lower Churchill, the Controller, Lower Churchill and Senior Manager, Capital.
Estimated operations and maintenance costs	The Budgeted operations and maintenance ("O&M") Costs included in the Muskrat Falls PPA invoices are based upon the Muskrat Falls and Labrador Transmission Corporation ("LTC") budgets as approved by the Muskrat Falls and LTC Boards of Directors.
Sustaining capital costs	The sustaining capital costs included in the Muskrat Falls PPA invoices are agreed to the most recent forecasted sustaining capital cash flow information for the period invoiced. Sustaining capital starts with the capital budgets as approved by the Muskrat Falls and LTC Boards of Directors, with forecasted changes from budgets confirmed with the Capital Accounting team to ensure that they are in line with Capital Program Change Management Committee meeting approvals.

Approval and review process

Prior to approval of the O&M and the sustaining capital budgets by the Boards of Directors, the JOC, as per Article 5 of the Muskrat Falls PPA, participate in the review of the budgets. As well, the budgets, as approved by the Boards of Directors, are provided to the Collateral Agent and the Government of Canada for the opportunity to review, provide questions and comment. Each month, the invoices are prepared by the Team Lead, Finance Lower Churchill and reviewed by the Controller, Lower Churchill and Senior Manager, Capital. The invoices and calculations are sent to Hydro before the first of each month and received by the Controller, Regulated Hydro, Energy Marketing, Financial Services, and the Manager, Financial Reporting and Accounting (a member of the Controller, Regulated Hydro's team). Invoices are reviewed by the Manager, Financial Reporting and Accounting before being sent to the Controller, Regulated Hydro for approval for payment. The Manager, Financial Reporting and Accounting and the Controller, Regulated Hydro have access to the approved Muskrat Falls and LTC budgets and actuals to assist in invoice review.[78]

[77] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – CA-NLH-049.

[78] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – CA-NLH-049.

On a quarterly basis, the Lower Churchill Finance team prepares the Actual Quarterly O&M Cost Accounting invoice, which reflects the difference between the invoiced O&M and sustaining capital costs for Muskrat Falls and LTA for the prior quarter and the actual costs incurred. These quarterly 'true-up' invoices are prepared by the Team Lead, Finance Lower Churchill, and reviewed by the Controller, Lower Churchill and Senior Manager, Capital. The invoices and calculations are sent to Hydro Regulated and received by the Controller, Regulated Hydro, Energy Marketing and Financial Services, and the Manager, Financial Reporting and Accounting (a member of the Controller, Regulated Hydro's team). Invoices are reviewed by the Manager, Financial Reporting and Accounting before being sent to the Controller, Regulated Hydro, for approval for payment if the quarterly true-up invoice is payable by Hydro or the Controller, Lower Churchill and Senior Manager, Capital for approval for payment if the quarterly true-up invoice is payable by Muskrat Falls.[79]

Muskrat Falls PPA cost breakdown

The following table provides a breakdown of the total Muskrat Falls supply costs under the Muskrat Falls PPA for 2024A, 2025A, 2026F and 2027TY.

Figure 77 – Breakdown total supply costs under Muskrat Falls PPA[80]

($000s)	2024A	2025A	2026F	2027TY	2024A vs 2025A ($)	2025A vs 2026F ($)	2026F vs 2027TY ($)
Base block capital costs recovery	177,900	191,100	204,900	216,100	13,200	13,800	11,200
Other costs:							
Operating costs	26,800	26,500	24,600	21,700	(300)	(1,900)	(2,900)
Impact and benefits agreement	5,900	43,300	13,900	14,200	37,400	(29,400)	300
Water power rental	15,500	13,900	16,100	16,400	(1,600)	2,200	300
Other[1]	(1,100)	(3,700)	700	700	(2,600)	4,400	-
Muskrat Falls sustaining capital costs	300	2,000	3,700	5,400	1,700	1,700	1,700
LTA payments	48,000	45,000	59,700	49,400	(3,000)	14,700	(10,300)
Total other costs	95,400	127,000	118,700	107,800	31,600	(8,300)	(10,900)
Muskrat Falls PPA supply costs per agreement	**273,300**	**318,100**	**323,600**	**323,900**	**44,800**	**5,500**	**300**
Muskrat Falls PPA sustaining capital deferral	(10,800)	(6,300)	(18,900)	(8,600)	4,500	(12,600)	10,300
Total Muskrat Falls PPA supply costs	**262,500**	**311,800**	**304,700**	**315,300**	**49,300**	**(7,100)**	**10,600**

Note 1: Other is primarily related to interest earned and operational financing costs.

[79] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – CA-NLH-049.

[80] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 4.6. Table 4-3.

In response to the PUB's request for information PUB-NLH-033, Hydro provided the following comments:

- In 2026F, Impact and Benefits Agreement ("IBA") costs are expected to decrease by $29.4 million. This decrease relates to an adjustment paid by Hydro to Muskrat Falls in 2025 due to the IBA Amending Agreement signed in October 2024. The IBA Amending Agreement committed to an annual IBA payment to Innu Nation of $12 million, indexed annually at the Consumer Price Index ("CPI"), and was retroactive, causing the 2024 IBA payment to increase. The change between the 2026 Forecast and the 2027 Test Year is in relation to the forecasted annual increase in CPI.[81]

- In 2026F, other costs are expected to increase by $4.4 million. While "Other" costs in 2024A, 2026F and 2027TY primarily relate to interest earned and operational financing costs, 2025A also included a one-time recovery for insurance proceeds of approximately $2.8 million. The remaining variance consists of approximately $1.4 million in interest earned on the Muskrat Falls operating bank account and a small variance of approximately $0.2 million for operational financing costs. Hydro has not forecasted any interest earned on the operating bank account for the 2026F or 2027TY.[82]

Additional details of the costs included in the Muskrat Falls PPA operating costs was provided by Hydro in their response to the Board's request for information PUB-NLH-033, as detailed below.

[81] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-033b.

[82] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-033c.

Figure 78 – Breakdown of Muskrat Falls PPA operating costs[83]

$000s	2024A	2025A	2026F	2027TY
Labour recharge	6,200	6,700	7,900	8,000
Overtime recharge	700	1,400	600	600
Software licenses, memberships, and subscriptions	-	-	100	100
System equipment maintenance	9,800	8,100	5,700	3,600
Professional services	3,600	4,300	3,300	3,200
Insurance	2,900	2,500	2,600	2,500
Equipment rentals	200	100	-	-
Utilities	100	200	100	100
Travel	400	400	300	300
Transportation	700	500	900	900
Training	200	200	200	200
Advertising, donations, and community involvement	-	(100)	-	-
Building rental and maintenance	300	100	200	200
Total gross operating costs	**25,200**	**24,500**	**21,800**	**19,700**
Cost recoveries	1,600	2,000	2,900	2,000
Total net operating costs[1]	**26,800**	**26,500**	**24,600**	**21,700**

Note 1: Numbers may not add due to rounding.

As illustrated in the table above, operating costs associated with the Muskrat Falls PPA are expected to decrease to approximately $21,700,000 in 2027 Test Year. This decrease from prior years is primarily attributable to the significant decreases expected in system equipment maintenance.

LTA payments

As noted in **Figure 77**, LTA payments are included in the Muskrat Falls PPA supply costs. A breakdown of the total LTA payments under the Muskrat Falls PPA for 2024A, 2025A, 2026F and 2027TY is detailed below.

[83] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-033.

Figure 79 – Breakdown of LTA payments under Muskrat Falls PPA[84]

($000s)	2024A	2025A	2026F	2027TY
LTA capital cost recovery	**32,700**	**35,200**	**37,700**	**39,700**
Other costs:				
Operating costs	4,900	5,500	6,600	6,300
LTA sustaining capital costs	10,500	4,300	15,300	3,200
Other	(100)	-	100	200
Total other costs	**15,300**	**9,800**	**22,000**	**9,700**
Total LTA payments	**48,000**	**45,000**	**59,700**	**49,400**

The LTA payments ensure the full recovery of the Labrador Transmission Assets from Muskrat Falls Corporation under the Generator Interconnection Agreement, the costs of which are then passed on to Hydro through the Muskrat Falls PPA.

Muskrat Falls Sustaining Capital Deferral Account

Under the Muskrat Falls PPA, Hydro is required to make operating payments, which include sustaining capital contributions as they are incurred for the Muskrat Falls generating assets and the LTA. According to Hydro, recognizing sustaining capital costs consistent with the timing of these payments under the Muskrat Falls PPA as up-front costs would result in the recovery of the costs of long-life assets in the period incurred, which is inconsistent with inter-generational equity and could contribute to rate volatility. It is also inconsistent with how Hydro recovers sustaining capital invested in its regulated assets. In Order No. P.U. 33 (2021), the Board approved Hydro's application for the Muskrat Falls Sustaining Capital deferral account to defer the contributions required to be made by Hydro. In accordance with this deferral account, the sustaining capital costs are charged to Hydro through the Muskrat Falls PPA and are not directly included in Hydro's supply costs for 2027 Test Year. In this GRA, Hydro is proposing to amortize the deferral over the period for which the assets are expected to provide service.[85] This deferral account is discussed further in our report in **Section 11 – Regulatory accounting and deferrals**. Sustaining capital costs in 2027 Test Year total $8.60 million and consist of the following:

- Muskrat Falls sustaining capital costs of approximately $5.40 million; and
- LTA sustaining capital costs of approximately $3.20 million.

[84] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 4.10. Table 4-4.

[85] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 4.9.

Muskrat Falls TFA

Hydro requires the availability and use of the LIL in order to deliver energy from Muskrat Falls to the island of Newfoundland for service to customers on the Island Interconnected System.[86] Charges for the transmission costs of the LIL are governed by the TFA.

Muskrat Falls TFA invoice components

The table below details the three main components included in each monthly invoice from Labrador-Island Link Operating Corporation ("LIL Opco") to Hydro.

Figure 80 - Muskrat Falls TFA monthly invoice components[87]

Muskrat Falls TFA component	Process
O&M costs of LIL Opco	The Budgeted O&M Costs included in the TFA invoices are billed based upon the LIL Opco and the Labrador-Island Link Limited Partnership ("LIL LP") budgets as approved by the LIL Opco and Labrador-Island Link General Partner Boards of Directors. Prior to approval of the O&M and Capital budgets by the Boards of Directors, the JOC participates in the review of the Hydro budgets. This JOC is established pursuant to the Joint Operations Agreement between Hydro and Emera Energy. As well, the budgets, as approved by the Board of Directors, are provided to the Collateral Agent and the Government of Canada for the opportunity to review, and provide questions and comment.
Rent of LIL	Rent of the LIL is calculated based on the LIL Lease Agreement. Rent includes the O&M, depreciation, return on undepreciated capital and recovery of cost of capital for LIL, calculated on an annual basis and invoiced equally each month. This amount is modelled and prepared by Hydro's Financial Planning team and reviewed by the Team Lead, Finance Lower Churchill and the Controller, Lower Churchill and Senior Manager, Capital.
Administration fee	The administration fee is $30,000 per operating year and is invoiced evenly over 12 months.

[86] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 4.11.

[87] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – CA-NLH-049.

Approval and review process

Similar to the Muskrat Falls PPA, each month the invoices are prepared by the Team Lead, Finance Lower Churchill and reviewed by the Controller, Lower Churchill and Senior Manager, Capital. The invoices and supporting calculations are sent to Regulated Hydro before the first of each month and received by the Controller, Regulated Hydro, Energy Marketing and Financial Services, and the Manager, Financial Reporting and Accounting. Invoices are reviewed by the Manager, Financial Reporting and Accounting before being sent to the Controller, Regulated Hydro, for approval for payment. The Manager, Financial Reporting and Accounting and the Controller, Regulated Hydro have access to the approved LIL budget to assist in invoice review.[88]

On a quarterly basis, the Lower Churchill Finance team prepares the Actual Quarterly TFA Payment Invoice, which reflects the difference between the invoiced Rent and the actual Rent, and the invoiced O&M costs for LIL Opco and the actual costs incurred. These quarterly true-up invoices are prepared by the Team Lead, Finance Lower Churchill and reviewed by the Controller, Lower Churchill and Senior Manager, Capital. The invoices and supporting calculations are sent to Regulated Hydro and received by the Controller, Regulated Hydro, Energy Marketing and Financial Services, and the Manager, Financial Reporting and Accounting. Invoices are reviewed by the Manager, Financial Reporting and Accounting before being sent to the Controller, Regulated Hydro, for approval for payment if the quarterly true-up invoice is payable by Hydro. If the quarterly true-up payment is payable by LIL Opco, it is reviewed by the Controller, Lower Churchill and Senior Manager, Capital.[89]

In addition to the process noted above regarding the calculation of the charges and the invoice review and approval for both the Muskrat Falls PPA and the TFA, on a monthly basis, as part of the reporting process for each line of business and the consolidated entity, variance analysis is performed on revenue and expenditures. Significant variances are investigated and explained and reviewed by the respective controllers of each line of business. This acts as another control to ensure costs are recorded accurately and in accordance with the respective commercial arrangements. In addition, common coding structures are established in the accounting system to facilitate the consistent categorization of costs.[90]

Muskrat Falls TFA cost breakdown

The following table details the components of the total Muskrat Falls supply costs under the TFA for 2024A, 2025A, 2026F and 2027TY.

[88] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – CA-NLH-049.

[89] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – CA-NLH-049.

[90] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – CA-NLH-049.

Figure 81 – Breakdown total supply costs under TFA[91]

($000s)	2024A	2025A	2026F	2027TY
Rent:				
Return on equity	207,300	208,600	208,400	207,500
Interest	94,600	105,400	104,300	103,600
Depreciation	113,500	114,100	114,900	115,200
Other[1]	1,600	800	1,300	1,200
Total rent	**417,000**	**428,900**	**428,900**	**427,500**
Operating costs	31,100	31,900	37,900	37,600
Administration fee	30	30	30	30
Total TFA supply costs	**448,130**	**460,830**	**466,830**	**465,130**

Note 1: The "Other" category primarily consists of LIL Limited Partnership administration costs and taxes that are recovered through the rent component of the TFA. These costs are separate from operating costs, which represent the costs required to operate and maintain the Labrador-Island Link, including operating administration and reporting activities.[92]

Operationally managed costs

As shown in the table below, Hydro identified $74.50 million of the 2027 Test Year Muskrat Falls supply costs as operationally managed. These costs primarily relate to operating costs and sustaining capital expenditures. The remaining costs of $705.90 million are commercially fixed and arise from contractual obligations under the Muskrat Falls PPA and TFA.

[91] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 4.12. Table 4-5.

[92] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 4.12. Footnote 48.

Figure 82 – Breakdown of 2027TY Muskrat Falls supply costs by cost management category[93]

($000s)	Commerically fixed	Operationally managed	Total
MF PPA:			
Base block capital cost recovery	216,100	-	216,100
Other costs:			-
Muskrat Falls operating costs	-	21,700	21,700
Impact and benefit agreement	14,200	-	14,200
Water power rental	16,400	-	16,400
Other	700	-	700
Muskrat Falls sustaining capital costs	-	5,400	5,400
LTA payments	39,900	9,500	49,400
Total other costs	71,200	36,600	107,800
Muskrat Falls sustaining capital deferral	-	(8,600)	(8,600)
Total MF PPA supply costs	**287,300**	**28,000**	**315,300**
TFA:			
Rent related:			
Return on equity	200,900	6,600	207,500
Interest	103,600	-	103,600
Depreciation	113,400	1,800	115,200
Other	700	500	1,200
Total rent	418,600	8,900	427,500
LIL operating costs	-	37,600	37,600
Total TFA supply costs	**418,600**	**46,500**	**465,100**
Total supply costs	**705,900**	**74,500**	**780,400**
Percentage of total	**90%**	**10%**	**100%**

As per Order in Council 2013-343 and the Muskrat Falls Project Exemption Order, Muskrat Falls supply costs are exempt from Board prudence review. Per Hydro, the procurement controls applicable to the operationally managed costs are the same procurement controls applied across Hydro's regulated business. These controls include compliance with Hydro's procurement policies and procedures, delegated financial authorities, competitive sourcing requirements where applicable, contract management practices, and management oversight of expenditures. The performance benchmark associated with these expenditures is the annual budget approved by the Board of Directors of the applicable entity. Actual expenditures are monitored and reported against these approved budgets through the normal budgeting and

[93] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – CA-NLH-040-1.

financial reporting processes. This approach is consistent with the management of costs within Hydro's regulated business.[94]

The table below compares historical budgeted and actual operationally managed Muskrat Falls supply costs for the years 2021-2025. The analysis was performed to identify historical variances and better understand the nature of these costs, which supports our review of Hydro's forecasting and budgeting processes.

Figure 83 – Breakdown of historical operationally managed Muskrat Falls supply costs[95]

($000s)	2021B	2021A	2022B	2022A	2023B	2023A	2024B	2024A	2025B	2025A	2021B vs 2021A	2022B vs 2022A	2023B vs 2023A	2024B vs 2024A	2025B vs 2025A
MF PPA costs:															
Operating costs	3,000	2,900	26,800	20,900	23,900	22,200	26,000	26,800	27,600	26,500	(100)	(5,900)	(1,700)	800	(1,100)
Muskrat Falls sustaining capital costs	-	-	200	-	300	400	900	300	3,300	2,000	-	(200)	100	(600)	(1,300)
Other	300	300	(100)	-	-	(100)	-	-	-	(2,800)	-	100	(100)	-	(2,800)
LTA operating costs	900	900	6,800	4,400	6,500	4,600	6,200	4,900	6,300	5,500	-	(2,400)	(1,900)	(1,300)	(800)
LTA sustaining capital costs	-	-	9,000	500	9,000	3,900	6,800	10,500	4,400	4,300	-	(8,500)	(5,100)	3,700	(100)
Muskrat Falls sustaining capital deferral	-	-	(9,200)	(500)	(9,200)	(4,400)	(7,700)	(10,800)	(7,700)	(6,300)	-	8,700	4,800	(3,100)	1,400
Total	4,200	4,100	33,500	25,300	30,500	26,600	32,200	31,700	33,900	29,200	(100)	(8,200)	(3,900)	(500)	(4,700)
TFA costs:															
Rent related:											-	-	-	-	-
Return on equity	-	-	-	-	-	-	-	1,000	3,000	2,600	-	-	-	1,000	(400)
Depreciation	-	-	-	-	-	-	100	300	900	700	-	-	-	200	(200)
Other	-	-	-	-	100	200	300	900	500	200	-	-	100	600	(300)
LIL operational costs	-	-	-	-	25,400	23,100	35,100	31,100	38,000	31,900	-	-	(2,300)	(4,000)	(6,100)
Total	-	-	-	-	25,500	23,300	35,500	33,300	42,400	35,400	-	-	(2,200)	(2,200)	(7,000)
Total operationally managed costs	**4,200**	**4,100**	**33,500**	**25,300**	**56,000**	**49,900**	**67,700**	**65,000**	**76,300**	**64,600**	**(100)**	**(8,200)**	**(6,100)**	**(2,700)**	**(11,700)**

In Hydro's response to request for information CA-NLH-040, they provided explanations to the following variances noted in the above table:

- **2022A total operationally managed costs were $8.2 million lower than 2022B.** According to Hydro, this is primarily due to lower Muskrat Operating Costs ($5.9 million) and LTA Operating Costs ($2.4 million), as a result of lower labour costs and savings in System Equipment Maintenance ("SEM") contracts. Variances in LTA Sustaining Capital Costs and the corresponding Sustaining Capital Deferral were also primarily attributable to the timing of expenditures associated with the Shunt Reactors capital project.

- **2023A total operationally managed costs were $6.1 million lower than 2023B.** Hydro explained that this is primarily due to lower TFA Operating Costs of $2.3 million as a result of savings in insurance and labour costs, as well as variances in LTA Sustaining Capital Costs and the corresponding Sustaining Capital Deferral related to the timing of expenditures associated with the Shunt Reactors capital project.

- **2024A total operationally managed costs were $2.7 million lower than 2024B**. Hydro explained that this is primarily due to lower TFA Operating Costs of $4.0 million as a result of lower labour costs and the timing of professional services expenditures. This was partially offset by variances in LTA Sustaining Capital Costs and the corresponding Sustaining

[94] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – CA-NLH-040.

[95] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – CA-NLH-040.

Capital Deferral related to the timing of expenditures associated with the Shunt Reactors capital project.

- **2025A total operationally managed costs were $11.7 million lower than 2025B**. According to Hydro, this is primarily due to lower TFA Operating Costs of $6.1 million resulting from savings in SEM contracts, professional services, and labour, as well as a $2.8 million one-time recovery of insurance proceeds included in Muskrat Falls Other Costs.

While the preceding analysis examines historical actual-to-budget variances, the table below compares the 2027 Test Year costs to recent actual and forecast periods to identify significant changes in the proposed revenue requirement.

Figure 84 – Operationally managed Muskrat Falls supply costs – 2024A, 2025A, 2026F, and 2027TY[96]

($000s)	2024A	2025A	2026F	2027TY	2027TY vs 2024A ($)	2027TY vs 2024A (%)	2027TY vs 2025A ($)	2027TY vs 2025A (%)	2027TY vs 2026F ($)	2027TY vs 2026F (%)
MF PPA costs:										
Operating costs	26,800	26,500	24,600	21,700	(5,100)	-19%	(4,800)	-18%	(2,900)	-12%
Muskrat Falls sustaining capital costs	300	2,000	3,700	5,400	5,100	1700%	3,400	170%	1,700	46%
Other	-	(2,800)	-	-	-		2,800	-100%	-	
LTA operating costs	4,900	5,500	6,600	6,300	1,400	29%	800	15%	(300)	-5%
LTA sustaining capital costs	10,500	4,300	15,300	3,200	(7,300)	-70%	(1,100)	-26%	(12,100)	-79%
Muskrat Falls sustaining capital deferral	(10,800)	(6,300)	(18,900)	(8,600)	2,200	-20%	(2,300)	37%	10,300	-54%
Total	31,700	29,200	31,300	28,000	(3,700)	-12%	(1,200)	-4%	(3,300)	-11%
TFA costs:							-			
Rent related:										
Return on equity	1,000	2,600	4,900	6,600	5,600	560%	4,000	154%	1,700	35%
Depreciation	300	700	1,500	1,800	1,500	500%	1,100	157%	300	20%
Other	900	200	500	500	(400)	-44%	300	150%	-	0%
LIL operational costs	31,100	31,900	37,900	37,600	6,500	21%	5,700	18%	(300)	-1%
Total	33,300	35,400	44,800	46,500	13,200	40%	11,100	31%	1,700	4%
Total operationally managed	**65,000**	**64,600**	**76,100**	**74,500**	**9,500**	**15%**	**9,900**	**15%**	**(1,600)**	**-2%**
Annual change ($)		***$ (400)***	***$ 11,500***	***$ (1,600)***						
Annual change (%)		***-1%***	***18%***	***-2%***						

As illustrated in the table above, total operationally managed Muskrat Falls supply costs in the 2027TY are expected to be approximately 15% higher than both 2024A and 2025A, but 2% lower than 2026F. The increase relative to historical actuals is primarily attributable to higher TFA costs, while the decrease relative to 2026F is primarily attributable to lower Muskrat Falls PPA costs, partially offset by higher TFA costs.

Conclusion

As Muskrat Falls supply costs are largely predetermined and calculated in accordance with established agreements, our review focused on Hydro's budgeting and oversight processes. As a result, our comments are limited to those processes. We have reviewed the Muskrat Falls supply costs included in Hydro's 2027 Test Year revenue requirement. Specifically, we have reviewed the cost components included in the Muskrat Falls supply costs under both the

[96] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – CA-NLH-040.

Muskrat Falls PPA and the Muskrat Falls Transmission Funding Agreement ("TFA"). With regards to operationally managed costs, we note the following:

- Procurement controls applicable to the operationally managed portion of Muskrat Falls supply costs under both the Muskrat Falls PPA and TFA are consistent with those applied across Hydro's regulated business.

- The operationally managed portion of Muskrat Falls supply costs is subject to established budgeting and governance processes, including review by the relevant Board of Directors, Joint Operations Committee, Collateral Agent, and the Government of Canada.

- Management performs monthly variance analyses with variances investigated and reviewed by management, as part of the oversight of operationally managed costs.

We reviewed the monthly variance process, and no significant concerns were identified with the budgeting and oversight process described by Hydro through our inquiry procedures regarding Muskrat Falls supply costs. The regulatory framework of these costs is supported by the Muskrat Falls Exemption Order, which applies to the Muskrat Falls generating facility, Labrador Transmission Assets, and LIL. [97] The order exempts Muskrat Falls-related agreements and related payments from the typical regulatory framework under the Public Utilities Act and the Electrical Power Control Act. As such, our review of these costs was limited to mathematical and internal consistencies. We did not identify any mathematical errors or internal inconsistencies in completing our procedures.

[97] Muskrat Falls Project Exemption Order under the Electrical Power Control Act, 1994 and the Public Utilities Act (O.C. 2013-342).

8. Power purchases

Scope

Conduct a review of the power purchases of $66.90 million proposed to be included in 2027 Test Year revenue requirement.

Procedures

Our review of power purchased included the following specific procedures:

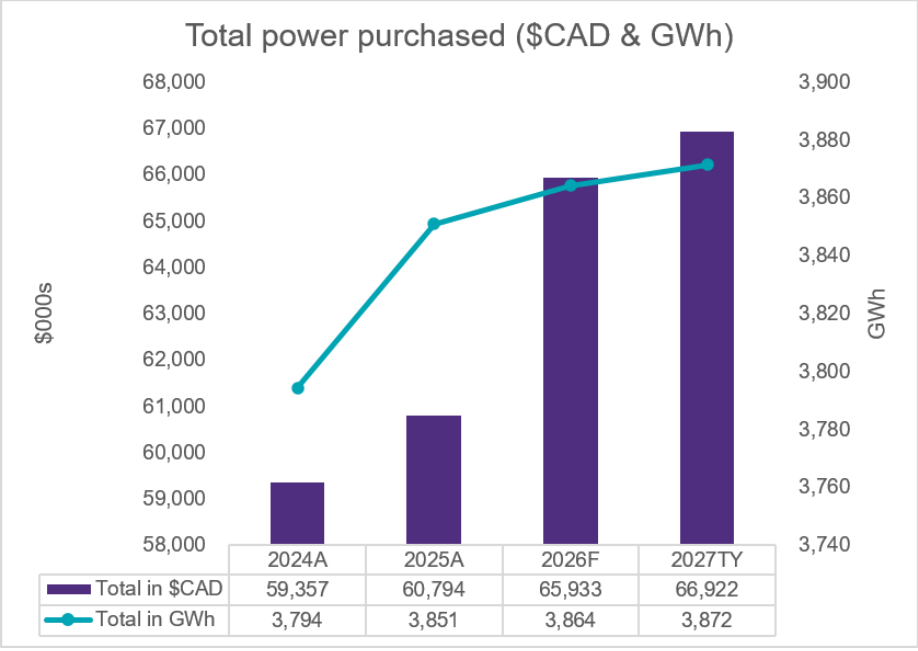
- Compiled power purchased in both $CAD and GWh for 2024A, 2025A, 2026F and 2027TY.
- Conducted a trend analysis comparing 2027TY to 2024A, 2025A, and 2026F as well as annual trending.
- Judgementally selected variances and inquired with Hydro to understand the nature of the variances.

Analysis

Total power purchased

Power purchases included in revenue requirement consist of costs of supply from Exploits generation, wind, off-island and other sources. The following chart illustrates the total power purchased in both $CAD and GWh for 2024A, 2025A, 2026F and 2027TY.

Figure 85 – Total power purchased



A breakdown of total power purchased in both $CAD and GWh by categories including Exploits generation, wind, off-island, and other is detailed in the figures below.

Figure 86 – Power purchased by category ($CAD) & GWh

	2024A	2025A	2026F	2027TY	2027TY vs 2024A ($)	% change	2027TY vs 2025A ($)	% change	2027TY vs 2026F ($)	% change
($000s)										
Exploits generation	28,419	24,910	29,882	30,238	1,819	6%	5,328	21%	356	1%
Wind	13,530	14,349	15,614	15,683	2,153	16%	1,334	9%	69	0%
Off-island	80	3,419	-	-	(80)	-100%	(3,419)	-100%	-	
Other included in island inteconnected	10,450	11,452	14,331	13,949	3,499	33%	2,497	22%	(381)	-3%
Other not included in island inteconnected	6,877	6,664	6,107	7,051	174	3%	388	6%	945	15%
Total in $CAD	**59,357**	**60,794**	**65,933**	**66,922**	**7,565**	**13%**	**6,128**	**10%**	**989**	**1%**
(GWh)										
Exploits generation	710	623	747	756	46	6%	133	21%	9	1%
Wind	172	181	196	196	24	14%	15	8%	-	0%
Off-island	2	152	-	-	(2)	-100%	(152)	-100%	-	
Other included in island inteconnected	168	153	83	83	(85)	-50%	(70)	-46%	-	0%
Other not included in island inteconnected	2,742	2,742	2,838	2,837	95	3%	95	3%	(2)	0%
Total in GWh[1]	**3,794**	**3,851**	**3,864**	**3,872**	**77**	**2%**	**21**	**1%**	**7**	**0%**
Unit cost ($000s/GWh)										
Exploits generation	**40.0**	**40.0**	**40.0**	**40.0**	(0)	0%	(0)	0%	0	0%
Wind	**78.8**	**79.2**	**79.8**	**80.1**	1	2%	1	1%	0	0%
Off-island	**34.8**	**22.5**								
Other included in island inteconnected	**62.3**	**74.8**	**172.5**	**167.9**	106	170%	93	125%	(5)	-3%
Other not included in island inteconnected	**2.5**	**2.4**	**2.2**	**2.5**	(0)	-1%	0	2%	0	16%
Total unit cost ($000s/GWh)	**15.6**	**15.8**	**17.1**	**17.3**	**1.6**	**11%**	**1.5**	**9%**	**0.2**	**1%**

Note 1: Total power purchases included in revenue requirement as depicted in the table above do not include purchases from Muskrat Falls PPA or the Transmission Funding Agreement.

As shown in the table above, total power purchase costs in 2027TY are forecast to increase by 13% relative to 2024A and 10% relative to 2025A, while purchased energy volumes remain relatively stable. As a result, the average cost of purchased energy is forecast to increase by 11% and 9%, respectively. This increase is primarily driven by higher unit costs associated with Other purchases included in the Island Interconnected System. Further discussion is provided by purchase category below.

To further understand the composition of each category, the following two tables provide a detailed breakdown of the underlying accounts in both $CAD and GWh.

Figure 87 – Power purchased by category ($CAD)

($000s)	2024A	2025A	2026F	2027TY	2027TY vs 2024A ($)	% change	2027TY vs 2025A ($)	% change	2027TY vs 2026F ($)	% change
Exploits generation:										
Star Lake	5,268	4,769	5,287	5,644	376	7%	875	18%	356	7%
Exploits	23,151	20,142	24,595	24,595	1,444	6%	4,453	22%	-	0%
Exploits generation total	**28,419**	**24,910**	**29,882**	**30,238**	**1,819**	**6%**	**5,328**	**21%**	**356**	**1%**
Wind:										
St. Lawrence wind	6,602	7,143	7,636	7,666	1,064	16%	523	7%	30	0%
Fermeuse wind	6,928	7,206	7,978	8,017	1,089	16%	811	11%	39	0%
Wind total	**13,530**	**14,349**	**15,614**	**15,683**	**2,153**	**16%**	**1,334**	**9%**	**69**	**0%**
Off-island:										
LIL recapture energy[1]	(0)	250	-	-	0	-100%	(250)	-100%	-	
Maritime link imports	80	3,169	-	-	(80)	-100%	(3,169)	-100%	-	
Off-island total	**80**	**3,419**	**-**	**-**	**(80)**	**-100%**	**(3,419)**	**-100%**	**-**	
Other included in island interconnected system:										
Rattle Brook	1,319	1,199	1,381	1,399	80	6%	200	17%	18	1%
CBPP co-generation	1,867	2,456	5,145	4,595	2,728	146%	2,139	87%	(550)	-11%
New World Dairy	7	248	64	64	57	815%	(184)	-74%	(0)	0%
CBPP capacity assistance	7,067	7,549	7,550	7,701	634	9%	151	2%	151	2%
Vale capacity assistance	190	-	190	190	-	0%	190		-	0%
Subtotal - other included in island interconnected	**10,450**	**11,452**	**14,331**	**13,949**	**3,499**	**33%**	**2,497**	**22%**	**(381)**	**-3%**
Other not included in island interconnected system:										
Island wheeling charge	723	703	960	960	237	33%	257	37%	-	0%
Island isolated	64	-	145	177	114	179%	177		32	22%
Labrador isolated	369	384	199	245	(124)	-33%	(139)	-36%	47	24%
L'Anse-au-Loup	4,179	4,033	3,271	4,104	(75)	-2%	71	2%	833	25%
Labrador interconnected	1,543	1,543	1,532	1,564	21	1%	21	1%	33	2%
Subtotal - other not included in island interconnected system	**6,877**	**6,664**	**6,107**	**7,051**	**174**	**3%**	**388**	**6%**	**945**	**15%**
Other total	**17,328**	**18,116**	**20,437**	**21,001**	**3,673**	**21%**	**2,885**	**16%**	**563**	**3%**
Total power purchases included in revenue requirement	**59,357**	**60,794**	**65,933**	**66,922**	**7,565**	**13%**	**6,128**	**10%**	**989**	**1%**
Year-over-year variances		**2%**	**8%**	**1%**						

Note 1: LIL imports in 2025 were from recapture energy deliveries based on operational requirements. In the 2027 Test Year, there are no recapture energy deliveries forecasted to occur over the LIL, as all energy is supplied via the Muskrat Falls PPA.[98]

[98] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume II – Exhibit 4 – Page 12. Footnote 29.

Figure 88 – Power purchased by category (GWh)

(GWh)	2024A	2025A	2026F	2027TY	2027TY vs 2024A	% change	2027TY vs 2025A	% change	2027TY vs 2026F	% change
Exploits generation:										
Star Lake	132	119	132	141	9	7%	22	18%	9	7%
Exploits	579	504	615	615	36	6%	111	22%	-	0%
Exploits generation total	**710**	**623**	**747**	**756**	**46**	**6%**	**133**	**21%**	**9**	**1%**
Wind:										
St. Lawrence wind	87	94	99	99	12	14%	6	6%	-	0%
Fermeuse wind	85	88	96	96	12	14%	9	10%	-	0%
Wind total	**172**	**181**	**196**	**196**	**24**	**14%**	**15**	**8%**	**-**	**0%**
Off-island:										
LIL recapture energy	-	131	-	-	-		(131)	-100%	-	
Maritime link imports	2	22	-	-	(2)	-100%	(22)	-100%	-	
Off-island total	**2**	**152**	**-**	**-**	**(2)**	**-100%**	**(152)**	**-100%**	**-**	
Other included in island interconnected system:										
CBPP secondary	3	1	-	-	(3)	-100%	(1)	-100%	-	
CBPP PPA	128	106	-	-	(128)	-100%	(106)	-100%	-	
Rattle Brook	14	12	14	14	0	2%	2	15%	-	0%
CBPP co-generation	22	33	67	67	44	201%	34	103%	-	0%
New World Dairy	0	2	3	3	3	2700%	1	84%	-	0%
CBPP capacity assistance	1	-	-	-	(1)	-100%	-		-	
Subtotal - other included in island interconnected	**168**	**153**	**83**	**83**	**(85)**	**-50%**	**(70)**	**-46%**	**-**	**0%**
Other not included in island interconnected system:										
Island wheeling charge	-	-	-	-	-		-		-	
Island isolated	0	-	1	1	0	244%	1		-	0%
Labrador isolated	1	1	1	1	(0)	-17%	(0)	-16%	-	0%
L'Anse-au-Loup	23	22	25	26	3	12%	3	15%	0	1%
Labrador interconnected	2,718	2,718	2,812	2,810	92	3%	91	3%	(2)	0%
Subtotal - other not included in island interconnected system	**2,742**	**2,742**	**2,838**	**2,837**	**95**	**3%**	**95**	**3%**	**(2)**	**0%**
Other total	**2,910**	**2,895**	**2,921**	**2,920**	**10**	**0%**	**25**	**1%**	**(2)**	**0%**
Total power purchases included in revenue requirement	**3,794**	**3,851**	**3,864**	**3,872**	**77**	**2%**	**21**	**1%**	**7**	**0%**
Year-over-year variances		**1%**	**0%**	**0%**						

During the course of our review, we requested explanations from Hydro for significant variances from 2027TY to prior years. In Hydro's response to our request, they noted that the majority of the variations demonstrated are primarily driven by differences between forecast modelling assumptions and actual operating conditions, as forecast models dispatch resources in a least-cost manner. Hydro operates its electricity system using the principle of economic dispatch, meaning it schedules and controls its generating units so that electricity demand is met at the lowest possible cost while maintaining system reliability and respecting system constraints. In practice, this involves prioritizing the use of lower-cost generation resources such as hydroelectric facilities whenever they are available, and only calling on higher-cost units, like combustion turbines, when necessary to meet demand. Dispatch decisions consider water management requirements, generator operating limits, transmission constraints, contractual export commitments, and reliability requirements, ensuring that the system is protected and secure while minimizing costs to customers. Should actual operating conditions differ from what is considered normal system operating conditions, this can result in a variance compared to what was planned. Overall, actual purchases reflect real-time system conditions and operational

considerations, which may differ from the production plan, whereas the 2027 Test Year reflects forecast conditions and modelling assumptions, based on normal system conditions, which is used in developing the revenue requirement.

The following sections review the major four power purchase categories including Exploits generation, wind, off-island, and other power purchases, and highlight the key variances associated with the volume and cost variances.

Exploits generation

The following chart and table illustrate the power purchased from Exploits generation in both $CAD and GWh for 2024A, 2025A, 2026F and 2027TY.

Figure 89 – Exploits generation power purchased

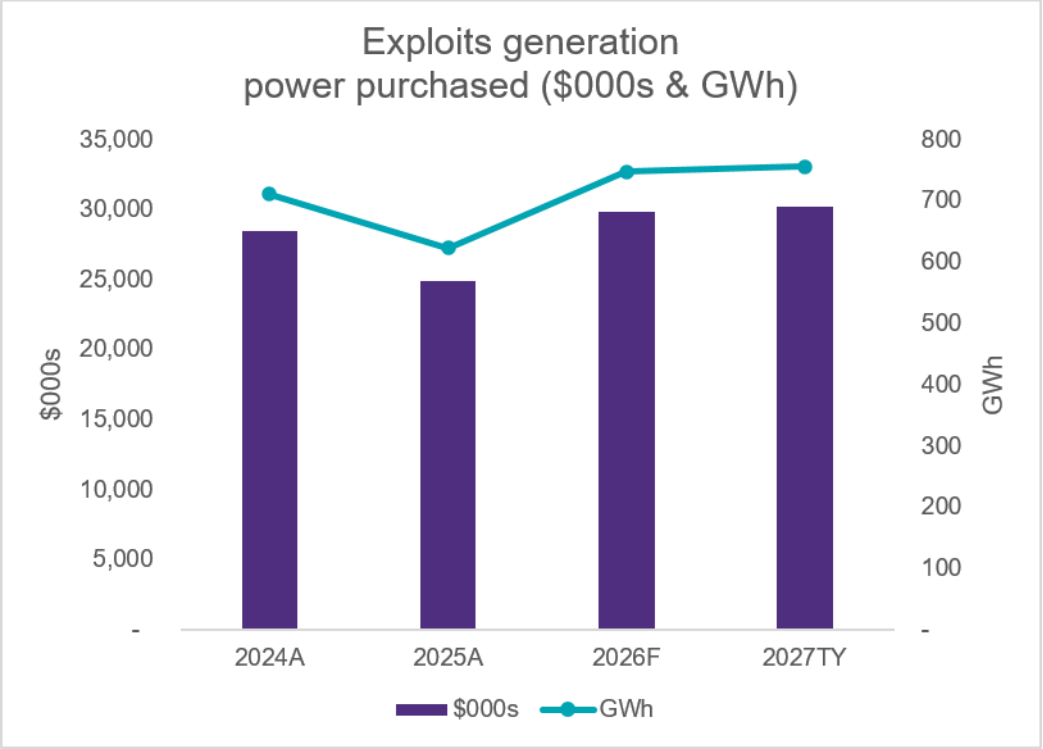


Figure 90 – Exploits generation power purchased

Exploits generation	2024A	2025A	2026F	2027TY	2027TY vs 2024A ($)	% change	2027TY vs 2025A ($)	% change	2027TY vs 2026F ($)	% change
$000s	28,419	24,910	29,882	30,238	1,819	6%	5,328	21%	356	1%
GWh	710	623	747	756	46	6%	133	21%	9	1%
Unit cost ($000s/GWh)	**40.0**	**40.0**	**40.0**	**40.0**	**(0)**	**0%**	**(0)**	**0%**	**0**	**0%**

- **Total energy purchases from Exploits generation in both $CAD and GWh in 2027TY are expected to be 21% higher than 2025A.**
    - According to Hydro, this is a result of increases in forecasted energy purchases from both Star Lake and Exploits. Hydro noted that these forecasts are based on

historical average production levels. Actual generation in 2024 and 2025 was lower due to below-average reservoir inflows, resulting in lower purchase volumes and costs in those years.

- **Unit cost ($000s/GWh) for Exploits generation is expected to remain unchanged compared to prior years.** Therefore, the increase in Exploits power purchase costs is primarily attributable to higher purchased energy volumes rather than changes in unit cost.

The Exploits generation facilities include Grand Falls, Bishop's Falls, and Star Lake, which are owned by the Government of Newfoundland and Labrador, and are operated by Hydro. Forecast purchases from these facilities account for a significant portion of Hydro's power purchased. Hydro is engaging with the Department of Energy and Mines regarding the potential transfer of the Exploits and Star Lake assets from the Government to Hydro. They are currently considering next steps with respect to the analysis and key decisions related to the potential transfer.[99]

The total forecast generation included in the 2027 Test Year is approximately 615 GWh for Exploits generation and 141 GWh for Star Lake. This remains consistent with the 2019 Test Year, as the capacity operation of the plant has not materially changed since that time. The average unit cost also remains relatively unchanged at approximately $40,000/GWh, which supports Hydro's evidence that the variance in Exploits purchase costs is primarily attributable to differences in forecast generation volumes.

Similar to Hydro's other hydroelectric generation, annual generation at Exploits and Star Lake may vary due to inflows, reservoir levels, spills, and changes in unit efficiency.[100]

Wind

The following chart and table illustrate the power purchased from wind generation in both $CAD and GWh for 2024A, 2025A, 2026F and 2027TY.

[99] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-039.

[100] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume II – Exhibit 4 – Page 9.

Figure 91 – Wind generation power purchased

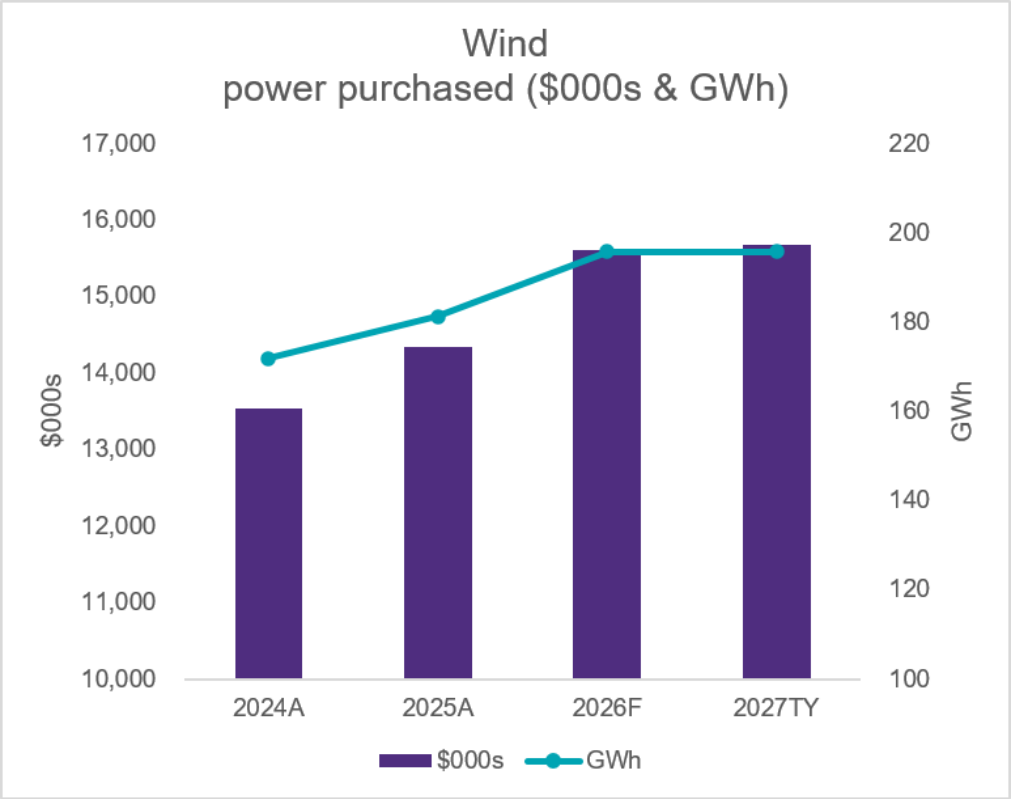


Figure 92 – Wind generation power purchased

Wind	2024A	2025A	2026F	2027TY	2027TY vs 2024A ($)	% change	2027TY vs 2025A ($)	% change	2027TY vs 2026F ($)	% change
$000s	13,530	14,349	15,614	15,683	2,153	16%	1,334	9%	69	0%
GWh	172	181	196	196	24	14%	15	8%	-	0%
Unit cost ($000s/GWh)	**78.8**	**79.2**	**79.8**	**80.1**	**1.4**	**2%**	**0.9**	**1%**	**0.4**	**0%**

- **Total wind energy purchases ($CAD) in 2027TY are expected to be 16% higher than 2024A.**

- **Total wind energy purchases (GWh) in 2027TY are expected to be 14% higher than 2024A.** Hydro provided the following explanations for these variances:

  - **Energy purchases from St. Lawrence Wind in 2027TY are expected to be 16% higher than 2024A.** According to Hydro, this is primarily due to an increase in volume of $1.0 million and an increase in price of $0.1 million. The 2027 Test Year volume is 99 GWh which is an increase of 12 GWh from the 2024A volume of 87 GWh. The price is forecast at $0.0771/kWh in 2027TY compared to $0.0758/kWh in 2024A.

  - **Energy purchases from Fermeuse Wind in 2027TY are expected to be 16% higher than 2024A.** This is primarily attributable to an increase in sales volume of $0.7 million and an increase in price of $0.1 million. Energy sales are forecast at 96 GWh in the 2027 Test Year, an increase of 11 GWh from the 2024 Actual

of 85 GWh. The price is forecast at $0.0832/kWh in 2027TY compared to $0.0818/kWh in 2024A.

- **Unit cost ($000s/GWh) for wind energy purchases in 2027TY is expected to be 2% higher than 2024A, 1% higher than 2025A, and relatively unchanged compared to 2026F.** Accordingly, the variance is primarily volume-driven, reflecting higher purchased energy levels rather than significant changes in unit costs.

The wind category of power purchases consists of long-standing PPAs with Elemental Energy for the St. Lawrence and Fermeuse wind energy. At each site, there are nine 3 MW wind turbines, for a total installed capacity of 54 MW. For the 2027 Test Year, these PPAs are forecast to provide a total of approximately 196 GWh to the system annually, which is relatively consistent with the 2019 Test Year.[101]

Off-island

The following chart and table illustrate the power purchased from off-island in both $CAD and GWh for 2024A, 2025A, 2026F and 2027TY.

Figure 93 – Off-island power purchased



[101] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume II – Exhibit 4 – Page 11.

Figure 94 – Off-island power purchased

Off-island	2024A	2025A	2026F	2027TY	2027TY vs 2024A ($)	% change	2027TY vs 2025A ($)	% change	2027TY vs 2026F ($)	% change
$000s	80	3,419	-	-	(80)	-100%	(3,419)	-100%	-	
GWh	2	152	-	-	(2)	-100%	(152)	-100%	-	
Unit cost ($000s/GWh)	**34.8**	**22.5**	**N/A**	**N/A**						

- **Total off-island energy purchases in 2027TY are expected to be 100% less than 2024A and 2025A in both $CAD and GWh.** Off-island purchases represent energy imported from sources external to the Island Interconnected System, such as LIL recapture energy and Maritime link imports. There are no expected off-island power purchases in 2027 Test Year. Hydro explained that Maritime Link Imports are not included in their long-term production planning because such imports are considered non-firm and cannot be relied upon to meet system requirements. While Hydro may utilize economic non-firm imports to support fuel costs or support Hydro's reservoirs during a drought period, they are not considered sufficiently reliable for inclusion in the 2027 Test Year.[102]

- Given there is no off-island energy purchases forecasted in 2027TY, the decline in off-island energy purchase costs appears to be entirely volume-driven.

Other

The following chart and table illustrate the other power purchased in both $CAD and GWh for 2024A, 2025A, 2026F and 2027TY.

[102] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – CA-NLH-085.

Figure 95 – Other power purchased

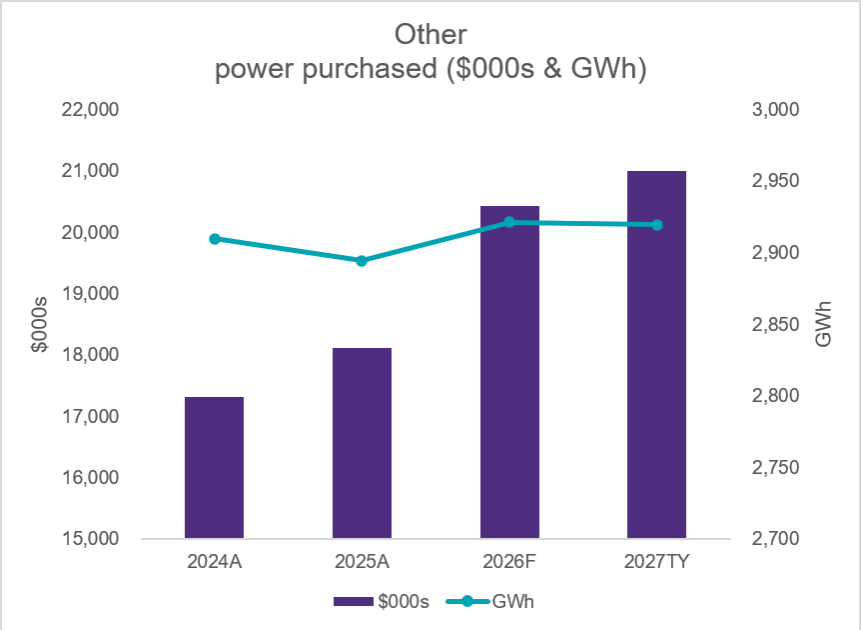


Figure 96 – Other power purchased

Other	2024A	2025A	2026F	2027TY	2027TY vs 2024A	% change	2027TY vs 2025A	% change	2027TY vs 2026F	% change
Other included in island interconnected:										
$000s	10,450	11,452	14,331	13,949	3,499	33%	2,497	22%	(381)	-3%
GWh	168	153	83	83	(85)	-50%	(70)	-46%	-	0%
Unit cost ($000s/GWh)	**62.3**	**74.8**	**172.5**	**167.9**	**105.6**	**170%**	**93.1**	**125%**	**(4.6)**	**-3%**
Other not included in island interconnected:										
$000s	6,877	6,664	6,107	7,051	174	3%	388	6%	945	15%
GWh	2,742	2,742	2,838	2,837	95	3%	95	3%	(2)	0%
Unit cost ($000s/GWh)	**2.5**	**2.4**	**2.2**	**2.5**	**(0.0)**	**-1%**	**0.1**	**2%**	**0.3**	**16%**
Total other $000s	17,328	18,116	20,437	21,001	3,673	21%	2,885	16%	563	3%
Total GWh	2,910	2,895	2,921	2,920	10	0%	25	1%	(2)	0%
Total other unit cost ($000s/GWh)	**6.0**	**6.3**	**7.0**	**7.2**	**1.2**	**21%**	**0.9**	**15%**	**0.2**	**3%**

- **Total other energy purchases ($CAD) in 2027TY are expected to be 21% and 16% higher than 2024A and 2025A respectively.** Other power purchases consist of energy purchased from a variety of generation sources and contractual agreements that are not separately categorized as Exploits generation, wind, or off-island purchases. These include purchases from Rattle Brook, New World Dairy, the Labrador Interconnected System, CBPP Co-generation, and capacity assistance arrangements.

  One of the primary accounts contributing to the increase is CBPP Co-Generation. In 2027TY CBPP Co-Generation ($CAD) increased by $2.7 million (146%) and $2.1 million (87%) compared to 2024A and 2025A respectively. Hydro noted that CBPP Co-Generation in 2027TY totals $4.6 million and is based off a Term Sheet negotiated with

CBPP in November, 2023.[103] Hydro noted that a new CBPP PPA was directed through Order in Council OC2026-133 and became effective July 1, 2026. Under the new arrangement, Hydro is required to purchase approximately 280 GWh of energy annually at a price of $187/MWh.[104] Additionally, based on discussions with Hydro, we understand that while 2027TY was prepared based on the 2023 Term Sheet, the impact from the increased price in the 2026 terms will be charged to Non-Regulated Hydro and therefore will not impact regulated customers.

- **Unit cost ($000s/GWh) for Other energy purchases in 2027TY is expected to be 21% higher than 2024A, 15% higher than 2025A, and 3% higher than 2026F.** Although higher CBPP Co-Generation costs contribute to the variance, the increase in unit cost is primarily driven by the reduction in purchased energy volumes, given there were no CBPP PPA purchases. As a result, costs are spread over fewer purchased GWh, leading to a higher average cost per GWh.

Capacity assistance

Certain power purchase costs, such as capacity assistance charges, are not tied to the delivery of energy and therefore do not have associated GWh. The table below demonstrates the total capacity assistance for 2024A, 2025A, 2026F, and 2027TY.

Figure 97 – Power purchases – Capacity assistance

($000s)	2024A	2025A	2026F	2027TY
CBPP Capacity Assistance	7,067	7,549	7,550	7,701
Vale Capacity Assistance	190	-	190	190
Total	**7,257**	**7,549**	**7,740**	**7,891**

As shown in the table above, Hydro has capacity assistance agreements with both Vale Newfoundland and Labrador Limited ("Vale") and CBPP. Per Order No. P.U. 32 (2023), the Board approved a capacity assistance agreement between CBPP and Hydro, under which CBPP agreed to provide Hydro with up to 90 MW of capacity assistance in the winter period and 50MW outside of the winter period for a 15-year term. This agreement is assumed to be in place during the 2027 Test Year however, there is no energy associated with the agreement. Hydro's capacity agreement with Vale allows for 7.5 MW of capacity assistance during the winter season, which is assumed to be renewed for the winter operating season in the 2027 Test Year. Similar to the agreement with CBPP, there is no energy associated with this agreement; as a result, both agreements contribute capacity support to Hydro but do not contribute forecast

[103] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-113 – Attachment 1.

[104] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-113.

energy (GWh) [105] Hydro can also make calls for curtailment from Newfoundland Power, who in turn sheds curtailable load with participating customers. While Hydro did not make any calls for curtailment in 2025, the winter 2025-2026 curtailment test confirmed that 12.1 MW were available. The amount of Newfoundland Power's curtailable load available is forecast to be 12MW for the 2027 Test Year.[106]

Outliers identified in $CAD and GWh reporting

In completing our analysis, we identified outliers in the $CAD and GWh reporting data provided by Hydro. Our observations and explanations provided by Hydro are detailed below.

Figure 98 – Power purchases – Outliers in reporting

	2024A	2025A	2026F	2027TY	Notes
CBPP secondary ($000s)	-	-	-	-	1
CBPP seconday (GWh)	3	1	-	-	1
CBPP PPA ($000s)	-	-	-	-	2
CBPP PPA (GWh)	128	106	-	-	2

Note 1: Power purchases from CBPP Secondary were reported as $nil in 2024A and 2025A, however, volumes of 3 and 1 GWh, respectively, were recorded. According to Hydro, these volumes were received outside of contracted amounts and have no cost associated with them.

Note 2: Power purchases from CBPP PPA were reported as $nil in 2024A and 2025A, however, volumes of 128 and 106 GWh, respectively, were recorded. According to Hydro, costs associated with CBPP PPA are recorded in Non-Regulated Hydro.

Conclusion

We have completed our analysis of Hydro's power purchase expense (including GWhs) included in 2027 Test Year revenue requirement in dollars and GWhs. Power purchases are expected to increase from $59,357,000 in 2024A to $66,922,000 in 2027 Test Year. The largest driver of this increase is the expected increase in power purchases from other sources, specifically, Corner Brook Pulp and Paper ("CBPP") co-generation. Hydro has not included off-island energy purchases in 2027 Test Year. Specifically with regards to Maritime Link Imports, Hydro noted that they are not included in their long-term production planning because such imports are considered non-firm and cannot be relied upon to meet system requirements.[107]

[105] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume II – Page 14.

[106] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume II – Page 14.

[107] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – CA-NLH-085.

9. Depreciation and accretion

Scope

Conduct a review of the depreciation and accretion of $117.70 million proposed to be included in 2027 Test Year revenue requirement based on Concentric's 2023 Depreciation Study released in June 2023 and Concentric's 2024 Technical Update released in September 2025.

Procedures

Our review of depreciation included the following specific procedures:

- Reviewed the depreciation methodology and rates proposed in the Application and assessed consistency with the 2023 Depreciation Study and 2024 Technical Update.
- Obtained and analyzed detailed depreciation and capital asset schedules for 2025A, 2026F, and 2027TY.
- Reconciled depreciation, accumulated depreciation, and net book value balances to supporting schedules.
- Performed sample testing of depreciation calculations, service lives, and depreciation rates.
- Analyzed trends and significant changes in depreciation expense and related asset balances.
- Reviewed regulatory filings, information request responses, and Holyrood-specific depreciation assumptions to support our assessment.

Analysis

In the 2027 Test Year, depreciation and accretion is $117.7 million which is $31.9 million higher than in the 2019 Test Year. Per Hydro, the primary driver of this increase is growth in asset base since the 2019 Test Year, as a result of Hydro's capital program, including projects related to the Holyrood TGS, which are depreciated at an accelerated rate given its planned retirement. This increase has been partially offset by reduced depreciation rates proposed in the depreciation study.[108]

Depreciation methodology background

Hydro's current depreciation methodology was established through the settlement of its 2017 GRA and approved by the Board in Order No. P.U. 16(2019). Hydro continues to apply the Average Life Group ("ALG"), previously known as the Average Service Life Group ("ASLG")

[108] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 5.5 – 5.6.

procedure, to its asset base with assets placed in service in 2015 and earlier treated on a deemed cost basis and assets placed in service after 2015 depreciated using ASLG on a whole-life basis. In its 2026 GRA, Hydro has not proposed a change to this approved methodology. Rather, Hydro's depreciation proposal is based on applying the existing settlement agreement methodology using the updated depreciation parameters from the 2023 Depreciation Study and 2024 Technical Update.

Depreciation per Hydro's 2026 GRA

The components of depreciation and accretion included in Hydro's revenue requirement are as follows:

Figure 99 – Depreciation and accretion (2027TY)[109]

($ millions)	2027TY
Depreciation	116.60
Accretion of asset retirement obligation	1.10
Total depreciation and accretion	**117.70**

As shown in the table below, Hydro has forecasted depreciation expense of $103.6 million in 2026 Forecast and $116.6 million in 2027 Test Year, compared to an actual expense of $90.2 million and $95.1 million in 2024A and 2025A, respectively. Depreciation as a percentage of average total cost of fixed assets is fairly comparable from 2025 Actual to the 2026 Forecast and 2027 Test Year (changes of approximately 0.10% to 0.22% from one year to the next).

Figure 100 – Depreciation as a percentage of average cost (2024A, 2025A, 2026F, 2027TY)[110]

($000s)	2024A	2025A	2026F	2027TY
Depreciation	90,208	95,137	103,630	116,568
Cost - capital assets in service	3,118,245	3,303,243	3,471,562	3,643,150
Average cost	**3,044,788**	**3,210,744**	**3,387,403**	**3,557,356**
Depreciation as a % of average cost	2.96%	2.96%	3.06%	3.28%
Change in average cost (%)		5.45%	5.50%	5.02%
Change in depreciation as a % of average cost		0.00%	0.10%	0.22%
Change as a % of total depreciation		0.01%	3.14%	6.64%

The relatively consistent depreciation rate as a percentage of average cost indicates that the increase in depreciation expense is primarily the result of growth in Hydro's fixed asset base as

[109] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 5.5.

[110] Depreciation from: Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Schedule D-I – Page 1. Cost of capital assets in service from: Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Schedule D-II – Page 4.

capital projects are completed and placed into service, rather than changes in depreciation rates themselves.

The graphs below show that depreciation and total average cost follow a similar trend as the two are increasing at a relatively consistent rate.

Figure 101 – Average cost (2024A, 2025A, 2026F, 2027TY)

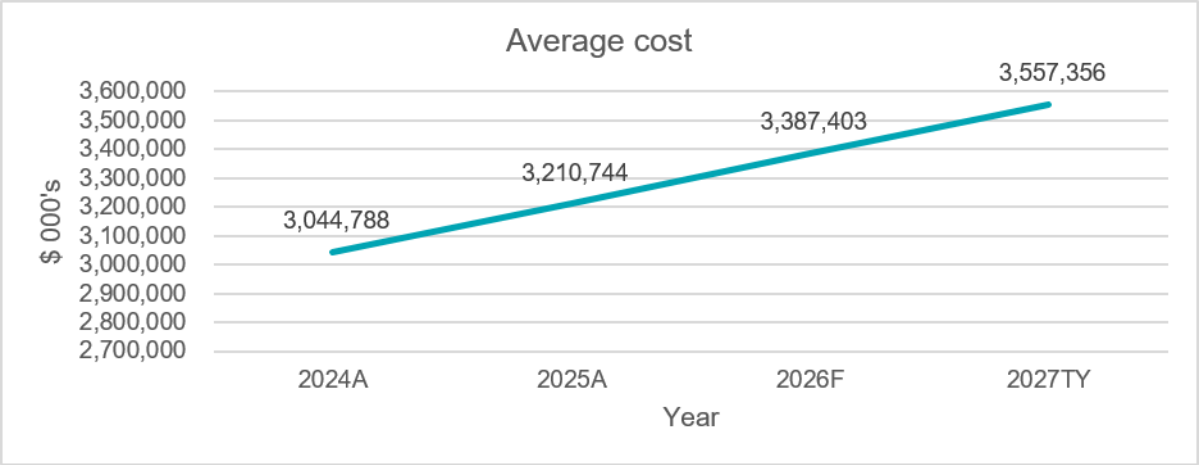
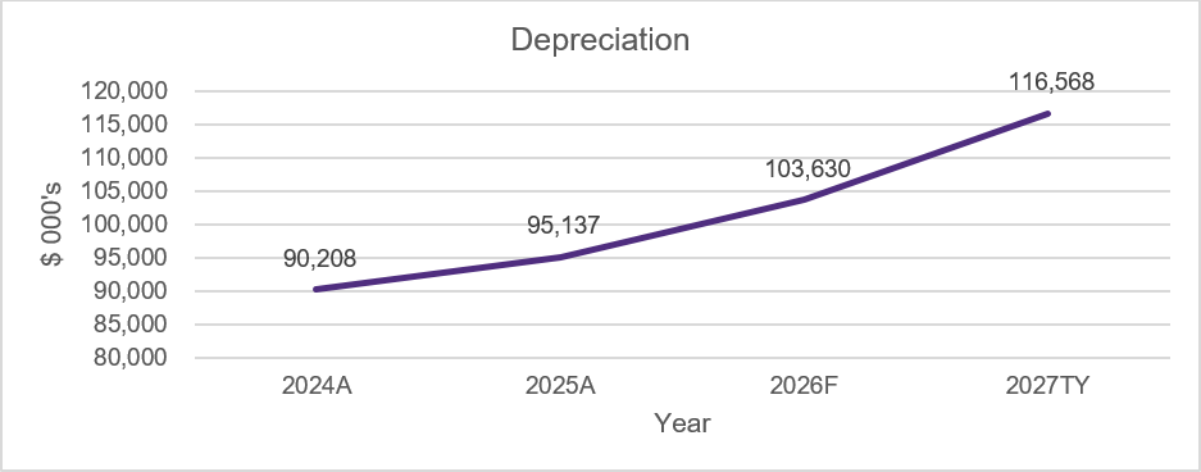


Figure 102 –Annual depreciation expense (2024A, 2025A, 2026F, 2027TY)



Reconciliation of Hydro's property, plant, and equipment

The table below provides a reconciliation of total cost of fixed assets used in the Figures above to the net book value of fixed assets as shown on Hydro's balance sheet.

Figure 103 – Reconciliation of fixed asset cost to net book value of fixed assets (2024A, 2025A, 2026F, 2027TY)[111]

($000s)	2023A	2024A	2025A	2026F	2027TY
Cost - capital assets in service - *Figure 108*	2,971,330	3,118,245	3,303,243	3,471,562	3,643,150
Accumulated depreciation		(773,107)	(827,789)	(971,755)	(1,071,824)
Work in progress		62,088	89,941	272,316	619,405
Total fixed assets		**2,407,226**	**2,565,395**	**2,772,123**	**3,190,731**
Property, plant, and equipment per balance sheet		**2,409,910**	**2,569,623**	**2,775,624**	**3,194,229**
Difference		*2,684*	*4,228*	*3,501*	*3,498*

During our review, we noted the above differences between the property, plant and equipment balances in the Rate of Return on Rate Base and Balance Sheet schedules of the 2026 GRA. Upon requesting a reconciliation of these differences from Hydro, they provided the following response:

> *"The variances between Schedule D-II, page 4 (Rate of Return on Rate Base) and Schedule D-II, page 2 (Balance Sheet) relate to the treatment of contributions associated with assets that remain in Work in Progress ("WIP"). Contributions related to assets that are in WIP have been included in WIP. Consequently, when the deduction for WIP is made in the rate base calculation, the deduction reflects WIP net of the associated contributions. For financial statement presentation purposes, however, contributions related to assets that remain in WIP are presented in Deferred Capital Contributions on the Balance Sheet (Schedule D-II, page 2), rather than being included in WIP."*

Hydro did not provide a numerical reconciliation of the differences noted above. However, based on Hydro's response, we understand that the property, plant and equipment balance is higher because it includes the CIAC-funded portion of WIP, while the rate of return on rate base schedule excludes this contribution. Based on this understanding, we prepared the numerical reconciliation below.

[111] Property, plant, and equipment per balance sheet from: Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Schedule D-II – Page 2. All other figures from: Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Schedule D-II – Page 4.

Figure 104 – CIAC reconciliation [112]

($000s)	2025A	2026F	2027TY
Difference per above - *Figure 104*	4,228	3,501	3,498
CIAC	66,639	63,691	63,150
Deferred capital contribution	(70,942)	(67,192)	(66,650)
Total unreconciled difference	**(75)**	**-**	**(2)**

2023 Depreciation study

Hydro engaged Concentric to conduct a comprehensive depreciation study relating to the plant in service as of December 31, 2022, with a technical update to December 31, 2024. The depreciation study recommends the use of updated estimates of the service lives of assets. The combined impact of these changes on Hydro's revenue requirement for the 2027 Test Year is a decrease of $7.3 million from the 2019 Test Year.[113]

Hydro is requesting Board approval of the depreciation rates and methodology recommended in the 2023 Depreciation Study and 2024 Technical Update for inclusion in the determination of customer rates.[114] The recommendations of this depreciation study are summarized as follows:

- Use of updated estimates of Average Service Life ("ASL") and Net Salvage for each depreciable asset account;
- Continued use of the Straight-Line depreciation method;
- Continued use of the Average Life Group ("ALG") procedure applied on a Remaining Life basis;
- Continued use of amortization accounting for certain general plant accounts where retirement accounting is not practical;
- Amortization of variances between book accumulated depreciation and calculated accrued depreciation over the remaining life of the applicable asset group; and
- Continued monitoring and maintenance of accumulated depreciation reserves at the account level.

[112] CIAC from: Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Schedule D-II – Page 4. Deferred capital contribution from: Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Schedule D-II – Page 2.

[113] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 5.6.

[114] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 5.6.

The 2023 study reaffirmed the existing depreciation methodology while updating average service life and net salvage assumptions based on more recent asset experience.

Depreciation study impact

In the 2027 Test Year, depreciation and accretion is $31.9 million higher than in the 2019 Test Year. Hydro provided the following breakdown summarizing this increase:

Figure 105 – Breakdown of change from 2019TY to 2027TY[115]

($ millions)	2019TY	2027TY	Variance
Holyrood accelerated depreciation additions	16.9	29.2	12.3
Regulatory adjustments	-	-	-
GEC, Muskrat Falls/Labrador transmission assets sustaining capital, cloud costs, Allowance for funds used during construction ("AFUDC")	(0.6)	1.3	1.8
Removal depreciation	5.1	6.3	1.1
Impact of software asset transfers and additions	2.0	6.4	4.4
Accretion of asset retirement obligation	0.4	1.1	0.7
Asset base growth and disposals	61.9	73.5	11.6
Total depreciation and accretion	**85.8**	**117.7**	**31.9**

According to Hydro, the combined impact of the depreciation study changes is a $7.3 million reduction in depreciation from the 2019 Test Year, broken down as follows:

Figure 106 – Breakdown of depreciation study impact by plant category[116]

($000s)	Change in depreciation
Computer software	(1,007,794)
Diesel generation	258,474
Distribution	(1,978,364)
Feasibility studies	(40,784)
Gas turbines	(97,894)
General plant	(1,354,466)
Hydraulic generation	(1,335,277)
Information systems & telecoms	(721,156)
Meters	(1,728)
Substations	(180,589)
Thermal generation	172,226
Transmission lines	(1,054,967)
Total	**(7,342,319)**

[115] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – CA-NLH-090.

[116] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – CA-NLH-090.

Holyrood TGS plant depreciation

Given that certain assets associated with the Holyrood TGS are expected to be retired when steam generation ceases, Hydro has historically adjusted the depreciation of these assets to ensure their remaining net book value is recovered over the period they are expected to remain in service.

According to Hydro, depreciation of the Holyrood TGS assets, expected to be decommissioned at the end of steam generation, will be accelerated to reflect full depreciation by the date of decommissioning which is a consistent approach from the last GRA. The change in the assumed end-of-steam-generation dates were as follows:

- 2019 Test Year: March 31, 2021;
- September 2020–February 2022: March 31, 2023;
- February–October 2022: March 31, 2024; and,
- October 2022–Current: March 31, 2030.

The March 31, 2030 end of steam generation date assumption has been used in the 2027 Test Year. With each change in end of steam generation date, Holyrood assets were updated to have remaining life months equal to the number of months remaining to get to the end of steam generation date. Article 4.3 of the 2024 Technical Update states that the recovery of the undepreciated capital cost of the Holyrood generation plant is through a regulatory deferral account and, as such, the 2023 Depreciation Study and 2024 Technical Update have not developed specific depreciation rates for the Holyrood TGS assets.[117]

Depreciation testing

We performed test work on a risk-based sample of 25 depreciable assets for each of 2025A, 2026F, and the 2027 Test Year for a total of 75 samples tested. For each sample, we recalculated depreciation expense and verified that the depreciation rates applied agreed to the applicable Concentric Depreciation Study. For Holyrood accelerated depreciation assets, we independently verified depreciation based on the remaining amortization period to March 31, 2030. No material exceptions were identified through our testing.

Conclusion

Hydro's proposed depreciation and accretion expense for the 2027 Test Year is based on the depreciation methodology approved in Order No. P.U. 16(2019) and applies the updated depreciation parameters recommended in the 2023 Depreciation Study and 2024 Technical Update prepared by Concentric Energy Advisors, Inc.

[117] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – IIC-NLH-018.

Based on our review, the proposed depreciation rates, service life assumptions, net salvage assumptions, and depreciation methodology included in the 2027 Test Year are consistent with the recommendations contained in the 2023 Depreciation Study and 2024 Technical Update. Our sample testing did not identify any material exceptions in the calculation of depreciation expense or the application of depreciation rates and service lives to the supporting asset records reviewed.

The increase in 2027 Test Year depreciation expense relative to prior periods is primarily attributable to growth in Hydro's capital asset base and the continued accelerated depreciation of Holyrood Thermal Generating System assets associated with the planned cessation of steam generation in 2030. These increases are partially offset by the impact of updated depreciation study assumptions.

We noted a difference between property, plant and equipment balances presented in the balance sheet and rate base schedules. While Hydro did not provide a numerical reconciliation, management explained the difference as relating to the treatment of Contributions in aid of construction (“CIAC”) associated with work in progress. Our reconciliation identified no significant variances and supports management’s explanation. Overall, we did not identify any matters through our review that would indicate the proposed depreciation and accretion expense is unreasonable.

10. Average rate base

Scope

Conduct a review of 2027 Test Year average rate base of $2,802,095,000, including changes in working capital methodology.

Procedures

Our procedures with respect to verifying the calculation of the average rate base were directed towards the verification of the data incorporated in the calculations and the methodology used by the Company. Specifically, the procedures which we performed included the following:

- agreed all carry-forward data to supporting documentation including audited financial statements and internal accounting records, where applicable;
- agreed component data to supporting documentation;
- checked the clerical accuracy of the continuity of the rate base; and,
- agreed the methodology used in the calculation of the average rate base to the Public Utilities Act to ensure it is in accordance with Board Orders and established policy and procedures.

Analysis

Details of the average rate base for 2027TY with comparative data for 2024A, 2025A and 2026F are presented in the table below.

In addition to the annual variances shown in the chart below, we noted that the average rate base in 2027TY is expected to be 18% and 13% higher than 2024A and 2025A respectively. This expected increase is driven by several rate base components, including plant investment, the introduction of the Muskrat Falls related working capital allowance, and an increase in deferred charges. These contributing factors are discussed further in the following sections of this report.

Figure 107 – Average rate base for 2024A, 2025A, 2026F and 2027TY[118]

($000s)	2024A	2025A	2026F	2027TY
Property, plant and equipment[1]	2,407,226	2,565,395	2,772,123	3,190,731
Add: Accumulated depreciation (net of disposal and removal pools)	773,107	827,789	971,755	1,071,824
Less: Work in progress	(62,088)	(89,941)	(272,316)	(619,405)
Capital assets in service	3,118,245	3,303,243	3,471,562	3,643,150
Less: Asset retirement obligation	(10,385)	(13,422)	(10,446)	(7,338)
Add: CIAC	(66,689)	(66,639)	(63,691)	(63,150)
Less: Accumulated depreciation	(773,107)	(827,789)	(971,755)	(1,071,824)
Capital assets - Current year	2,268,064	2,395,393	2,425,670	2,500,838
Capital assets - Previous year[2]	2,196,889	2,268,064	2,387,010	2,425,670
Unadjusted capital assets - Average	2,232,477	2,331,729	2,406,340	2,463,254
Less: Average net assets excluded from rate base	(7,713)	(7,631)	(6,598)	(6,199)
Capital assets - Average	2,224,764	2,324,098	2,399,742	2,457,055
Working capital allowance - other	1,416	1,229	732	1,562
Working capital allowance - Muskrat Falls related fuel	-	-	-	115,124
Fuel	53,950	57,161	65,404	68,029
Materials and supplies	43,698	46,725	44,837	44,722
Deferred charges	55,215	57,569	93,310	115,603
Average rate base	**2,379,043**	**2,486,782**	**2,604,025**	**2,802,095**
Annual change ($)		***107,739***	***117,244***	***198,070***
Annual change %		***5%***	***5%***	***8%***

Note 1: During our review, we noted a slight discrepancy between the property, plant and equipment balances in the Rate of Return on Rate Base and Balance Sheet schedules of the 2026 GRA. The variances relate to the treatment of contributions associated with assets remaining in WIP. For further detail and a reconciliation of the discrepancies, please refer to ***Section 9 - Depreciation and Accretion****.*

Note 2: The 2025 results have been updated to actuals; however, the 2026F average rate base continues to reflect Hydro's originally filed calculation, which used the 2025 Forecast capital asset balance as the prior-year value. In response to PUB-NLH-071, Hydro indicated that forecast year rate base calculations were not updated for 2025 Actual activity, and explained that the use of the 2025 Forecast balance rather than the 2025 Actual balance does not result in

[118] Newfoundland and Labrador Hydro 2026 General Rate Application Supplemental Material, July 17, 2026 – Schedule D-II – Page 4.

a material difference to the proposed 2027 rate base.[119] *The table below provides a breakdown of the impact this has on the 2026F average rate base.*

Figure 108 – 2025F vs 2025A average rate base[120]

($000s)	2025F	2025A	Variance
Property, plant and equipment	2,578,440	2,565,395	(13,045)
Add: Accumulated depreciation (Net of disposal and removal pools)	853,984	827,789	(26,195)
Less: Work in progress	(112,989)	(89,941)	23,048
Capital assets in service	3,319,435	3,303,243	(16,192)
Less: Asset retirement obligation	(13,554)	(13,422)	132
Add: CIAC	(64,887)	(66,639)	(1,752)
Less: Accumulated depreciation	(853,984)	(827,789)	26,195
Capital assets - Current year	2,387,010	2,395,393	8,383
Capital assets - Previous year	2,268,064	2,268,064	-
Unadjusted capital assets - Average	**2,327,537**	**2,331,729**	**4,192**

The use of the 2025 Forecast capital asset balance rather than the 2025 Actual capital asset balance affects the 2026F average rate base calculation through the Capital Assets - Previous Year balance. While the 2025 Actual Capital Assets - Current Year balance was approximately $8.4 million higher than forecast, only one-half of this variance (approximately $4.2 million) is reflected in the 2026F Unadjusted Capital Assets - Average as a result of the averaging methodology. Hydro indicated in response to PUB-NLH-071 that the forecast year rate base calculations were not updated to reflect 2025 Actual activity. [121] *Accordingly, the impact on the 2027TY remains uncertain. However, we note that the actual 2025 average rate base exceeded the 2025 forecast. Rate base calculations are expected to be updated in the compliance filing to reflect 2025 Actuals.*

Plant investment

The following table details the trends for property, plant and equipment, including 2024A, 2025A, 2026F and 2027TY.

[119] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-071.

[120] Newfoundland and Labrador Hydro 2026 General Rate Application Supplemental Material, July 17, 2026 – Schedule D-II – Page 4.

[121] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-071.

Figure 109 – Plant investment annual totals[122]

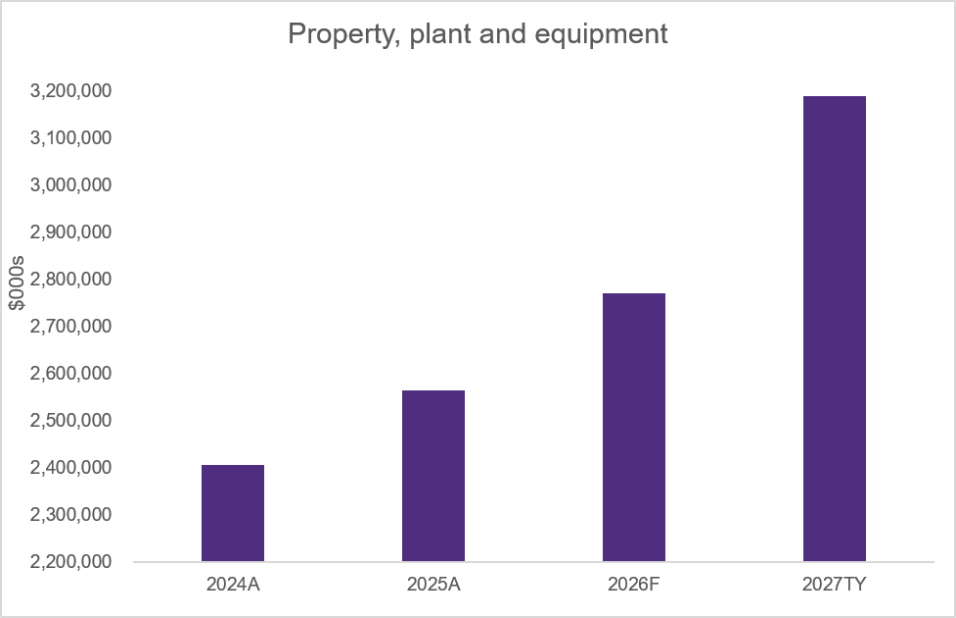


Figure 110 – Plant investment annual totals[123]

($000s)	2024A	2025A	2026F	2027TY	2027TY vs 2024A	% change	2027TY vs 2025A	% change	2027TY vs 2026F	% change
Property, plant and equipment[1]	2,407,226	2,565,395	2,772,123	3,190,731	783,505	33%	625,336	24%	418,608	15%
Annual change ($)		***158,169***	***206,728***	***418,608***						
Annual change %		***7%***	***8%***	***15%***						

Note 1: Total property, plant, and equipment amounts include work in progress.

Based on the chart above we identified the following significant variances:

- **Property, plant and equipment in 2027TY is expected to be 33%, 24%, and 15%, higher than 2024A, 2025A, and 2026F respectively.** This is a reflection of Hydro's ongoing investment in utility infrastructure and capital projects required to maintain system reliability. Since 2019, Hydro's total annual capital expenditures have averaged approximately $140 million, including major projects in more recent years. While historically focused on sustaining existing assets, Hydro is entering a period of heightened capital investment driven by major life extension initiatives, such as the Bay

[122] Newfoundland and Labrador Hydro 2026 General Rate Application Supplemental Material, July 17, 2026 – Schedule D-II – Page 4.

[123] Newfoundland and Labrador Hydro 2026 General Rate Application Supplemental Material, July 17, 2026 – Schedule D-II – Page 4.

d'Espoir penstocks, as well as investments required to replace aging infrastructure. This results in an upward trend in spending over the 2024-2027 period.[124]

Capital spending

In reconciling forecast capital spending included in the GRA to additions included in the Capital Budget Applications ("CBAs"), differences of approximately $10.3 million in 2026F and $12.9 million in 2027TY were identified. The table below demonstrates the forecasted capital spending included in the GRA compared to capital additions reflected in the applicable CBAs and board-approved supplemental capital projects.

Figure 111 – Capital spending in 2026F and 2027TY

($000s)	2026F	2027TY
Per GRA Forecast	283,952.44	532,718.13
Per CBA and board orders	294,218.35	545,598.38
Difference	**(10,265.91)**	**(12,880.25)**

Per Hydro, the 2026F and 2027TY forecasts are based on draft 2026 and 2027 CBA values developed for purposes of the GRA. As these forecasts were developed using preliminary capital budget estimates, they differ from the final 2026 CBA amounts approved by the Board and the preliminary 2027 CBA values that remain subject to regulatory review and approval.

Asset retirement obligation

Per the 2027 Capital Budget Application, decommissioning costs pertaining to Holyrood Thermal Generating Station are not included in the capital plan and are assumed to be funded by an ARO budget. A study on ARO was last completed in 2016 and updated in 2023 to provide updated estimates.[125]

The ARO balance is comprised of obligations related to Polychlorinated Bipheny containing assets and the future decommissioning of the Holyrood TGS. The table below provides a breakdown of the total asset retirement obligations for 2024A, 2025A, 2026F, and 2027TY.

[124] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 2.11-2.12.

[125] Newfoundland and Labrador Hydro 2027 Capital Budget Application, July 14, 2026 – Page 15.

Figure 112 – Breakdown of ARO annual totals

($000s)	2024A	2025A	2026F	2027TY	2027TY vs 2024A	% change	2027TY vs 2025A	% change	2027TY vs 2026F	% change
HTGS	9,915	12,977	10,025	6,940	(2,975)	-30%	(6,037)	-47%	(3,085)	-31%
PCB	470	445	422	398	(72)	-15%	(47)	-11%	(24)	-6%
Total	**10,385**	**13,422**	**10,446**	**7,338**	**(3,047)**	**-29%**	**(6,084)**	**-45%**	**(3,108)**	**-30%**
Annual change ($)		***3,037***	***(2,976)***	***(3,108)***						
Annual change %		***29%***	***-22%***	***-30%***						

As shown above, the annual fluctuations in ARO balances included in average rate base are driven primarily by the Holyrood TGS component, which represents over 90% of the total balance in each year. As noted in Hydro's response to PUB-NLH-082, Hydro's current planning assumption is that the Holyrood TGS will retire on March 31, 2030. However, retirement remains contingent on the approval, construction, and commissioning of the projects proposed in the 2025 Build Application, which are required to provide replacement capacity. As a result, Hydro has indicated that it is unable to provide an updated retirement date at this time and will reassess its assumptions as part of its next Reliability and Resource Adequacy Study Update in 2027. The order of unit retirement will be based on economics, including overhaul schedules, unit condition, and performance. The exact timing of unit retirements will be based on an assessment of near-term reliability and system reserves as new generation is brought online.[126]

Average net assets excluded from rate base

The following table summarizes a breakdown of average net assets excluded from rate base for 2024A, 2025A, 2026F, and 2027TY.

[126] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-082.

Figure 113 – Average net assets excluded from rate base for 2024A, 2025A, 2026F and 2027TY

($000s)	2024A	2025A	2026F	2027TY
Charlottetown Diesel Plant	206	188	169	150
EV Charging Station Phase 1 and 2	632	567	484	410
Holyrood Air Heaters Units 1, 2, & 3	158	131	103	76
Holyrood Fuel Oil Heat Trace	53	44	35	25
HRD Unit 1	107	89	70	51
Lab City Voltage Conversion	150	144	138	133
Other	479	463	440	421
Sunnyside Breaker, B1L17, Overhaul	314	314	314	314
Sunnyside Transformer T8	3,715	3,612	3,509	3,406
TL226,TL239,TL259 Widen Row	311	618	-	-
Unit #1 CR Line Failure 2021	528	437	345	253
WAV Transformer T5 - Perform Upgrades	1,057	1,024	990	959
Total	**7,713**	**7,631**	**6,598**	**6,199**

The current status and relevant Board Orders pertaining to average net assets excluded from rate base in 2026F and 2027TY are unchanged from those relevant in the 2027 Capital Budget Application. The table below provides a summary of the relevant Board Orders.

Figure 114 – Board orders relevant to assets excluded from rate base

Asset name	Current status / Board Order
Charlottetown Diesel Plant	Order No. P.U. 27 (2014) allows for $600K which was approximately 60% of original cost. In 2016 asset 350859 was disposed and there was a partial disposal of asset 350860. The disposal created a larger proportion allowable than the original amount, therefore the remaining amount was allocated based on a 60/40 split.
Phase 1 - EV Charging Network	Order No. P.U. 7 (2020) Capital expenditure for the construction and installation of an electric vehicle fast charging network.
Phase 2 - EV Charging Network	Order No. P.U. 30 (2021) Capital expenditure for the construction and installation of an electric vehicle fast charging network.
Holyrood Air Heaters Units 1, 2, & 3	Order No. P.U. 25 (2018) Restore design performance of air heaters to increase generating capacity of units 1, 2, & 3 at Holyrood Generating Station.
Holyrood Fuel Oil Heat Trace	Order No. P.U. 5 (2012) disallowed costs in rate base unless otherwise ordered by the board.
HRD Unit 1	Order No. P.U. 14 (2013) disallowed costs in rate base until further order from board. Prudence review order P.U. 13 (2016) indicates Hydro accepts full responsibility for cost consequences.

Asset name	Current status / Board Order
Lab City Voltage Conversion	Order No. P.U. 45 (2014) disallowed $199,700K in cost over budget for years 2010-2013 in rate base.
Sunnyside Breaker, B1L17, Overhaul	Order No. P.U. 23 (2014) disallowed costs in rate base pending subsequent order by the board. Prudence review order P.U. 13 (2016) disallows costs.
Sunnyside Transformer T8	Order No. P.U. 29 (2014) disallowed costs in rate base pending subsequent order by the board. Prudence review order P.U. 13 (2016) disallows costs.
TL226,TL239,TL259 Widen Row	Hydro is applying for easement approval that is expected in 2026 or 2027 (Not to be included in rate base until approval is received).
Unit #1 CR Line Failure 2021	The asset (503939) was originally approved in Order No. P.U. 2 (2021) but excluded from rate base based upon a management decision.
WAV Transformer T5 - Perform Upgrades	Order No. P.U. 8 (2016) disallowed costs due to unforeseen items. Variance to be addressed in subsequent order of the Board following further application by Hydro.

Cash working capital allowance

Total working capital allowance

Hydro's working capital allowance reflects the average amount of investor-provided capital required to finance operations from the time costs are incurred to provide service until when payment is received from customers. Hydro now presents their 2027TY working capital allowance separated between that which is related to Muskrat Falls supply costs and related transactions, and other working capital. [127] The table below provides a breakdown of working capital allowance totals for 2024A, 2025A, 2026F and 2027TY, separated into these two categories.

Figure 115 – Cash working capital allowance annual totals[128]

($000s)	2024A	2025A	2026F	2027TY
Working capital allowance - other	1,416	1,229	732	1,562
Working capital allowance - Muskrat Falls related	-	-	-	115,124
Total working capital allowance	**1,416**	**1,229**	**732**	**116,686**
Working capital allowance - other (% of total)	100%	100%	100%	1%
Working capital allowance - Muskrat Falls related (% of total)	0%	0%	0%	99%

[127] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 5.12.

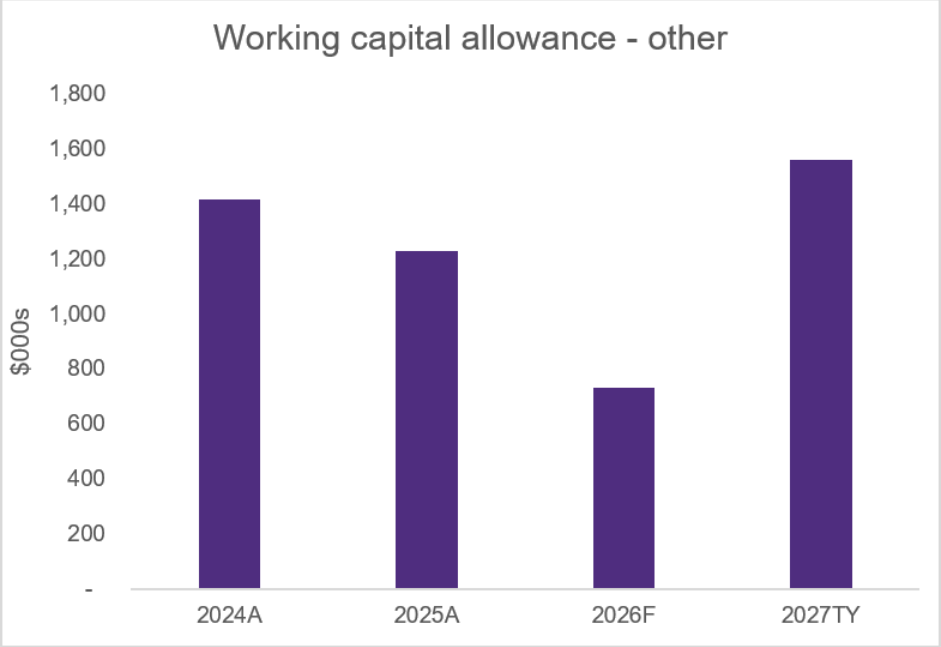
[128] Newfoundland and Labrador Hydro 2026 General Rate Application Supplemental Material, July 17, 2026 – Schedule D-II – Page 4.

As demonstrated in the table above, the introduction of power purchases from Muskrat Falls under the PPA and the TFA in the 2027TY has a significant impact on Hydro's working capital allowance. The Muskrat Falls related portion of approximately $115.1 million accounts for 99% of the total working capital allowance. Under the Muskrat Falls PPA and TFA, Hydro must pay for power purchases on the first day of the month to which the service relates, meaning payment is made in advance of delivery and consumption. Given that these power purchase payments represent a new and significant cash outflow not previously incurred, an ongoing working capital requirement has been created to bridge the timing difference between supplier payments and customers collections or receipt of rate mitigation funding.[129]

Cash working capital allowance - other

The following chart and table detail the trends for cash working capital allowance – other, including 2024A, 2025A, 2026F and 2027TY.

Figure 116 – Working capital allowance – other annual totals[130]



[129] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 5.13.

[130] Newfoundland and Labrador Hydro 2026 General Rate Application Supplemental Material, July 17, 2026 – Schedule D-II – Page 4.

Figure 117 – Working capital allowance – other annual totals

($000s)	2024A	2025A	2026F	2027TY	2027TY vs 2024A	% change	2027TY vs 2025A	% change	2027TY vs 2026F	% change
Working capital allowance - other	1,416	1,229	732	1,562	146	10%	333	27%	830	113%
Annual change ($)		***(187)***	***(497)***	***830***						
Annual change %		***-13%***	***-40%***	***113%***						

Based on the above, we noted that working capital allowance – other in 2027TY is expected to be 113%, higher than 2026F. An explanation for this variance can be found in the calculation breakdown below.

Figure 118 – Calculations for working capital allowance – other, rounded[131]

(000s)	2024A	2025A	2026F	2027TY
Working capital factor:				
Revenue lag days	36.1	36.3	36.3	38.3
Less: Expense lag days	26.9	28.1	28.0	29.5
Net lag days	**9.3**	**8.2**	**8.4**	**8.8**
Working capital factor % (Net lag/365	**2.6%**	**2.3%**	**2.3%**	**2.4%**
Working capital allowance:				
O&M	$ 145,000	$ 150,800	$ 152,900	$ 156,400
Power purchases	59,000	60,800	65,900	65,900
Regulated O&M and power purchases	**204,000**	**211,600**	**218,800**	**222,300**
Working capital factor %	2.6%	2.3%	2.3%	2.4%
Working capital allowance	**5,200**	**4,800**	**5,000**	**5,400**
HST adjustment	3,800	3,500	4,300	3,800
Total working capital allowance	**$ 1,400**	**$ 1,200**	**$ 700**	**$ 1,600**

As shown in the table above, the increase in working capital allowance- other in 2027TY relative to 2026F is primarily driven by a higher working capital factor, higher O&M costs, and a lower HST adjustment.

Cash working capital allowance – Muskrat Falls

The Muskrat Falls-related working capital allowance is forecast at $115.1 million in the 2027 Test Year. Given that 2027 represents the first year in which a Muskrat Falls-related working capital allowance is included, there are no historical balances for comparison.

The table below provides a breakdown of the calculation for the Muskrat Falls related portion of working capital allowance.

[131] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-098.

Figure 119 – Calculation for 2027TY working capital allowance – Muskrat Falls related, rounded[132]

(000s)	2027TY
Working capital factor:	
Revenue lag days	44.5
Less: Expense lag days	(7.8)
Net lag days	**52.2**
Working capital factor % (Net lag/365 days)	**14.3%**
Working capital allowance:	
Total cash operating expenses	806,000
Working capital factor %	14.3%
Working capital allowance	115,300
HST adjustment	(200)
Total working capital allowance	**$ 115,100**

The table above shows that there was a credit of 7.8 days included in the calculation. Hydro explained that this was driven by their requirement to pre-pay for Muskrat Falls power purchase costs on the first day of the month, prior to receiving the power. Whereas, in 'Working Capital Allowance – other,' the expense lag days are in a positive position because the expenses are primarily paid subsequent to the expenses being incurred. Hydro also stated that monetized energy is included in the revenue lag calculation, and it is assumed that payment for the monetized deferred energy is received at the start of the following year upon receipt of the Annual Energy Report from Muskrat Falls.[133]

The $806 million of operating expenses included in the calculation consists of $780 million in Muskrat Falls supply costs, $25 million in Muskrat Falls export costs, and $1 million in Churchill Falls power purchases.[134]

Fuel inventory

The following chart and table detail the trends for fuel inventory including 2024A, 2025A, 2026F and 2027TY.

[132] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 5.12. Table 5-8.

[133] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-098.

[134] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – CA-NLH-083.

Figure 120 – Fuel inventory annual totals[135]

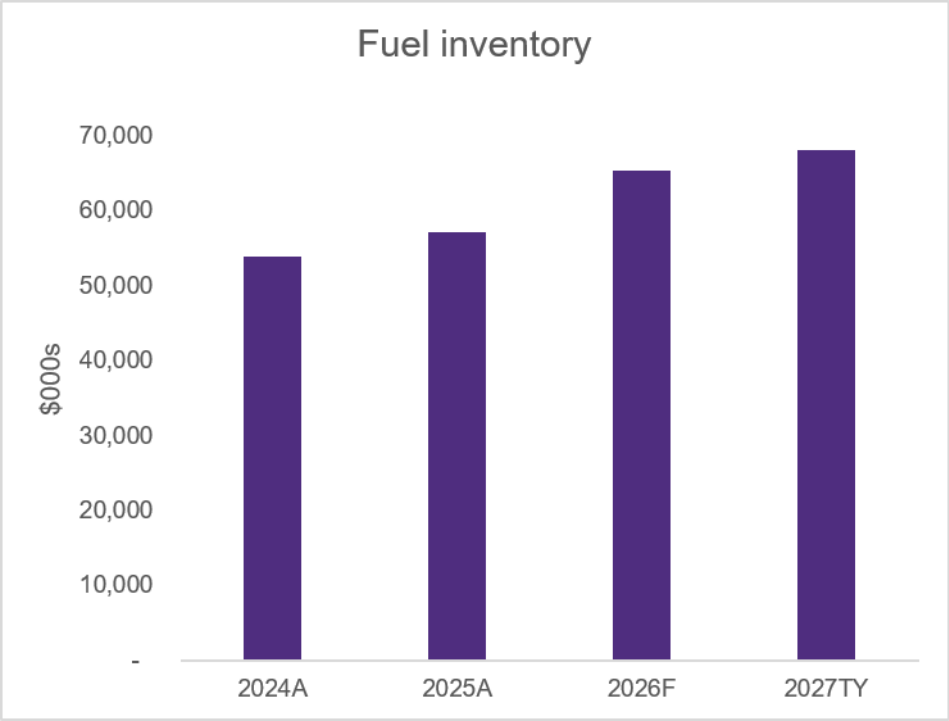


Figure 121 – Fuel inventory annual totals[136]

($000s)	2024A	2025A	2026F	2027TY	2027TY vs 2024A	% change	2027TY vs 2025A	% change	2027TY vs 2026F	% change
Fuel inventory	53,950	57,161	65,404	68,029	14,079	26%	10,868	19%	2,625	4%
Annual change ($)		*3,211*	*8,243*	*2,625*						
Annual change %		*6%*	*14%*	*4%*						

Based on the table above we identified that fuel inventory in 2027TY is expected to increase by 26% and 19% compared to 2024A and 2025A respectively. Fuel inventory is comprised of a 13-month average of No. 6 fuel, diesel, and CT fuel inventories.[137] Hydro explained that current geopolitical events have increased short-term fuel price forecasts, resulting in higher actual and forecast fuel prices in 2026 than previously projected. Uncertainty remains regarding the

[135] Newfoundland and Labrador Hydro 2026 General Rate Application Supplemental Material, July 17, 2026 – Schedule D-II – Page 4.

[136] Newfoundland and Labrador Hydro 2026 General Rate Application Supplemental Material, July 17, 2026 – Schedule D-II – Page 4.

[137] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 5.11.

duration and long-term impacts of these events.[138] Fuel components are discussed further in **Section 6 - Fuels**.

Deferred charges

The following chart and table detail the trends for deferred charges including 2024A, 2025A, 2026F and 2027TY.

Figure 122 – Deferred charges annual totals[139]



Figure 123 – Deferred charges annual totals[140]

($000s)	2024A	2025A	2026F	2027TY	2027TY vs 2024A	% change	2027TY vs 2025A	% change	2027TY vs 2026F	% change
Deferred charges	55,215	57,569	93,310	115,603	60,388	109%	58,034	101%	22,293	24%
Annual change ($)		*2,354*	*35,741*	*22,293*						
Annual change %		*4%*	*62%*	*24%*						

[138] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-034.

[139] Newfoundland and Labrador Hydro 2026 General Rate Application Supplemental Material, July 17, 2026 – Schedule D-II – Page 4.

[140] Newfoundland and Labrador Hydro 2026 General Rate Application Supplemental Material, July 17, 2026 – Schedule D-II – Page 4.

Based on the table above we noted that 2027TY is expected to increase by 109%, 101%, and 24% compared to 2024A, 2025A, and 2026F respectively. The primary reasoning for this increase and the deferred charges proposals for the 2026 GRA are further discussed in **Section 11 - Regulatory accounting and deferrals** in this report.

Conclusion

We reviewed Hydro's proposed 2027 Test Year average rate base, including the key components contributing to the increase from prior years. The expected increase is primarily attributable to continued investment in property, plant and equipment, the introduction of the Muskrat Falls-related working capital allowance, and higher deferred charges.

We also reviewed Hydro's explanations for differences between forecast and actual balances and are satisfied with Hydro's explanations.

Our review did not identify any issues with the calculation or presentation of the average rate base for purposes of the 2027 Test Year revenue requirement. However, we recommend that the Board obtain from Hydro updated 2025 actual results, capital expenditure forecasts for 2026F and 2027TY, and the fuel inventory forecast, together with the resulting impact on revenue requirement and average rate base. We note that these amounts should be updated in the compliance filing.

11. Regulatory accounting and deferrals

Scope

- Conduct a review of any proposed disposition and amortization of balances in existing regulatory deferral accounts and assess their compliance with Board Orders and relevant applications, specifically including the following:
  a) Business Systems Transformation Program Deferral
  b) Allowance for Funds Used During Construction
  c) Frequency Converter Depreciation Deferral
  d) Phase Two Hearing Costs Deferral
  e) Reliability and Resource Adequacy Study Review Deferral
  f) Muskrat Falls PPA Sustaining Capital Deferral
  g) Electrification Cost Deferral Account Amortization
  h) Return on Equity Rate Change Deferral Account
  i) GRA Hearing Cost Deferral Account
  j) Holyrood TGS Accelerated Depreciation Deferral
- Conduct a review of the proposed regulatory deferral accounts and assess their compliance with Board Orders and relevant applications.

Procedures

Our review of deferrals included the following specific procedures:

- Agreed all carry-forward data and deferral balances to supporting documentation, including audited financial statements and/or internal accounting records where applicable.
- Reviewed amortization for reasonableness considering the nature of the deferred charge being amortized.
- Assess whether the proposed deferral accounts, forecasts, balances, and recovery methodologies are internally consistent with assumptions, calculations, and proposals presented elsewhere in the 2026 GRA and supporting evidence, including key inputs such as the average rate base, revenue requirement, and cost allocation methodologies.
- Reviewed existing and proposed deferrals and assessed all deferred charges and proposed deferral accounts for compliance with the relevant Board Orders and underlying applications (where applicable). Specifically, evaluating whether the existing

and proposed deferral accounts are consistent with the definitions, purposes, eligibility criteria, and/or recovery mechanisms established in the original applications, Board Orders, and any subsequent regulatory approvals governing the accounts.

- Assess the reasonableness and appropriateness of Hydro's proposed treatment of deferral accounts and determine whether the proposals align with Good Utility Practice and regulatory precedent.

Analysis

This report section focuses on the deferral accounts specified in our above noted procedures. Please refer to **Appendix B** of our report for a summary of Hydro's response to CA-NLH-195 which includes a comprehensive summary of the regulatory impact of each deferred charges account for the 2027 Test Year. For each account, this response summarizes the applicable Board Orders, its inclusion in rate base, recovery mechanisms, disposition approval status, amortization periods, amortization classifications, and financing rates.

Regulatory deferral accounts are a common feature of utility regulation and serve as a mechanism to track costs, revenues, gains, or losses that are proposed to be recovered from or returned to customers in future periods. From a Good Utility Practice perspective, consideration is typically given to whether the amounts being deferred are clearly defined, transparently measured, and recoverable or refundable through an approved regulatory mechanism. Additional considerations often include the impact on customer rates, intergenerational equity, administrative practicality, and the extent to which the proposed treatment supports regulatory predictability and rate stability. Where deferred balances are amortized over multiple years, the amortization period is typically selected to balance timely recovery with customer affordability while reflecting the period over which benefits are expected to be received.

The following table shows the continuity of deferred charges from the 2024 Actual closing balances through to the 2027 Test Year opening balances.

1 ***Figure 124 – Deferred charges continuity*** [141]

($000s)	2024A closing (2025A opening)	2025F closing (2026F opening)[2]	2026F closing (2027TY opening)[2]
Existing deferred charges			
Foreign Exchange Losses	36,668	34,511	32,354
Foreign Exchange on Fuel	1,053	(1,214)	(1,214)
Conservation Demand Management	7,743	7,109	6,520
Conservation Demand Management - Labrador Interconnected	48	308	525
GRA Hearing Costs	-	-	-
Phase Two Hearing Costs	1,364	1,705	1,705
Asset Disposal	235	216	197
Isolated Supply	6,725	4,045	(193)
Deferred Power Purchases	(68)	(32)	-
Revenue deficiency	76	-	-
Business Systems Transformation Program	10,727	12,854	14,491
Reliability and Resource Adequacy	2,964	4,163	4,413
Hydraulic Resource Optimization	(5,842)	(183)	(183)
Frequency Converter	(1,160)	(1,389)	(1,618)
Power Purchase Expense Recognition	726,503	1,140,676	1,428,718
Muskrat Falls Export Revenue Recognition	73,765	46,025	35,040
Muskrat Falls Power Purchase Agreement Sustaining Capital	15,954	23,791	43,620
Holyrood Thermal Generating Station Accelerated Depreciation	(14,125)	(14,125)	(11,443)
Return on Equity	-	463	491
Electrification Cost	704	802	900
General Expenses Capitalized	-	6,088	12,251
Allowance for Funds Used During Construction	-	-	2,117
Cloud Cost	-	2,300	1,978
Total existing deferred charges	863,334	1,268,113	1,570,669
Proposed deferred charges			
Revenue Deficiency - Island Utility	-	-	-
Revenue Deficiency - Island Industrial	-	-	-
Revenue Deficiency - Labrador Industrial	-	-	-
Revenue Deficiency - Labrador Interconnected Rural	-	-	-
Total proposed deferred charges	-	-	-
Total deferred charges	**863,334**	**1,268,113**	**1,570,669**
Less: deferred charges excluded from rate base			
Phase Two Hearing Costs	(1,364)	-	-
Business Systems Transformation Program	(4,040)	-	-
Muskrat Falls Power Purchase Agreement Sustaining Capital	(15,954)	-	-

[141] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – CA-NLH-193.

($000s)	2024A closing (2025A opening)	2025F closing (2026F opening)[2]	2026F closing (2027TY opening)[2]
Reliability and Resource Adequacy	(2,964)	-	-
Holyrood Thermal Generating Station Accelerated Depreciation	14,125	-	-
Electrification Cost Deferral	(704)	(802)	(900)
Power Purchase Expense Recognition	(726,503)	(1,140,676)	(1,428,718)
Muskrat Falls Export Revenue Recognition	(73,765)	(46,025)	(35,040)
Total deferred charges excluded from rate base	(811,169)	(1,187,503)	(1,464,658)
Total deferred charges for rate base	**52,165[1]**	**80,610**	**106,011**
Current year opening[1]	58,265	63,895[1]	80,610
Average deferred charges for rate base	**55,215**	**72,252[3]**	**93,311**

Note 1: Our continuity and internal consistency procedures identified that the 2025 forecast opening deferral account balance was based on the 2024 forecast closing balances reported in response to CA-NLH-193, rather than 2024 actual closing balances. The 2025 opening forecast includes balances in existing Board-approved deferral accounts that have not yet been approved for inclusion in rate base and excludes Hydro's financial reporting allowances. Hydro's financial reporting allowances are provisions against deferred costs to be approved by the Board for recovery. The financial reporting allowances were reversed, and therefore the full costs are included in forecast deferred charges. Hydro's financial reporting allowances are:

- *Phase Two Hearing Costs - $341,000;*
- *Business Systems Transformation Program - $527,000; and,*
- *Reliability and Resource Adequacy - $741,000.*

Note 2: In response to PUB-NLH-071, Hydro explained that the 2027 Test Year rate base and deferred charge balances were not subsequently updated for 2025 Actual activity. Hydro noted that the primary difference between the reported 2025 Actual deferred charge balance of approximately $58 million and the 2025 Forecast balance of approximately $72 million relates to proposed deferrals for inclusion in rate base in the current GRA. According to Hydro, had the proposed rate base treatment been reflected in the 2025 Actual balance, the resulting balance would have been approximately $72 million. Accordingly, Hydro stated that the use of forecast balances rather than actual balances does not result in a material difference to the proposed 2027 Test Year, and Schedule D-V remains representative of the proposed rate base.[142]

Note 3: The average deferred charges for rate base for forecast 2025 in Schedule D-II Page 4 of 7 is $72,262,000, a difference of $10,000.

A comparison of the 2025 Forecast and 2025 Actual deferred charges balances has been summarized in the table on the following page.

[142] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-071.

1 ***Figure 125 – 2025F vs. 2025A deferred charges[143]***

($000s)	2025F closing	2025A closing	Variance
Existing deferred charges			
Foreign Exchange Losses	34,511	34,511	-
Foreign Exchange on Fuel	(1,214)	(572)	642
Conservation Demand Management	7,109	8,404	1,295
Conservation Demand Management - Labrador Interconnected	308	49	(259)
GRA Hearing Costs	-	-	-
Phase Two Hearing Costs	1,705	1,364	(341)
Asset Disposal	216	216	-
Isolated Supply	4,045	6,339	2,294
Deferred Power Purchases	(32)	(32)	-
Revenue deficiency	-	76	76
Business Systems Transformation Program	12,854	12,232	(622)
Reliability and Resource Adequacy	4,163	3,327	(836)
Hydraulic Resource Optimization	(183)	(183)	-
Frequency Converter	(1,389)	(1,389)	-
Power Purchase Expense Recognition	1,140,676	1,148,233	7,557
Muskrat Falls Export Revenue Recognition	46,025	48,785	2,760
Muskrat Falls Power Purchase Agreement Sustaining Capital	23,791	22,250	(1,541)
Holyrood Thermal Generating Station Accelerated Depreciation	(14,125)	(14,125)	-
Return on Equity	463	463	-
Electrification Cost	802	902	100
General Expenses Capitalized	6,088	6,286	198
Allowance for Funds Used During Construction	-	-	-
Cloud Cost	2,300	2,118	(182)
Total existing deferred charges	1,268,113	1,279,254	11,141
Proposed deferred charges			
Revenue Deficiency - Island Utility	-	-	-
Revenue Deficiency - Island Industrial	-	-	-
Revenue Deficiency - Labrador Industrial	-	-	-
Revenue Deficiency - Labrador Interconnected Rural	-	-	-
Total proposed deferred charges	-	-	-
Total deferred charges	**1,268,113**	**1,279,254**	**11,141**
Less: deferred charges excluded from rate base			
Phase Two Hearing Costs	-	(1,364)	(1,364)
Business Systems Transformation Program	-	(5,545)	(5,545)
Muskrat Falls Power Purchase Agreement Sustaining Capital	-	(22,250)	(22,250)
Reliability and Resource Adequacy	-	(3,327)	(3,327)
Holyrood Thermal Generating Station Accelerated Depreciation	-	14,125	14,125
Electrification Cost Deferral	(802)	(902)	(100)

[143] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – CA-N LH-193.

($000s)	2025F closing	2025A closing	Variance
Power Purchase Expense Recognition	(1,140,676)	(1,148,233)	(7,557)
Muskrat Falls Export Revenue Recognition	(46,025)	(48,785)	(2,760)
Total deferred charges excluded from rate base	(1,187,503)	(1,216,281)	(28,778)
Total deferred charges for rate base	**80,610**	**62,973**	**(17,637)**
Current year opening	63,895	52,165	(11,730)
Average deferred charges for rate base	**72,252**	**57,569**	**(14,683)**

In forecasting deferred charges, Hydro included existing Board-approved deferral account balances in rate base for periods before 2027TY, although their inclusion had not yet been approved. This assumption primarily explains the differences shown in the table between 2025A and 2025F deferred charges in rate base and the current-year opening balance. If the Board approves inclusion effective January 1, 2027, the test-year deferred charges balance filed in this GRA would remain unchanged. We consider this assumption appropriate because the balances existed before that date. The compliance application will address any differences between the GRA and subsequent Board decisions on deferred charges.

The following table shows the transactions in the deferred charges account for the 2027 Test Year.

1 ***Figure 126 – 2027TY deferred charges summary[144]***

($000s)	Opening balance Jan 01/27 (A)	Additions (B)	Dispositions (C)	Amortization (D)	Balance Dec 31/27 (F = A+B+C+E)	Amortization period[4]
Existing deferred charges						
Foreign Exchange Losses	32,354	-	-	(2,157)	30,197	40 years
Foreign Exchange on Fuel	(1,214)	-	-	-	(1,214)	N/A
Conservation Demand Management	6,520	(506)	(48)	-	5,966	10 years
Conservation Demand Management - Labrador Interconnected	525	176	48	(75)	674	10 years
GRA Hearing Costs[1]	-	1,500	-	(375)	1,125	4 years
Phase Two Hearing Costs[1]	1,705	-	-	(213)	1,492	8 years
Asset Disposal	197	-	-	(19)	178	22 years
Isolated Supply	(193)	-	193	-	-	N/A
Business Systems Transformation Program[1,3]	14,491	-	-	(1,878)	12,613	8 years
Reliability and Resource Adequacy[1]	4,413	650	-	(633)	4,430	8 years
Hydraulic Resource Optimization	(183)	-	-	-	(183)	N/A
Frequency Converter[1]	(1,618)	-	1,618	-	-	N/A
Power Purchase Expense Recognition	1,428,718	284,716	-	-	1,713,434	N/A
Muskrat Falls Export Revenue Recognition	35,040	5,920	-	-	40,960	N/A
Muskrat Falls Power Purchase Agreement Sustaining Capital[1,2]	43,620	9,030	-	(721)	51,929	Composite depreciation rate
Holyrood Thermal Generating Station Accelerated Depreciation	(11,443)	-	-	-	(11,443)	To be determined
Return on Equity[1]	491	-	(491)	-	-	N/A
Electrification Cost[1]	900	99	-	(54)	945	10 years
General Expenses Capitalized	12,251	6,578	-	(389)	18,440	Composite depreciation rate
Allowance for Funds Used During Construction[5]	2,117	4,153	-	(50)	6,220	Composite depreciation rate

[144] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Schedule D-V – Page 1.

($000s)	Opening balance Jan 01/27 (A)	Additions (B)	Dispositions (C)	Amortization (D)	Balance Dec 31/27 (F = A+B+C+E)	Amortization period[4]
Cloud Cost	1,978	-	-	(322)	1,656	Based on depreciation study
Total existing deferred charges	1,570,669	312,316	1,320	(6,886)	1,877,419	
Proposed deferred charges						
Revenue Deficiency - Island Utility[1]	-	60,083	(60,083)	-	-	N/A
Revenue Deficiency - Island Industrial[1]	-	2,674	(2,674)	-	-	N/A
Revenue Deficiency - Labrador Industrial[1]	-	1,753	(15)	(248)	1,490	N/A
Revenue Deficiency - Labrador Interconnected Rural[1]	-	1,679	(53)	-	1,626	To be determined
Total proposed deferred charges	-	66,189	(62,825)	(248)	3,116	
Total deferred charges	**1,570,669**	**378,505**	**(61,505)**	**(7,134)**	**1,880,535**	
Less: deferred charges excluded from rate base						
Electrification Cost Deferral	(900)	-	-	-	(945)	
Power Purchase Expense Recognition	(1,428,718)	-	-	-	(1,713,434)	
Muskrat Falls Export Revenue Recognition	(35,040)	-	-	-	(40,960)	
Total deferred charges excluded from rate base	(1,464,658)	-	-	-	(1,755,339)	
Total deferred charges for rate base	**106,011**	**-**	**-**	**-**	**125,196**	
Current year opening	80,610	-	-	-	106,010	
Average deferred charges for rate base	**93,311**	**-**	**-**	**-**	**115,603**	

Note 1: Disposition and/or amortization has been proposed within the GRA.

Note 2: Disposition has been proposed within the GRA. The $9.03 million addition includes $8.60 million of the Muskrat Falls and Labrador Transmission Asset sustaining capital costs shown in Table 4-1 and 4-3 of the 2026 GRA as well as $0.4 million of interest during construction.

Note 3: Order No. P.U. 27(2022) approved the recovery of $6.7 million. Hydro requested an additional $7.8 million of costs in its recovery of costs associated with information systems assets application, which was approved in Order No. P.U. 18 (2026).

Note 4: Amortization periods as listed in CA-NLH-195 Attachment 1.

Note 5: Subsequent to the filing of the Application, the Board issued Order No. P.U. 30 (2026), which denied Hydro's application for an AFUDC deferral account.

GRA hearing costs

Proposal

Hydro is proposing to defer and amortize GRA hearing costs of $1.5 million over four years commencing in 2027.[145]

Background

Per their response to the Consumer Advocate's ("CA") request for information CA-NLH-205, Hydro further explained that the $1.5 million forecast external regulatory costs associated with the GRA hearing included in the 2027 Test Year is an estimate of costs to be incurred by the Board which are then recovered from Hydro. Specifically, types of costs include those associated with any external experts, consultants or legal counsel hired by the Board to facilitate its review of Hydro's 2026 GRA. These costs also include costs charged to the Board by the Consumer Advocate, which are subsequently recovered from Hydro. The estimate is primarily based on historical costs for which there is no detailed breakdown available. In the 2017 GRA, Hydro was approved to defer $1.2 million given the complexity of the hearing, and Hydro was ordered to pay $1.8 million of Board and intervenor costs. Hydro determined that $1.5 million was an appropriate forecast given the complexity of the 2026 GRA, the historical costs that Hydro was ordered to pay, and recognition of inflation since the 2017 GRA.[146]

Amortization

Hydro is proposing to amortize the GRA hearing costs over a four-year period commencing in 2027. Hydro noted that this timeframe is consistent with the typical occurrence of GRAs, which are generally filed by regulated utilities every three to five years. For purposes of the 2027 Test Year, Hydro has included $0.4 million of amortization of the deferral account balance in its revenue requirement which we have recalculated as part of our review.

The Board has allowed recovery of application costs over a three-year period, with the most recent approval for Hydro outlined in Order No. P.U. 16(2019). The Board approved the amortization of Newfoundland Power's 2025/2026 GRA hearing costs over a 30-month period in Order No. P.U. 3 (2025). Hydro is proposing its next rate setting year to be 2031, which will reflect any changes to the Government of Newfoundland and Labrador's rate mitigation plan, currently in place up to and including 2030.[147]

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[145] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 5.21.

[146] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – CA-NLH-205.

[147] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 5.21.

Phase two hearing costs

Proposal

Hydro is proposing the amortization and recovery of the Phase Two Hearing Costs Deferral Account balance as at January 1, 2027 of $1.7 million, over a period of eight years commencing in 2027 at $0.2 million per year. [148]

Background

Order No. P.U. 13(2016) directed Hydro to create a separate account for inclusion of professional services-consulting fees, salary transfers and overtime costs for 2014, 2015 and subsequent years relating to Phase Two of the Board's investigation into the January 2014 outages, with disposition subject to a future application. In December 2019, the Board concluded the Phase Two proceeding.

Amortization

Hydro is proposing the amortization and recovery of the deferral account balance as at January 1, 2027 of $1.7 million over a period of eight years, commencing in 2027. Hydro notes that this timeframe is consistent with the typical occurrence of general rate applications, which are generally filed by regulated utilities every three to five years, such that the proposed amortization period spans approximately two regulatory review cycles.[149]

Per NP-NLH-080, Hydro explains that the costs associated with the Phase Two proceeding provide benefits that extend beyond a single regulatory review cycle through their ongoing influence on system planning, reliability assessments, and regulatory oversight. As a result, Hydro believes that the proposed eight-year amortization period appropriately balances timely cost recovery, intergenerational equity, and rate stability while aligning the recovery of costs with the period over which customers receive the associated benefits.[150]

For purposes of the 2027 Test Year, Hydro has included $0.2 million of amortization of the deferral account balance in its revenue requirement which we have recalculated as part of our review.

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[148] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 8.

[149] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 5.18.

[150] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – NP-NLH-080.

Business systems transformation

Proposal

Hydro is proposing the amortization and recovery of the Business Systems Transformation Program Deferral Account balance of $14.5 million, over a period of eight years, commencing January 1, 2027, at a rate of $1.8 million per year.[151]

Background

Order No. P.U. 27(2022) approved the recovery of actual and forecast deferred costs of $6.7 million up to the end of 2022 associated with the Business Systems Transformation Program through customer rates, to be implemented in Hydro's next GRA. [152] In Order No. P.U. 18 (2026) the Board approved an additional $7.8 million of forecast Business Systems Transformation Program costs deferred up to December 31, 2026, with disposition to be proposed in its GRA.

According to Hydro, these costs relate to the implementation of the Enterprise Resource Planning ("ERP") system, including the foundational ERP upgrade (i.e., the ERP "like-for-like" implementation), Utiligy360, additional functionalities, Information Management Program costs, and TM1 costs. In accordance with Hydro's IS Assets Application, no further additions to the deferral account are forecast subsequent to December 31, 2026.

Amortization

Hydro is proposing the amortization and recovery of the forecast January 1, 2027 deferral account balance of $14.5 million beginning in 2027 over an eight-year period. Per Hydro, the proposed amortization period of eight years reflects a balanced approach that moderates near-term rate impacts to customers while ensuring timely recovery of prudently incurred costs. This timeframe is consistent with the typical occurrence of GRAs, which are generally filed by regulated utilities every three to five years, such that the proposed amortization period spans approximately two regulatory review cycles.[153]

As further detailed in Hydro's response to NP-NLH-080, Hydro explained that they considered alternative amortization periods in determining the appropriate recovery period for the deferral account balance, including the useful life of the underlying assets. The assets underlying the deferral account were placed into service in 2018. As a result, the average remaining useful life of the original cost of these assets as of the 2027 Test Year is approximately two years, based on the Unit of Property used in Hydro's latest depreciation study. Hydro determined that an eight-year amortization period appropriately balances timely recovery of prudently incurred costs and intergenerational equity with the objective of moderating the annual customer revenue

[151] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 8.

[152] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 5.16.

[153] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 5.16.

requirement impact associated with the recovery. In making this determination, Hydro considered that the Business System Transformation Program established core business systems and capabilities that continue to support Hydro's operations and will continue to provide customer benefits through ongoing maintenance, upgrades, and enhancement activities. Accordingly, Hydro believes that an eight-year amortization period provides a reasonable balance between cost recovery, intergenerational equity, and rate stability. [154]

For purposes of the 2027 Test Year, Hydro has included $1.8 million of amortization of the deferral account balance in its revenue requirement which we have recalculated as part of our review.

Reliability and resource adequacy

Proposal

Hydro is proposing the amortization and recovery of the Reliability and Resource Adequacy Study Review forecast December 31, 2027 deferral account balance, prior to amortization, of $5.1 million over a period of eight years commencing in 2027 at $0.6 million per year.[155]

Background

Order No. P.U. 29(2019) approved the deferral account for the Board's external consulting costs and approved intervenor costs associated with the Reliability and Resource Adequacy Study Review. The order stated that Hydro shall apply for recovery of costs charged to the deferral account through its next GRA. In 2021, the account definition was expanded in Board Order No. P.U. 8(2021) to include Hydro's external costs for professional services and contractors related to the "Assessment to Determine the Potential Long-Term Viability of the Holyrood Thermal Generating Station."[156]

Amortization

Hydro is proposing the amortization and recovery of the forecast December 31, 2027 deferral account balance over a period of eight years, commencing in 2027. Per Hydro, the proposed amortization period reflects a balanced approach that moderates near-term rate impacts to customers while ensuring timely recovery of prudently incurred costs. This timeframe is consistent with the typical occurrence of GRAs, which are generally filed by regulated utilities

[154] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – NP-NLH-080.

[155] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 8.

[156] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 5.19.

every three to five years, such that the proposed amortization period spans approximately two regulatory review cycles. [157]

Per NP-NLH-080, Hydro explains in further detail that benefits associated with the Reliability and Resource Adequacy Review extend beyond a single regulatory review cycle through their ongoing influence on system planning, reliability assessments, and regulatory oversight. Therefore, Hydro believes an eight-year amortization period appropriately balances timely cost recovery, intergenerational equity, and rate stability while aligning the recovery of costs with the period over which customers receive the associated benefits. Hydro further noted that, while the proposed recovery period spans approximately two regulatory review cycles, the amortization period was selected based on the long-term nature of the benefits arising from the review rather than the timing of future GRAs. [158]

The forecast balance in the account for December 31, 2027, prior to amortization, is $5.1 million. For purposes of the 2027 Test Year, Hydro has included $0.6 million of amortization of the deferral account balance in its revenue requirement which we have recalculated as part of our review. [159]

Frequency converter

Proposal

Hydro is proposing the disposition of the Frequency Converter Depreciation Deferral Account balance of $1.6 million due to customers through disposition or transfer to the Supply Cost Variance Deferral Account for Island Interconnected System customers, and through transfer to the respective Revenue Deficiency deferral accounts for Labrador customers. [160]

Background

Board Order No. P.U. 35 (2020) approved the deferral of the cumulative revenue requirement impact associated with the loss on the sale of the frequency converter to Corner Brook Pulp and Paper Limited. The Board directed that the disposition of the cumulative revenue requirement impact included in the Frequency Converter Depreciation Deferral Account balance be addressed as part of Hydro's next GRA. The allocation of the balance to customers is based on

[157] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 5.19.

[158] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – NP-NLH-080.

[159] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 5.19.

[160] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 8.

the overall 2019 Test Year revenue requirement impact of the loss on disposal of the frequency converter. [161]

As noted in its application for the deferral account, Hydro calculated the impact for each customer by re-computing its 2019 Test Year Cost of Service Study, reflecting the removal of the loss on disposal of the frequency converter from the rates. This calculation and the resulting allocation are presented in the below table. The deferral account balance is currently a regulatory liability due to customers of $1.6 million. Hydro is proposing that the deferral account balance of $1.6 million be disposed of through disposition or transfer to the SCVDA for Island Interconnected System customers and through transfer to the respective Revenue Deficiency Deferral accounts for Labrador customers.[162]

Figure 127 – Frequency converter depreciation deferral account disposition[163]

Customer group	Change in revenue requirement ($)	Allocation (%)	Total amount owing ($)	Proposed disposition
Newfoundland Power	$ 197,898	86.4%	$ (1,397,756)	*Transfer to Supply Cost Variance Deferral Account - "Utility Customer Balance."*
Rural Isolated	190	0.1%	(1,342)	*Transfer to Supply Cost Variance Deferral Account - "Utility Customer Balance."*
Island Industrial	13,439	5.9%	(94,920)	*Transfer to Supply Cost Variance Deferral Account - "Industrial Customer Balance."*
Rural Labrador	13,863	6.1%	(97,915)	*Transfer to Rural Labrador Revenue Deficiency Account.*
Labrador Industrial	3,738	1.6%	(26,402)	*Transfer to Labrador Industrial Revenue Deficiency Account.*
Total	**$ 229,128**	**100%**	**$ (1,618,335)**	

Muskrat Falls power purchase agreement sustaining capital

Proposal

Hydro is proposing the amortization of the Muskrat Falls PPA Sustaining Capital Deferral Account based on the composite depreciation rate of the Muskrat Falls Hydroelectric

[161] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 5.17.

[162] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 5.17.

[163] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 5.18.

Generating Facility and Labrador Transmission Assets of 1.42% and 1.71%, respectively, as recommended by Concentric and in accordance with the revised deferral account definition. [164]

Background

The Muskrat Falls PPA requires Hydro to fund the sustaining capital costs of the Muskrat Falls Hydroelectric Generating Facility and the Labrador Transmission Assets at the time the expenditures are incurred. Muskrat Falls and Labrador Transmission Assets' sustaining capital costs are included as part of “Other Costs”. Recognizing the sustaining capital costs consistent with the timing of these payments under the Muskrat Falls PPA as up-front costs would result in the recovery of the costs of long-life assets in the period incurred, which is inconsistent with inter-generational equity and could contribute to rate volatility. It is also inconsistent with how Hydro recovers sustaining capital invested in its regulated assets. For these reasons, in July 2021, Hydro proposed to establish a regulatory deferral account to deal with the required payments for sustaining capital, the Muskrat Falls PPA Sustaining Capital Deferral Account. [165]

Order No. P.U. 33(2021) approved this Muskrat Falls PPA Sustaining Capital Deferral Account effective on the date upon which Hydro was required to begin payments under the Muskrat Falls PPA. The Board noted in its Order that a decision on how the payments would be recovered from customers was to be determined in Hydro’s next GRA.

Amortization

Hydro is proposing that the amortization of the deferral be based on the composite depreciation rate of the Muskrat Falls Hydroelectric Generating Facility and Labrador Transmission Assets of 1.42% and 1.71%, respectively, as recommended by Concentric Advisors, Inc. [166] Per their response to CA-NLH-199, Hydro states that amortizing the deferred balance using composite depreciation rates aligns cost recovery with the timing of benefits received from the underlying assets and mitigates rate volatility that could otherwise result from recovering sustaining capital contributions as they are incurred. Hydro explained that these composite depreciation rates were calculated using the Service Lives Estimates provided by Concentric Advisors, Inc. and weighing the service life based on the total historic costs in each of the Muskrat Falls Corporation and Labrador Transmission Corporation units of property. [167]

Overall, Hydro is proposing to amortize the deferral over the period for which the assets are expected to provide service, rather than full cost recovery in the period in which the charges are

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[164] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 8.

[165] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 4.9.

[166] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 5.19 - 5.20.

[167] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – CA-NLH-199.

paid for by Hydro, in an effort to prevent material rate volatility and provide matching of cost recovery and the provision of service by the assets.[168]

The forecasted deferral account balance as at January 1, 2027 is $43.6 million.

Per their response to CA-NLH-200 Attachment 1, Hydro provided a breakdown of the opening balance as follows:

Figure 128 – Muskrat Falls PPA Sustaining Capital Deferral Account – January 1, 2027 balance[169]

($ millions)	2022A	2023A	2024A	2025F	2026F	Total
Muskrat Falls sustaining capital additions	-	0.40	0.30	4.10	3.70	8.50
Labrador Transmission Asset sustaining capital additions	0.50	3.90	10.50	3.60	15.30	33.80
Total additions	0.50	4.30	10.80	7.70	19.00	42.30
Interest during construction	-	0.10	0.10	0.20	0.90	1.30
Total Muskrat Falls PPA Sustaining Capital Deferral Account	**0.50**	**4.40**	**10.90**	**7.90**	**19.90**	**43.60**

The 2027TY account activity includes additions totalling $9.03 million, which consist of the following:

Figure 129 – Muskrat Falls PPA Sustaining Capital Deferral Account additions[170]

($ millions)	2027
Muskrat Falls sustaining capital additions	5.40
Labrador Transmission Asset sustaining capital additions	3.22
Total additions – *Agrees to Figure 75*	8.62
Interest during construction	0.41
Total Muskrat Falls PPA Sustaining Capital Deferral Account	**9.03**

For purposes of the 2027 Test Year, Hydro has included $0.7 million of amortization of the deferral account balance in its revenue requirement.

[168] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 4.9.

[169] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – CA-NLH-200-1.

[170] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – CA-NLH-200-2.

Proposed definition

An updated account definition with the proposed disposition was included as part of the GRA as follows:

> *"This account shall be charged with the costs incurred by Hydro in accordance with the terms of the Muskrat Falls PPA associated with Hydro's funding of sustaining capital for the Muskrat Falls Hydroelectric Generating Facility and Labrador Transmission Assets. The amount charged to this account will include the amount of payments for the sustaining capital and the interest during construction incurred by Hydro, as calculated in accordance with Hydro's Capitalization Guidelines.*
>
> *This account will be charged at the conclusion of each calendar month based upon the following: Monthly Transfer = Hydro's Actual Monthly Sustaining Capital Payments for the Muskrat Falls Plant and LTA + Hydro's Allowance for Funds Used During Construction.*
>
> *The balance in this account will be amortized based on the composite depreciation rate of the Muskrat Falls Plant and LTA approved by the Board, commencing the year after expenditure"*[171]

We note that the proposed definition includes references to Interest During Construction and Hydro's Allowance for Funds Used During Construction. Subsequent to the filing of the Application, the Board issued Order No. P.U. 30 (2026), which denied Hydro's application for an AFUDC deferral account. Accordingly, revisions to the proposed account definition will be required in Hydro's Compliance Application to reflect the Board's decision.

Return on equity change deferral account

Proposal

Hydro is proposing that the forecast Return on Equity Rate Change Deferral Account balance as of January 1, 2027 related to Labrador Industrial customers in the amount of $11,288, and Hydro Rural Labrador Interconnected customers in the amount of $44,572, be transferred to the respective Revenue Deficiency deferral accounts to be recovered in customer rates. [172]

Background

As noted in Order No. P.U. 49(2016), Hydro's target return on equity percentage must be adjusted as required to equal the return on equity approved for Newfoundland Power. Newfoundland Power's return on equity of 8.60% effective January 1, 2025, was approved in Order No. P.U. 3(2025). Hydro's updated return on equity, also effective January 1, 2025, was approved in Order No. P.U. 10(2025). Further, Order No. P.U. 10(2025) approved Hydro's

[171] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume III – Exhibit 10.

[172] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 8.

proposed modifications to the Return on Equity Rate Change Deferral Account definition to allow for balances attributable to Newfoundland Power and Island Industrial customers to be transferred to the Supply Cost Variance Deferral Account on March 31 of each year. The Board also accepted Hydro's proposal that any balances related to Labrador Industrial and Hydro Rural Labrador Interconnected customers would be proposed for disposition at Hydro's next GRA.[173]

Per Hydro, the opening balance of $491,000 on January 1, 2027, includes $11,288 related to the Labrador Industrial customers and $44,572 related to Hydro Rural Labrador Interconnected customers. The remaining balance relates to Newfoundland Power and Island Industrial customers, as previously approved for transfer to the SCVDA in Order No. P.U. 10 (2025).

Hydro proposes to fully dispose of the $491,000 Return on Equity Rate Change Deferral Account balance during 2027. Consistent with Order No. P.U. 10(2025), balances attributable to Newfoundland Power and Island Industrial customers are transferred to the SCVDA, while balances attributable to Labrador Industrial and Hydro Rural Labrador Interconnected customers are proposed for disposition through the corresponding revenue deficiency deferral accounts included in the 2026 GRA. Accordingly, the account balance is reduced to nil by December 31, 2027.

Electrification cost deferral

Proposal

Hydro has proposed the recovery of the Electrification Cost Deferral Account balance forecast at December 31, 2026, in accordance with the proposed definition consistent with the recovery of the CDM Cost Deferral Account. Amortization of $0.1 million to be recovered in the 2027 Test Year through a rate rider which we recalculated as part of our review. [174]

Background

Order No. P.U. 33(2023) approved Hydro's Electrification Cost Deferral Account definition, with an effective date of January 1, 2023, and stated that disposition of the balance in this account will be subject to a further Order of the Board. The forecast balance in the account for December 31, 2026, prior to amortization, is $1.0 million. Hydro is proposing that the deferral account balance be recovered through a rate rider over ten years, at $0.1 million per year, to be consistent with the method and period of recovery of the CDM Cost Deferral balance for the Island Interconnected System. The rate rider is proposed to commence on July 1, 2027, and therefore includes six months of recovery, or $54,000.[175]

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[173] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 5.20-5.21.

[174] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 8.

[175] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 5.20.

Per their response to PUB-NLH-096, Hydro explains that they will track the Labrador Interconnected System portion as a separate component going forward to ensure proper allocation of costs. The tracking will be similar to conservation and demand management, which separates the Labrador Interconnected System portion.[176]

Proposed definition

An updated account definition, with the updated recovery period is included in Volume III Exhibit 10 of the GRA. While the proposed definition maintains the existing provisions regarding eligible electrification program costs, studies, electrical charging infrastructure costs, and related revenues and grants, additional detailed cost recovery methodology has been added. Specifically, the proposed definition establishes a ten-year amortization period for amounts recorded in the account as well as Electrification Cost Recovery Adjustments to recover deferred costs from customers. The proposed definition also details methodology for allocating recoverable amounts among Newfoundland Power, Island Industrial, Rural Island Interconnected, and Labrador Interconnected customers, and establishes formula-based rate calculations for recovery. [177]

Allowance for funds used during construction

Background

On April 14, 2026, Hydro filed its application for approval of a deferral account to capture the difference between using interest during construction to calculate capitalized financing costs, as required by International Financial Reporting Standards ("IFRS"), and Hydro's proposed methodology of allowance for funds used during construction. Therefore, this account was separately filed for approval and is not being proposed within the 2026 GRA itself.

The deferral account is proposed to be effective January 1, 2026 and included in rate base. In accordance with the proposed definition, the account will be amortized based on the composite depreciation rate in the latest depreciation study approved by the Board. Additions to the account are amortized beginning in the year following. The forecast balance in the account as of January 1, 2027 is $2.1 million and, for purposes of the 2027 Test Year, Hydro has included $0.1 million of amortization of the deferral account balance in its revenue requirement.[178]

Board decision

Per Order No. P.U. 30(2026) on September 25, 2026, the Board did not approve the application. The impact on 2027TY will need to be addressed by Hydro in its compliance application.

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[176] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-096.

[177] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume III – Exhibit 10.

[178] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 5.16-5.17.

Holyrood TGS accelerated depreciation deferral

Background

In 2021, Hydro projected a material increase in depreciation expense for the Holyrood TGS assets due to the anticipated end-of-generation date and the use of accelerated depreciation. This increase was not reflected in customer rates at that time. Accordingly, Hydro filed an application seeking approval of the Holyrood TGS Accelerated Depreciation Deferral Account to defer the difference between the actual accelerated depreciation expense incurred in 2022 and the depreciation expense for Holyrood TGS assets included in approved test year costs.[179]

In Order No. P.U. 33(2021), the Board approved the establishment of a Holyrood TGS Accelerated Depreciation Deferral Account to defer differences in excess of $2.5 million between the test year depreciation expense and the actual accelerated depreciation for the Holyrood TGS assets in 2022 and 2023, assuming these years were not test years.

On November 30, 2023, Hydro filed an application for approval to extend the operation of the Holyrood TGS Accelerated Depreciation Deferral Account to continue to defer the difference between the actual accelerated depreciation expense for the Holyrood TGS and the approved test year costs until the end of-steam generation. In Order No. P.U. 1 (2024), the Board approved Hydro's application and directed Hydro to file a report on the activity and operation of the Holyrood TGS Accelerated Depreciation Deferral Account with its next GRA. Hydro has attached the memo as Exhibit 11 (see below summary). Hydro is not proposing the disposition of the balance in the account at this time for the reasons outlined in the following summary.[180]

Overview of Hydro's operational update

Hydro notes that operating years 2022 through 2024 reflected positive variances within the deferral account, with the deadband accruing to Hydro's benefit. However, beginning in 2026, the account is forecasted to shift to negative variances with the deadband accruing in favour of customers, which are expected to largely offset the positive variances recognized by Hydro to date.

It is forecasted that the account balance will be a regulatory liability of $11.4 million owing to customers as of December 31, 2027. Hydro has not proposed disposition of the account in the 2026 GRA, noting that there is currently no proposed or approved method or timing for the disposition and that the ultimate balance will depend on factors including the actual retirement date of Holyrood TGS and whether the final balance represents an amount owing to, or

[179] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume III – Exhibit 11.

[180] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 5.21.

recoverable from, customers. Hydro states that disposition of the account will be addressed in a future filing.[181]

Revenue deficiency accounts

Proposal

As a result of the proposed July 1, 2027 implementation of rates, Hydro identified revenue deficiencies associated with the first six months of the 2027 Test Year. Hydro proposes to address these deficiencies using a combination of transfers to deferral accounts and amortization mechanisms, depending on the customer class affected. The proposed treatment is summarized below:

Figure 130 – Revenue deficiencies – proposed treatment[182]

Customer Group	Revenue Deficiency	Proposed Treatment	Recovery Mechanism
Newfoundland Power (Island Utility)	$60.1 million	Transferred to the Supply Cost Variance Deferral Account	Deferred for future disposition through the account
Island Industrial customers	$2.7 million	Transferred to the Supply Cost Variance Deferral Account	Deferred for future disposition through the account
Government Customers (Isolated Diesel Systems)	$165,000[1]	Amortized over 42 months	Recovered through increased base rates
Rural Labrador Interconnected Customers	Monthly deficiency/sufficiency (amount varies)	Recorded in the proposed Revenue Deficiency Deferral Account for Labrador Interconnected Rural customers	Recover a 2.25% rate increase in 2027; defer the resulting revenue deficiency for future recovery from, or refund to, customers.

[181] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume III – Exhibit 11.

[182] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 12.

Customer Group	Revenue Deficiency	Proposed Treatment	Recovery Mechanism
Labrador Industrial customers	$1.8 million	Amortized over 42 months	Recovered through a GRA Recovery Rider allocated among customers as proposed

Note 1: Please note that there is a discrepancy of approximately $14,000 between the amortization of the Revenue Deficiency of $165,000 resulting from the increase in rates to Government customers on Isolated Diesel systems as proposed on page 12 of Volume I of the 2026 GRA and the deficiency amount of $151,000 for the government rural group as displayed in the below figure, as per Exhibit 19 of Volume III of the 2026 GRA.

Exhibit 19 found in Volume III of the GRA provides a summary of the 2027 revenue deficiency as follows:

Figure 131 – Revenue deficiencies – proposed treatment[183]

(000s)						Recovery/Transfers			
Customer group	Jan to June 2027 Revenue (A)	July to Dec 2027 Revenue (B)	Total 2027 Test Year Revenue (C = A+B)	2027 Test Year Costs (D)	Deficiency / (Excess) (E=D-C)[1]	Supply Cost Variance Deferral Account (F)	Frequency Converter	Return on Equity Deferral Account (H)	Balance
IIC Demand and Energy	19,298	20,478	39,776	42,402	2,626	-	-	-	-
IIC Specifically Assigned - Deferral	159	207	366	413	47	-	-	-	-
IIC Total	**19,457**	**20,685**	**40,142**	**42,815**	**2,673**	**(2,673)**	**-**	**-**	**-**
Labrador Interconnected	11,896	8,806	20,702	22,231	1,529	-	(98)	45	1,476
Government Rural	1,470	1,203	2,673	2,824	151	-	-	-	151
Labrador Interconnected Rural Total	**13,366**	**10,009**	**23,375**	**25,055**	**1,680**	**-**	**(98)**	**45**	**1,627**
Newfoundland Power	**318,633**	**258,096**	**576,729**	**636,812**	**60,083**	**(60,083)**	**-**	**-**	**-**
Labrador Industrial	**2,834**	**4,585**	**7,419**	**9,172**	**1,753**	**-**	**(26)**	**11**	**1,738**
Total	**354,290**	**293,375**	**647,665**	**713,854**	**66,189**	**(62,756)**	**(124)**	**56**	**3,365**

Note 1: Revenue deficiencies presented in column E of the above figure are consistent with the deferral additions presented in Figure 130.

The largest revenue deficiencies relate to Newfoundland Power ($60.1 million) and Island Industrial customers ($2.7 million), which Hydro proposes to transfer to the SCVDA.

Hydro states that, from January 1 to June 30, 2027, a portion of the revenue that would otherwise be recovered through increased Island Interconnected System base rates will

[183] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume III – Exhibit 19.

continue to be collected through the Project Cost Recovery Rider and recorded in the Supply Cost Variance Deferral Account.

As a result, revenues collected during this period will accumulate in the deferral account until base rates are implemented on July 1, 2027. Hydro notes that the revenue associated with the deficiency will already have been collected through the Project Cost Recovery Rider increase implemented on July 1, 2026 and deferred in the SCVDA. Accordingly, Hydro proposes to address the timing-related revenue deficiency through a transfer to the SCVDA, aligning revenue recognition with the timing of base rate implementation and maintaining consistency with the account's intended purpose. Following approval of the 2027 Test Year, transactions will be recorded in the proposed Long-Term SCVDA, with Project Cost Recovery Rider revenues collected from January to June 2027 proposed to be used to recover the revenue deficiency.[184]

As further detailed in their response to NP-NLH-113, Hydro explains that they anticipate that the Long-Term SCVDA will be approved effective January 1, 2027 and, once approved, any applicable balances recorded in the existing SCVDA from January 1, 2027 onward would be transferred to the new account. Hydro also explained that the proposed Rural Labrador Interconnected – Revenue Deficiency Deferral Account, effective January 1, 2027 (shown in the summary table above), will record the revenue deficiency/sufficiency each month until the balance in the account is settled. Accordingly, the proposed treatment of the 2027 Revenue Deficiency forms part of the approvals being sought in Hydro's 2026 GRA.[185]

Overall, Hydro's proposal seeks to address timing-related revenue deficiencies arising from the delayed implementation of 2027 Test Year rates while maintaining consistency with existing regulatory accounting mechanisms and ensuring recovery of the approved revenue requirement. We recommend that revenue deficiencies are recalculated as part of the compliance application process following this GRA.

Rural Labrador Interconnected – Revenue deficiency deferral account

Hydro has proposed the creation of a Rural Labrador Interconnected – Revenue Deficiency Deferral Account to record the revenue deficiency/sufficiency each month until the balance in the account is settled. [186] Hydro's proposed definition, as outlined in Exhibit 10 of the GRA, is as follows:

> *This account shall be charged on a monthly basis for the difference between (i) 2027 Test Year revenue calculated at Test Year Rates, and (ii) revenue at Current Rates, with both amounts determined using the 2027 Test Year load. For the purpose of this calculation, "2027 Test Year Rates" shall mean the rates designed to recover Newfoundland and Labrador Hydro's full revenue requirement associated with Rural*

[184] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 6.11-6.12.

[185] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – NP-NLH-113.

[186] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 9.

Labrador Interconnected customers. "Current Rates" shall mean the rates in effect for such customers at the time of calculation, reflecting the phased implementation of the 2027 Test Year rate increase at an average annual rate of 2.25%, in accordance with Hydro's 2026 General Rate Application. The monthly adjustment, commencing with the implementation of the 2027 Test Year rates, will be determined as follows:

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

Where:

A = Monthly revenue adjustment;

B = 2027 Test Year Load, by rate class, for Rural Labrador Interconnected customers;

C = 2027 Test Year Rates, by rate class; and

D = Current Rates, by rate class.

The monthly revenue adjustment will continue until such time as the balance in the account is reduced to zero or final disposition of the balance is approved by the Board of Commissioners of Public Utilities." [187]

We note that the proposed definition is structured to isolate the impacts of the phased rate implementation by applying both current rates and test year rates to a common test year load. This approach limits the account balance to the revenue impact of the phased-in rate increase, rather than differences arising from actual customer load variations.

Proposed amortization

Consistent with Good Utility Practice, amortization periods for regulatory deferrals generally reflect the nature of the underlying costs, the expected duration of customer benefits, associated asset service lives where applicable, anticipated regulatory review cycles, intergenerational equity considerations, and the objective of balancing timely cost recovery with rate stability.

Hydro has proposed a range of recovery approaches reflecting the differing characteristics of the underlying deferral accounts. In the following figure we summarize each deferral that has an amortization period and provide our observations:

[187] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume III – Exhibit 10.

1 ***Figure 132 – Proposed amortization***

Amortization period	Deferral accounts(s)	Recovery	Hydro's rationale	Observations
4 years	GRA hearing costs	Base rates	Recovery aligned with expected period until next rate setting year (2031) and benefit period associated with the current GRA.[188]	Although shorter recovery periods have been approved in prior proceedings, the proposed period aligns with Hydro's anticipated regulatory cycle and the period over which customers are expected to benefit from the outcomes of the GRA. Additionally, the amortization period should be considered in light of Hydro's filing history. Although Hydro states that GRAs are generally filed every three to five years, its most recent GRA used a 2019 Test Year, resulting in an approximate seven-year interval between rate proceedings. However, because Hydro expects its next rate setting year to be 2031, the proposed four-year amortization period aligns with the interval between the current and next anticipated test years.
8 years	Phase II Hearing costs	Base rates	Benefits extend beyond a single regulatory review cycle through ongoing impacts on planning, reliability assessments and regulatory oversight. Recovery over two regulatory cycles supports intergenerational equity and rate stability[189].	The proposed period exceeds the typical three-to-five-year GRA cycle; however, Hydro's rationale is based on the longer-term nature of the expected benefits rather than the timing of future rate application.

[188] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 5.21.

[189] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – NP-NLH-080.

Amortization period	Deferral accounts(s)	Recovery	Hydro's rationale	Observations
8 years	Business systems transformation	Base rates	Long-term operational benefits, ongoing system functionality and moderation of customer rate impacts. [190]	Hydro considered both the remaining lives of the underlying assets and the continuing benefits provided by the systems. The proposed recovery period reflects a balance between cost recovery and rate stability.
8 years	Reliability and resource adequacy review	Base rates	Benefits expected to continue through future planning, reliability assessments and regulatory oversight activities. [191]	The proposed recovery period reflects Hydro's position that the benefits extend beyond a single regulatory cycle and supports recovery over the period customers are expected to receive those benefits.
10 years	Electrification cost deferral account	Rider	Recovery consistent with the treatment of the CDM Cost Deferral Account. [192]	Recovery occurs over a defined period through a dedicated rider mechanism rather than through base rates, consistent with the method and period of recovery as the CDM Cost Deferral Account.
Composite depreciation rates	Muskrat Falls PPA Sustaining Capital	Base rates	Recovery aligned with service lives of the related assets and customer benefit period. [193]	Aligning recovery with asset service lives is consistent with the principle of matching costs with the period over which benefits are received.

[190] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 5.16.

[191] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information - NP-NLH-080.

[192] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 5.20.

[193] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – CA-NLH-199.

Amortization period	Deferral accounts(s)	Recovery	Hydro's rationale	Observations
Composite depreciation rates	AFUDC deferral account	Base rates	Recovery based on approved depreciation rates associated with underlying assets. [194]	Subsequent to the filing of the Application, the Board issued Order No. P.U. 30 (2026), which denied Hydro's application for an AFUDC deferral account.
Deferred for future determination	Holyrood TGS accelerated depreciation deferral account	Continued deferral	Hydro is not proposing disposition of the balance at this time.	Review focused on the continuation of the account rather than the amortization proposal.

Conclusion

We completed our procedures relating to Hydro's proposed disposition, amortization, and recovery of existing regulatory deferral accounts, as well as the proposed deferral and revenue deficiency recovery mechanisms associated with the 2027 Test Year. Based on our review, we note the following:

- Hydro's proposals provide a defined framework for the recovery and disposition of deferred balances accumulated through prior Board-approved regulatory mechanisms. The proposed approaches generally support Hydro's stated objectives of balancing timely cost recovery with customer rate stability.

- The balances proposed for recovery through this proceeding remain subject to Board approval; however, the proposed recovery mechanisms clearly identify the accounts, amounts, and recovery approaches applicable to each balance.

- The proposed amortization periods generally reflect Hydro's objective of matching recovery with the period over which customers are expected to receive benefits while moderating near-term rate impacts. We observed that the recovery periods are applied consistently with Hydro's stated rationale across the principal deferral accounts.

- The proposed treatment of the Frequency Converter Depreciation Deferral Account facilitates the return of a customer-related regulatory liability through existing regulatory mechanisms, avoiding the need for a separate recovery process.

- The proposed revenue deficiency recovery mechanisms, including the Rural Labrador Interconnected Revenue Deficiency Deferral Account, provide a means of separately tracking the impacts of phased rate implementation and preserving recovery of approved

[194] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 5.16-5.17.

revenue requirements during the mitigation period. We recommend that revenue deficiencies are recalculated as part of the compliance application process following this GRA.

12. Return on rate base

Scope

Review Hydro's 2027 Test Year return on rate base of 4.88% in a range of 4.68% to 5.08% and capital structure with a weighted average cost of capital of 4.88%.

Procedures

Our review of return on rate base included the following specific procedures:

- Agreed all carry-forward data to supporting documentation, including audited financial statements and internal accounting records where applicable.
- Agreed forecast data to supporting documentation to ensure it is internally consistent with pre-filed evidence.
- Agreed component data to supporting documentation.
- Recalculated return on rate base for 2026 Forecast and 2027 Test Year.
- Recalculated average common equity for 2026 Forecast and 2027 Test Year.
- Recalculated return on common equity for 2026 Forecast and 2027 Test Year.
- Recalculated embedded cost of debt for 2026 Forecast and 2027 Test Year.
- Recalculated the weighted average cost of capital for 2026 Forecast and 2027 Test Year.
- Recalculated the interest coverage ratio for 2026 Forecast and 2027 Test Year.
- Recalculated the capital structure for 2026 Forecast and 2027 Test Year and compared to Hydro's target of 75:25
- Reviewed the above for compliance with relevant Board Orders.

Analysis

Return on rate base

The Company's calculation of the rate of return on rate base for the 2027 Test Year is included in Volume I of the 2026 GRA at 4.88%.

Hydro confirmed that the return on rate base in the 2026 GRA, as presented in the table below, is the sum of the forecast return components reflected in the table, specifically, net interest and

net income. Hydro also confirmed that the rate of return on rate base is calculated by dividing return on rate base by average rate base.[195]

The return on rate base is forecast to decrease by $8,241,000 in 2026 Forecast compared to 2024 Actual and increase by $28,641,000 in 2027 Test Year compared to 2024 Actual.

Details with respect to Hydro's calculation of the rate of return on rate base is as follows:

Figure 133 – Rate of return on rate base[196]

($000s)	2019TY	2024A	2025A	2026F	2027TY
Average rate base	2,317,269	2,379,043	2,486,782	2,604,025	2,802,095
Regulated returns					
Net interest	95,214	87,189	89,931	86,313	81,294
Net income[1]	30,563	20,898	7,218	13,532	55,432
Return on rate base	**125,777**	**108,087**	**97,149**	**99,845**	**136,726**
Rate of return on rate base (%)	**5.43%**	**4.54%**	**3.91%**	**3.83%**	**4.88%**
Lower end of range set by the Board / Proposed	5.23%	5.23%	5.25%	5.25%	4.68%
Upper end of range set by the Board / Proposed	5.63%	5.63%	5.65%	5.65%	5.08%

Note 1: The regulated net income component of the return on rate base excludes all of Hydro's non-regulated earnings and expenses.

Per Hydro, the increase in return on rate base of $10.9 million from the $125.8 million in 2019 Test Year to the $136.7 million in 2027 Test Year is primarily the result of an increase of $26.3 million due to the increase in average rate base. This is calculated as follows:

> *2027 TY Average Rate Base ($2,802,095,000) - 2019 TY Average Rate Base ($2,317,269,000) x 2019 Test Year WACC (5.43%) = $26.3 million.*

This difference is partially offset by a reduction of $15.4 million due to a decrease in the weighted average cost of capital, calculated as follows:[197]

> *5.43% - 4.88% x 2027 TY Average Rate Base ($2,802,095) = $15.4 million.*

In Order No. P.U. 30(2019), the Board approved an allowed rate of return on rate base of 5.43% with a range of return on 40 basis points (± 20 basis points), which is applicable to the 2019 Test Year and 2024 Actual. In Order No. P.U. 10(2025), the Board approved an allowed rate of

[195] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – NP-NLH-079.

[196] Newfoundland and Labrador Hydro 2026 General Rate Application Supplemental Material, July 17, 2026 – Schedule D-II – Page 4.

[197] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 5.16.

return on rate base of 5.45% with a range of return of 40 basis points (± 20 basis points) effective January 1, 2025, which is applicable to 2025 Actual and 2026 Forecast.

Hydro is now proposing a rate of return on rate base of 4.88% in a range of 4.68% to 5.08% for the 2027 Test Year.[198]

The rate of return on rate base calculated in the above summary for the 2027 Test Year of 4.88% agrees to the Company's weighted average cost of capital, as discussed further in this section of the report.

Return on equity

The Company's calculation of rate of return on equity for the 2027 Test Year is included in Volume I of the 2026 GRA at 8.60%.

To provide a basis of comparison for average common equity and return on average common equity, we have prepared the following summary for 2019 Test Year, 2024 and 2025 Actual, 2026 Forecast, and 2027 Test Year. The following table presents the calculated return on book equity:

Figure 134 – Average equity and return on equity[199]

($000s)	2019TY	2024A	2025A	2026F	2027TY
Shareholder's equity, beginning of year	446,541	644,875	672,596	686,661	714,883
Shareholder's equity, end of year	483,976	672,596	686,661	714,883	779,108
Average equity	465,259	658,736	679,629	700,772	746,996
Regulated earnings	27,475	20,494	6,804	13,130	55,035
Cost of service exclusions	9,390	7,228	7,262	8,655	9,189
Regulated earnings	36,865	27,722	14,066	21,785	64,224
Return on equity	**7.92%**	**4.21%**	**2.07%**	**3.11%**	**8.60%**

The return on equity percentages presented above represent the return earned on regulated shareholder equity, calculated as regulated earnings divided by average regulated equity. These percentages should not be interpreted as Hydro's approved return on equity for ratemaking purposes. Hydro's approved return on equity is 8.60%, as established in Order No. P.U. 10(2025), and is reflected in Hydro's revenue requirement and return on rate base calculations. The "regulated" shareholder's equity of Hydro excludes the portion of equity attributable to non-regulated operations.

Differences between the earned return on equity presented in this analysis and the approved return on equity reflect the distinction between the return a utility is allowed the opportunity to

[198] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 5.29.

[199] Newfoundland and Labrador Hydro 2026 General Rate Application Supplemental Material, July 17, 2026 – Schedule D-II – Page 3-4.

earn through rates and the return it is forecast to achieve in a given year. Utilities may under-earn or over-earn their approved return on equity due to factors such as existing rate levels, cost recovery timing differences, forecast variances, regulatory deferrals, and other ratemaking adjustments. Hydro's forecast earned return on equity of approximately 3.11% in 2026 indicates a period of under-earning relative to the approved 8.60% return, while the 2027 Test Year forecast aligns more closely with the approved return on equity as the proposed revenue requirement and rates are designed to provide an opportunity to recover the full allowed return.

The rate of return on equity calculated in the above summary for the 2027 Test Year is equal to the proposed regulated return on equity of 8.60% which was approved, effective January 1, 2025, per Order No. P.U. 10(2025). This is a component of the Company's weighted average cost of capital, discussed below. Hydro's allowed return is calculated as its rate base multiplied by its weighted average cost of capital (or allowed rate of return).

Cost of debt

Hydro's calculation of its embedded cost of debt is included in Schedule D-IV. We have reviewed these calculations as well as agreed the individual components to supporting documentation.

The Company's calculation of cost of debt for the 2027 Test Year is included in Volume I of the 2026 GRA at 4.05%.

Details with respect to Hydro's calculation of cost of debt for 2019 Test Year, 2024 and 2025 Actual, 2026 Forecast, and 2027 Test Year are as follows:

Figure 135 – Cost of debt[200]

($000s)	2019TY	2024A	2025A	2026F	2027TY
Interest on long-term debt	92,475	97,725	98,973	94,425	101,992
Accretion of long-term debt	(170)	1,454	1,521	956	836
Amortization of foreign exchange losses	2,157	2,157	2,157	2,157	2,157
Debt guarantee fee[1]	8,513	8,940	9,008	10,327	10,571
Other interest	4,993	17,565	11,737	3,968	4,785
	107,968	127,841	123,396	111,833	120,341
Less: Interest on sinking fund assets	(11,484)	(15,285)	(15,952)	(8,249)	(7,902)
Less: Interest cost of service exclusions[2]	(6,302)	(6,824)	(6,848)	(8,253)	(8,792)
Net interest	90,182	105,732	100,596	95,331	103,647
Average total debt	1,835,109	2,225,562	2,340,615	2,369,933	2,562,587
Cost of debt	**4.91%**	**4.75%**	**4.30%**	**4.02%**	**4.05%**

Note 1: We noted that Hydro's embedded cost of debt calculation continues to include the debt guarantee fee and the related cost of service exclusions associated with the disallowed portion

[200] Newfoundland and Labrador Hydro 2026 General Rate Application Supplemental Material, July 17, 2026 – Schedule D-IV.

of the fee. No changes in methodology or regulatory treatment were identified from the evidence reviewed.

Note 2: The disallowed portion of the Debt Guarantee Fee reflected in the current filing's "Interest Cost of Service Exclusions" line traces directly to the disallowance ordered in Order No. P.U. 16(2019). The methodology used to calculate the disallowed amount reflects commitments established under Undertaking 139 of Hydro's 2013 Amended General Rate Application. Specifically, the methodology assumes that:

> *1) the Debt Guarantee Fee applicable to long-term debt is set within a range of 35 to 47 basis points, with the resulting savings shared equally (50/50) between customers and Hydro. 41 basis points are used in the calculation as it is the midpoint of that range;*
>
> *2) The Debt Guarantee Fee applicable to short-term debt is based on an equal (50/50) sharing of the savings achieved; and,*
>
> *3) Government of Newfoundland and Labrador on-lending to Hydro is excluded from the calculation.*[201]

According to Hydro, the increase in average debt from the 2019 Test Year to the 2027 Test Year is primarily driven by its capital additions; however, the average cost of debt is forecast to decline from the 2019 Test Year to the 2027 Test Year, causing a decrease in the embedded cost of debt. This reflects lower average coupon rates on more recent debt issuances and the retirement of debt with higher rates.[202]

Weighted average cost of capital

The company's calculation of WACC for the 2027 Test Year is included in Volume I of the 2026 GRA at 4.88%.

Details with respect to Hydro's calculation of WACC is as follows:

[201] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – CA-NLH-103.

[202] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 5.15.

Figure 136 – Weighted average cost of capital[203]

		2019TY	2024A	2025A	2026F	2027TY
Proportion of capital structure:						
Debt	A	76.80%	74.27%	74.65%	74.18%	74.50%
Asset retirement obligation	B	0.61%	0.56%	0.61%	0.68%	0.74%
Employee future benefit	C	3.12%	3.12%	3.05%	3.11%	3.01%
Equity	D	19.48%	22.05%	21.68%	22.03%	21.75%
Total average capital stucture		100%	100%	100%	100%	100%
Embedded cost of debt	E	4.91%	4.75%	4.30%	4.02%	4.05%
Return on equity	F	8.50%	8.50%	8.60%	8.60%	8.60%
Weighted average cost of debt	G = A x E	3.77%	3.53%	3.21%	2.98%	3.02%
Weighted average cost of equity	H = D x F	1.66%	1.87%	1.86%	1.89%	1.87%
Weighted average cost of capital	**I = G + H**	**5.43%**	**5.40%**	**5.07%**	**4.88%**	**4.88%**

Compared to 2024 and 2025 Actual, WACC is forecast to decrease in the 2027 Test Year. This decrease is primarily due to the decrease in embedded cost of debt and the change in capital structure. Per Order No. P.U. 3(2025), the Board recommended a rate of return on common equity of 8.60% for rate setting purposes. Therefore, the target cost of equity of 8.60% has been used in the calculation of the WACC.[204]

Interest Coverage

In response to our request, Hydro submitted a calculation of the regulated interest coverage for 2025 Actual, 2026 Forecast, and 2027 Test Year. Hydro's calculation is presented in the following table. Please note that we have calculated the interest coverage for 2019 Test Year and 2024 Actual using the same calculation as displayed in Hydro's response.

[203] Embedded cost of debt from: Newfoundland and Labrador Hydro 2026 General Rate Application Supplemental Material, July 17, 2026 – Schedule D-IV. All other figures from: Newfoundland and Labrador Hydro 2026 General Rate Application Supplemental Material, July 17, 2026 – Schedule D-II – Page 3.

[204] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 5.1.

Figure 137 – Interest coverage[205]

(000s)	2019TY	2024A	2025A	2026F	2027TY
Net Finance Expense/Interest excluding Accretion of ARO	93,057	85,032	87,774	84,156	79,137
Add: Accretion of Asset Retirement Obligations	364	1,023	1,081	1,093	1,097
Net Finance Expense/Interest	93,421	86,055	88,855	85,249	80,234
Add back: Interest on sinking fund	11,484	15,285	15,951	8,249	7,902
Add back: Interest on rate stabilization plan	(813)	2,224	1,236	292	25
Add back: Interest on SCVDA	-	21,008	12,676	6,048	8,277
Add back: interest on electrification cost deferral	-	-	123	52	52
Add back: LCP sustaining capital IDC	-	183	6	899	411
Add back: Interest capitalized during construction [1]	2,083	1,952	3,472	9,980	22,380
Add: Interest component of EFB benefit cost	3,493	3,676	4,014	4,396	4,579
Interest, adjusted	**109,668**	**130,383**	**126,333**	**115,165**	**123,860**
Net Income, as reported	27,475	20,494	6,804	13,130	55,035
Add: Depreciation, as reported	85,429	90,208	95,137	103,630	116,568
Less: CIAC, as reported	(1,815)	(2,279)	(2,396)	(2,325)	(2,347)
Add: Amortization of FX losses	2,157	2,157	2,157	2,157	2,157
Add: Amortization of EFB Actuarial loss	(33)	996	653	148	102
Net Finance Expense/Interest	93,421	86,055	88,855	85,249	80,234
Add: Interest component of EFB benefit cost	3,493	3,676	4,014	4,396	4,579
EBITDA, adjusted	**210,127**	**201,307**	**195,224**	**206,385**	**256,328**
EBITDA to interest coverage	**1.92**	**1.54**	**1.55**	**1.79**	**2.07**

Note 1: Per Hydro, the Interest during Construction in 2026 Forecast and 2027 Test Year assumes Board approval of Hydro's Allowance for Funds Used During Construction Deferral account. The use of the AFUDC was denied by the Board in 2026 and 2027.

In 2013, Hydro adopted the S&P's earnings before interest, taxes, depreciation, and amortization ("EBITDA") interest coverage methodology. Under S&P's methodology, interest coverage is calculated as EBITDA divided by interest expense. EBITDA is intended to measure operating earnings before interest, taxes, depreciation and amortization and is one of the key credit metrics used by S&P in its assessment of financial risk. S&P's adjusted interest expense includes reported interest expense together with certain adjustments such as capitalized interest, post-retirement benefit interest and ARO interest. [206]

Capital Structure

The Company's calculation of regulated capital structure for the 2027 Test Year is as follows:

[205] Newfoundland and Labrador Hydro 2026 General Rate Application – Supplemental Material, July 17, 2026 – Schedule D-II.

[206] S&P Global Ratings, Corporate Methodology: Ratios and Adjustments, April 1, 2019.

Figure 138 – Regulated capital structure[207]

(000s)	2019TY	%	2024A	%	2025A	%	2026F	%	2027TY	%
Debt	$ 1,892,572	76.7%	$ 2,389,959	75.3%	$ 2,291,271	74.0%	$ 2,386,641	74.0%	$ 2,738,533	75.0%
Employee benefits	76,085	3.1%	94,773	3.0%	96,545	3.1%	$ 101,171	3.1%	105,102	2.9%
Asset retirement obligation	14,443	0.6%	18,141	0.6%	20,172	0.7%	$ 23,397	0.7%	27,299	0.7%
Equity	483,976	19.6%	672,596	21.2%	686,661	22.2%	$ 714,883	22.2%	779,108	21.3%
Total regulated capital structure	**$ 2,467,076**		**$ 3,175,469**		**$ 3,094,649**		**$ 3,226,092**		**$ 3,650,041**	

This is consistent with the Company's calculation of return on equity as equity included in the capital structure shown above excludes Accumulated Other Comprehensive Income.

Prior to 2009, Hydro's debt to equity ratio had been trending towards the 80:20 target ratio with 2008 showing a ratio of 81.4:18.6. In 2009, Nalcor Energy ("Nalcor") provided a $100 million equity injection of contributed capital resulting in a significant reduction in leverage to a ratio of 72.0:28.0. Currently, the Company's target corporate capital structure is comprised of 75% debt and 25% common equity for regulated operations.

In Order No. P.U. 49(2016) the Board ordered that Hydro's common equity component in its capital structure for rate setting purposes is not to exceed 45%. Hydro's capital structure remains at 25% equity and 75% debt for the 2027 Test Year.

The Company's calculation for regulated average capital structure for the 2027 Test Year is as follows:

Figure 139 – Regulated average capital structure[208]

	2019TY	2024A	2025A	2026F	2027TY
Debt	76.80%	74.27%	74.65%	74.18%	74.50%
Employee benefits	3.12%	3.12%	3.05%	3.11%	3.01%
Asset retirement obligation	0.61%	0.56%	0.61%	0.68%	0.74%
Equity	19.48%	22.05%	21.68%	22.03%	21.75%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

Conclusion

We completed our procedures in the review of Hydro's proposed 2027 Test Year calculations of return on rate base, return on equity, embedded cost of debt, weighted average cost of capital, capital structure, and interest coverage ratio to assess mathematical accuracy, consistency with supporting schedules, and compliance with applicable Board Orders.

[207] Newfoundland and Labrador Hydro 2026 General Rate Application Supplemental Material, June 17, 2026 – Schedule D-II – Page 3.

[208] Newfoundland and Labrador Hydro 2026 General Rate Application Supplemental Material, July 17, 2026 – Schedule D-II – Page 3.

Our review did not note any discrepancies in Hydro's calculation of the proposed 2027 Test Year return on rate base of 4.88%, return on equity of 8.60%, embedded cost of debt of 4.05%, weighted average cost of capital of 4.88%, or regulated capital structure of 75% debt and 25% common equity. We also did not note any discrepancies in the calculation of Hydro's interest coverage ratio.

Hydro's proposed return on equity of 8.60% is consistent with Order No. P.U. 10(2025), the regulated capital structure is consistent with Hydro's target capital structure, and overall, remains within the limits established by the Board.

13. Cost allocations (recoveries)

Scope

Review of cost allocations (recoveries) and intercompany charges included in the 2027 Test Year data.

Procedures

Our procedures with respect to cost allocations (recoveries) include the following:

- Reviewed cost allocation (recoveries) including the preparation of a trend analysis for cost recoveries by sub-category for 2024 Actual, 2025 Actual, 2026 Forecast and 2027 Test Year.
- Identified significant cost allocation (recoveries) variances and inquired with Hydro to understand the nature of the variances; and,
- Obtained details of intercompany costing guidelines, structure, and labour charges included in 2027 Test Year.

Analysis

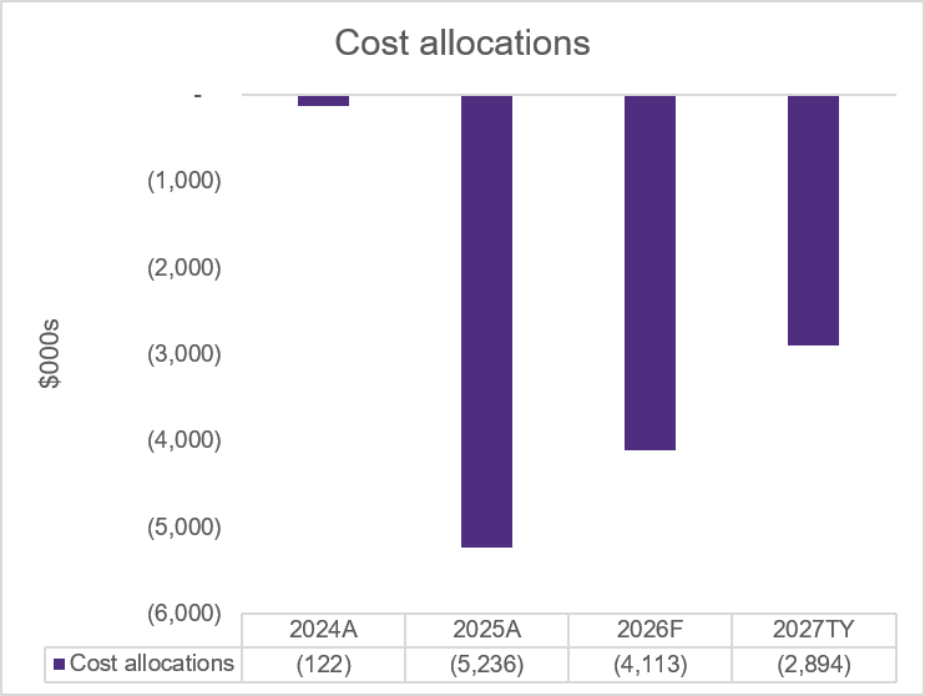
Cost allocations (recoveries)

Cost allocations (recoveries) include costs charged to and recovered from other non-regulated lines of business through administration fees, deferral of costs related to Hydro's CDM program, and productivity allowances. External cost recoveries represent costs that have been presented elsewhere within Hydro's operating costs.[209] The amounts are reported as a reduction to operating costs.

The following chart details the trends for cost allocations, including 2024A, 2025A, 2026F and 2027TY.

[209] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 3.7.

Figure 140 – Cost allocations



The table below details Hydro's cost allocation (recoveries) by category for 2024A, 2025A, 2026F and 2027TY.

Figure 141 – Breakdown of cost allocation (recoveries)

($000s)	2024A	2025A	2026F	2027TY	2027TY vs 2024A ($)	% change	2027TY vs 2025A ($)	% change	2027TY vs 2026F ($)	% change
Net administrative fees	5,216	6,196	6,056	4,705	(511)	-10%	(1,491)	-24%	(1,351)	-22%
Productivity allowance	-	-	(4,000)	(4,000)	(4,000)	0%	(4,000)		-	0%
CDM program deferral	(1,384)	(1,734)	(1,892)	(1,853)	(469)	34%	(119)	7%	39	-2%
External cost recoveries	(1,954)	(2,406)	(297)	(320)	1,634	-84%	2,086	-87%	(23)	8%
Removal and decommissioning recovery	(1,666)	(4,610)	(3,465)	(965)	701	-42%	3,645	-79%	2,500	-72%
Other cost recoveries	(333)	(2,683)	(515)	(461)	(128)	38%	2,222	-83%	54	-10%
Total cost allocation (recoveries)	**(121)**	**(5,237)**	**(4,113)**	**(2,894)**	**(2,773)**	**2292%**	**2,343**	**-45%**	**1,219**	**-30%**
Annual change ($)		***(5,116)***	***1,124***	***1,219***						
Annual change (%)		***4228%***	***-21%***	***-30%***						

As noted in the above table, total cost recoveries are expected to be approximately $2.9 million in 2027TY. This is a reduction in recoveries of approximately $2.3 million (45%) from 2025A. The primary drivers of this decline are lower removal and decommissioning recoveries (decrease of $3.6 million) and reduced other cost recoveries (decrease of $2.2 million). This is partially offset by a decrease in administrative fees ($1.5 million) and the productivity allowance (increase of $4.0 million). Cost allocations (recoveries) by category are discussed in the following subsections.

Net administrative fees

Per Hydro, the 2027 Test Year administrative fees represent cost recoveries or allocations from administration fee business units, where total costs are shared using an appropriate allocator. Costs within these business units are determined in accordance with Hydro's budget process and related assumptions.

In their response to request for information PUB-NLH-026, Hydro provided the following breakdown of net administration fees between regulated administrative fee recovery and non-regulated administration fees from 2024A to 2027TY.

Figure 142 – Net administration fees[210]

($000s)	2019TY	2024A	2025A	2026F	2027TY	2027TY vs 2019TY ($)	% change	2027TY vs 2024A ($)	% change	2027TY vs 2025A ($)	% change	2027TY vs 2026F ($)	% change
Hydro Regulated administration fee recovery	(2,306)	(3,522)	(3,638)	(5,148)	(5,517)	(3,211)	139%	(1,995)	57%	(1,879)	52%	(369)	7%
Non-Regulated administration fees	5,093	8,737	9,834	11,204	10,222	5,129	101%	1,485	17%	388	4%	(982)	-9%
Total Net Administration Fees	**2,787**	**5,215**	**6,196**	**6,056**	**4,705**	**1,918**	**69%**	**(510)**	**-10%**	**(1,491)**	**-24%**	**(1,351)**	**-22%**
Annual change ($)			***981***	***(140)***	***(1,351)***								
Annual change (%)			***19%***	***-2%***	***-22%***								

Hydro also provided the following trending explanations:

- **Total net administrative fees are expected to increase by 69% from 2019TY to 2027TY.** Per Hydro, the increase of $1.9 million in 2027 Test Year compared to 2019 Test Year is primarily due to increased costs in information systems to be allocated relating to business needs (e.g., Microsoft M365), higher or new subscriptions and licenses, increased cyber security and escalation on contracts ($1.4 million), and changes in intercompany guidelines including addition of shared services and introduction of the universal allocator ($0.6 million). Hydro also noted that the increase is due to variances to cost pools and allocators that Hydro views as immaterial ($0.1 million). Additionally, Hydro notes that these increases are partially offset by the Board approving the transfer of shared information systems and business systems assets and projects from non-regulated to regulated effective January 1, 2027, in Order No. P.U. 18(2026). In the 2019 Test Year, the Net Administration Fees included charges from non-regulated to regulated relating to the depreciation of the information system assets; whereas, in 2027, the depreciation of those assets is regulated and is being recovered from non-regulated (net impact of $0.2 million).[211]

- **Total net administrative fees are projected to decrease in the 2027TY relative to prior periods, declining from $5.2 million in 2024A to $4.7 million in 2027TY (10%), from 2025 to 2027 TY (24%), and from 2026F to 2027TY (22%).** Per Hydro, the

[210] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-026a.

[211] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-026b.

decrease primarily relates to the Board-approved transfer of shared information systems and business systems assets and projects from Non-Regulated Hydro to Regulated Hydro effective January 1, 2027, per Order No. P.U. 18(2026). As a result, depreciation costs previously included in charges from Non-Regulated Hydro to Regulated Hydro through Net Administrative Fees are instead recorded within Regulated Hydro and recovered from Non-Regulated Hydro beginning in the 2027 Test Year. According to Hydro, this decrease is partially offset by higher allocated information systems costs associated with business requirements, including Microsoft M365, subscriptions and licensing, cybersecurity initiatives, contractual escalation, and changes to shared service allocations. [212]

Hydro's administration fees allocation basis by department are outlined in their 2026 updated Intercompany Transaction Costing Guidelines, as detailed below:

Figure 143 – Administration fee allocation basis by department[213]

Department	Allocation Basis	Home Business Unit (Regulated vs. Non-Regulated
Human Resources ("HR")	FTEs	Non-Regulated
Safety and Health	Hybrid Allocator	Non-Regulated
Environment	Hybrid Allocator	Non-Regulated
Information Systems ("IS")	Average Users	Non-Regulated
Business System Transformation ("BST") Fees	Average Users	Non-Regulated
Hydro Place Office Space and Related Costs	Square Footage	Regulated
Network Services Costs	Average Users	Regulated
Accounts Payable ("AP")	Number of Invoices	Non-Regulated
General Ledger	Average Number of Journal Entries, Accounts Receivable ("AR") Invoices and Cash Receipts	Non-Regulated
Procurement	Number of Purchase Orders	Regulated
Executive	Hybrid Allocator	Non-Regulated
Corporate Secretary	Hybrid Allocator	Non-Regulated
Culture (Internal Communications)	Hybrid Allocator	Non-Regulated
Employee Engagement	FTEs	Non-Regulated

The following table provides a breakdown of net administrative fees included in 2027TY.

[212] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-026b.

[213] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume II – Exhibit 2 – Page 3.

Figure 144 – 2027TY net administrative fees

($000s)	2027TY
Administrative fees recovered from Non-Regulated	(7,395)
Business system transformation amortization of previously deferred costs[1]	1,878
Administrative fees charged to Regulated	10,221
Net administrative fees	**4,704**

Note 1: Hydro is proposing the amortization and recovery of the Business Systems Transformation Program Deferral Account balance of $14.5 million, over a period of eight years, commencing January 1, 2027, at a rate of $1.8 million per year.[214]

As illustrated in the table above, administrative fees in 2027TY consist of fees recovered from Non-Regulated Hydro, business system transformation amortization of previously deferred costs, and administrative fees charges to Regulated Hydro. The following tables detail the administrative fees recovered by Regulated Hydro from other lines of business, including the applicable allocator.

Figure 145 – Regulated Hydro shared service costs 2027TY

($000s)		Human Resources - Hydro Training	Hydro Office Space	Procurement	Network Services	Information Systems - Hydro Corp	Bulk Supply Point	Culture - Hydro	Total Shared Service in Regulated Hydro
Total shared costs to be allocated	A	93	4,154	1,980	1,394	5,087	2,366	682	15,756
Hydro specific costs		-	-	-	-	-	369	-	369
Allocators		**Full-Time Equivalent**	**Office Space**	**Average No. of Purchase Orders**	**Average Users**	**Average Users**	**Bulk Supply Average User**	**Universal Allocator**	**Total**
Allocators	B	1,472.7	152,500.0	18,911.0	1,510.5	1,510.5	1,506.5	1.0	
Costs for universal allocator	C = A / B	0.0632	0.0272	0.1047	0.9226	3.3679	1.5702	682	
Regulated Hydro	D	848	73,129	9,939	867	867	861	0	
Non-Regulated Hydro	E	625	79,371	8,972	644	644	646	0.70	
Total		1,473	152,500	18,911	1,511	1,511	1,507	1	
Regulated %		57.6%	48.0%	52.6%	57.4%	57.4%	57.1%	30.0%	
Non-Regulated %		42.4%	52.0%	47.4%	42.6%	42.6%	42.9%	70.0%	
Remaining in Regulated Hydro	F = D x C	54	1,992	1,041	799	2,919	1,720	205	8,729
Recovered from Non-Regulated	**G = E x C**	**39**	**2,162**	**939**	**594**	**2,169**	**1,014**	**477**	**7,395**
Total allocation		93	4,154	1,980	1,394	5,087	2,734	682	16,124

As illustrated in the table above, Regulated Hydro is expecting to recover $7.4 million from Non-Regulated Hydro in 2027TY.The following table details administrative fees charged to Regulated Hydro, including the applicable allocator.

[214] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 8.

Figure 146 – Non-Regulated Hydro shared service costs 2027TY

($000s)		Human Resources	Safety, Health & Environment	Information Systems Corporate	Accounts Payable	General Ledger	Corporate Secretary	Communication	Employee Engagement	Executive	Total Shared Service Non-Regulated
Total shared costs to be allocated	A	1,790	911	11,850	1,300	888	440	482	330	1,749	19,740
Allocators		**Full-Time Equivalent**	**Universal Allocator**	**Average Users**	**Average Invoices**	**Average General Ledger Entries**	**Universal Allocator**	**Universal Allocator**	**Full-Time Equivalent**	**Universal Allocator**	**Total**
Allocator	B	1,472.7	100%	1,510.5	40,484.0	12,641.0	100%	100%	1,472.7	100%	
Costs for universal allocator	C = A / B	1.2157	911	7.8451	0.0321	0.0702	440	482	0.2238	1,749	
Regulated Hydro	D	848.2	30%	866.6	24,499.0	4,836.0	30%	30%	848.2	30%	
Non-Regulated Hydr	E	624.5	70%	643.9	15,985.0	7,805.0	70%	70%	624.5	70%	
Total		1,472.7	100%	1,510.5	40,484.0	12,641.0	100%	100%	1,472.7	100%	
Regulated %		57.6%	30.0%	57.4%	60.5%	38.3%	30.0%	30.0%	57.6%	30.0%	
Non Regulated %		42.4%	70.0%	42.6%	39.5%	61.7%	70.0%	70.0%	42.4%	70.0%	
Recovered from Regulated Hydro	**F = D x C**	**1,031**	**273**	**6,799**	**787**	**340**	**132**	**145**	**190**	**525**	**10,222**
Remaining in Non-Regulated	G = E x C	759	638	5,051	513	548	308	338	140	1,225	9,520
Total allocation		1,790	911	11,850	1,300	888	440	483	330	1,750	19,742

As illustrated in the table above, Non-Regulated Hydro is expected to recover $10.2 million from Regulated Hydro in 2027TY.

Productivity allowance

As a further measure of recognizing customers' concerns with the rising cost of electricity, and in light of past precedent, Hydro is including further cost savings in the form of a $4.0 million productivity allowance to mitigate the increasing operating costs within the 2027 Test Year. This represents approximately 2.5% of operating costs, in line with the recent productivity allowance to Newfoundland Power, as directed by the Board.[215]

Figure 147 – 2027TY productivity allowance[216]

($000s)	2027TY
Total operating expenses included in revenue requirement	156,362
Factor	2.5%
Total productivity allowance	**3,909**

The following table provides a breakdown of the 2027TY productivity allowance by functional area.

[215] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 2.50.

[216] Newfoundland and Labrador Hydro 2026 General Rate Application Supplemental Material, July 17, 2026 – Schedule D-I.

Figure 148 – Breakdown of productivity allowance by functional area[217]

($000s)	2027TY
Transmission and distribution	1,146
Production	1,151
Engineering services	133
System planning and NLSO	111
Major projects and Asset management	61
Operating technology	392
Executive	76
Financial services and other	319
People, culture and corporate affairs	289
Regulatory affairs, customer service and energy optimization	321
Total	**4,000**

As demonstrated in the table above, the largest productivity allowance allocations are attributed to Transmission and distribution, and Production. The allowance was allocated as a percentage of total operating costs per department to reinforce organizational accountability and the prioritization of cost discipline at all levels. Hydro noted that the allocation method did not impact the magnitude of the allowance.[218]

In determining its productivity allowance for the 2026 GRA, Hydro considered previous productivity allowances ordered by the Board within Hydro's past GRAs, as well as Newfoundland Power's most recent GRA. Specifically, in Order No. P.U. 49(2016) in relation to the Newfoundland Power's 2013/2014 GRA, the Board stated that the intention of a productivity allowance is "to provide an incentive to manage costs and find efficiencies." Hydro's prior productivity allowances from the Board have ranged from $2.0 to $4.0 million in Hydro's rate-setting years, and most recently, the Board directed Newfoundland Power to include a $2.0 million productivity allowance, equivalent to 2.5% of operating costs, within its 2025/2026 GRA.[219]

Hydro also indicated that the productivity allowance reflects the expected cumulative impact of ongoing cost management and operational efficiency initiatives rather than a specific cost

[217] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – CA-NLH-069.

[218] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – CA-NLH-069.

[219] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 2.50.

reduction measure. Hydro stated that they expected to achieve the productivity allowance through a combination of the following:[220]

- Continued scrutiny and management of labour and non-labour expenditures;
- Optimization of workforce deployment and internal resource utilization;
- Procurement and contracting strategies that reduce supply chain, cost and schedule risks;
- Improved planning and execution of operating and capital work;
- Increased use of technology, automation, and data analytics to support decision-making; particularly those technologies that enable Hydro to reduce travel, fuel consumption, and contractor reliance; providing direct savings for customers; and,
- Avoidance of future costs through proactive asset management and outage coordination.

CDM Program Deferral

Per Hydro, the 2027 Test Year relates to the deferral account for Hydro's CDM programs and is forecasted based upon the applicable CDM initiatives anticipated for that year. The amount includes the cost of delivering energy efficiency programs to customers throughout the province. These costs include program development, promotional materials, advertising, pre and post customer installation inspections, application processing, customer incentives, training for employees and trade allies, and program evaluation activities. The amount also includes major CDM study costs, such as comprehensive customer end use surveys and CDM potential studies with costs exceeding $100,000.

Figure 149 – CDM costs

($000s)	2024A	2025A	2026F	2027TY	2027TY vs 2024A ($)	% change	2027TY vs 2025A ($)	% change	2027TY vs 2026F ($)	% change
CDM program deferral	(1,384)	(1,734)	(1,892)	(1,853)	(469)	34%	(119)	7%	39	-2%
Annual change ($)		*(350)*	*(158)*	*39*						
Annual change (%)		*25%*	*9%*	*-2%*						

Based on the above table, we made the following observation:

- **2024A CDM program deferral costs were significantly lower than 2025A-2027TY**. Per Hydro, 2024 Actual costs were lower than forecast primarily due to lower customer participation in CDM programs. For example, Hydro's Energy Savers Kit program was materially impacted by the Canada Post strike in the fourth quarter of 2024, resulting in lower program expenditures.

[220] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-027.

External Cost Recoveries

External Cost Recoveries represent amounts recovered from third parties for costs incurred by Hydro in providing specific services. Examples include system impact studies and assessments required for the connection of new customers to the electricity system, and maintenance work performed on behalf of third parties. The related costs are recorded within Hydro's operating expenses and subsequently recovered from the applicable third party.

Per Hydro, the 2027 Test Year was forecast based on underlying costs and the applicable recovery mechanism. These recoveries offset costs recorded elsewhere in Hydro's operating expenses that are recoverable from external parties.

Figure 150 – External cost recoveries

($000s)	2024A	2025A	2026F	2027TY	2027TY vs 2024A ($)	% change	2027TY vs 2025A ($)	% change	2027TY vs 2026F ($)	% change
External cost recoveries	(1,954)	(2,406)	(297)	(320)	1,634	-84%	2,086	-87%	(23)	8%
Annual change ($)		*(452)*	*2,109*	*(23)*						
Annual change (%)		*23%*	*-88%*	*8%*						

Based on the above table we made the following observations:

- **External cost recoveries decreased by 88% from 2025A to 2026F.** Per Hydro, the decrease in External Cost Recoveries of $2.1 million from 2025 Actual to 2026 Forecast is primarily attributable to the completion of the majority of a Labrador West system impact study in 2025 ($1.1 million), the expiration of a cost recovery agreement related to joint-use radios ($0.6 million), and the completion of asset maintenance work recoverable from Iron Ore Company of Canada in 2025 ($0.4 million).

Removal and decommissioning recovery

Per Hydro, the 2027 Test Year Removal and Decommissioning Recovery was determined by consulting with the business to determine what known removal and decommissioning work is upcoming for the test year; these scopes of work are then included as individual removal projects in that budget year. In addition to budgeting for known scopes of work, there is an allowance included, which is calculated by taking an average of actual removal costs from the past five years as an estimate of that budget year's removal costs budget. The five-year average removal cost estimate is normalized to remove larger scopes of work that could have an unwarranted impact on the calculation of the five-year average (i.e., if a transmission line removal project for over $1 million occurred or, as noted in Figure 152 below, the Tank 2 decommissioning project would be removed before the average is calculated).[221]

[221] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-026c.

Figure 151 – Removal and decommissioning recovery[222]

($000s)	2024A	2025A	2026F	2027TY	2027TY vs 2024A ($)	% change	2027TY vs 2025A ($)	% change	2027TY vs 2026F ($)	% change
Removal and decommissioning recovery	(1,666)	(4,610)	(3,465)	(965)	701	-42%	3,645	-79%	2,500	-72%
Annual change ($)		***(2,944)***	***1,145***	***2,500***						
Annual change (%)		***177%***	***-25%***	***-72%***						

As noted in the above table, removal and decommissioning recovery is expected be approximately $1 million in 2027TY. This is a significant decrease from recoveries in 2025A and 2026F of $4.6 million and $3.5 million, respectively. The table below provides a breakdown of the removal and decommissioning recovery included in 2025A, 2026F, and 2027TY.

Figure 152 – Breakdown of costs included in removal and decommissioning recovery

Year	Breakdown of Costs
2025 Actual	The costs of $4.6 million are due to the decommissioning of Tank 2 at the Holyrood Thermal Generating Station ($2.1 million), decommissioning of the TL202 line camp ($0.8 million), the decommissioning of the TL301 transmission line ($0.6 million), distribution line removals ($0.7 million) and various smaller removals ($0.4 million).
2026 Forecast	The costs of $3.5 million are due to Nain Site removal project ($2.5 million), distribution feeders removals ($0.5 million) and various smaller removals ($0.5 million).
2027 Test Year	The costs of $1.0 million are due to distribution feeders removals ($0.5 million) and various smaller removals ($0.5 million).

Other cost recoveries

Per Hydro, the 2027 Test Year was forecast based on the underlying recovery mechanism for each cost category. For example, Cloud Cost Deferrals are budgeted on an individual project basis using a zero-based budgeting approach, the Fixed Charge recovery is forecast based on intercompany labour hours multiplied by the applicable fixed charge rate, and Accommodation Charge/Recovery is forecast using a historical three-year average.[223]

The table below provides a breakdown of the other cost recoveries.

[222] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-026c.

[223] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-026f.

Figure 153 – Other cost recoveries

($000s)	2025A	2026F	2027TY	2027TY vs 2025A ($)	% change	2027TY vs 2026F ($)	% change
Cloud Operating Cost Deferral	(2,118)	-	-	2,118	-100%	-	0%
Accommodation Charge (Recovery)	(63)	(50)	(50)	13	-21%	-	0%
Fixed Charge (Recovery)	(385)	(391)	(336)	49	-13%	55	-14%
Interco Vehicle Charge (Recovery)	(27)	(28)	(28)	(1)	4%	-	0%
EV Deferral Cost (Recovery)	(89)	(46)	(47)	42	-47%	(1)	2%
Total Regulated Other Cost (Recoveries)	**(2,682)**	**(515)**	**(461)**	**2,221**	**-83%**	**54**	**-10%**
Annual change ($)		***2,167***	***54***				
Annual change (%)		***-81%***	***-10%***				

Based on the chart above we made the following observations:

- **Other cost recoveries decreased from $2.7 million in 2025A to $0.5 million in 2027TY.** Per Hydro, this is primarily due to the absence of cloud deferral recoveries in 2027. Approximately $2.1 million of cloud deferral recoveries were recorded in 2025; however, no eligible cloud projects had been identified when the 2027 Test Year was prepared and, therefore, no cloud deferral recovery was forecast. The remaining recoveries, including Fixed Charge recoveries and Accommodation Charge/Recovery amounts, are relatively consistent between years. There is no net impact to total operating costs in 2025 Actual or 2027 Test Year in relation to the deferral of cloud costs. The projects result in higher costs in cost categories such as contract labour, but they are offset in cost recoveries.[224]

Cost allocation (recoveries) by division

The table below details cost allocations (recoveries) by division for 2024A, 2025A, 2026F and 2027TY.

[224] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – PUB-NLH-026f.

Figure 154 – Cost allocations (recoveries) by division

($000s)	2024A	2025A	2026F	2027TY	2027TY vs 2024A ($)	% change	2027TY vs 2025A ($)	% change	2027TY vs 2026F ($)	% change
Operations:										
Transmission & distribution	(2,786)	(3,076)	(4,864)	(2,371)	415	-15%	705	-23%	2,493	-51%
Production	(94)	(2,178)	(1,201)	(1,201)	(1,107)	1178%	977	-45%	-	0%
Engineering services	(9)	(1)	(133)	(133)	(124)	1378%	(132)	13200%	-	0%
System planning	(284)	(1,104)	(111)	(111)	173	-61%	993	-90%	-	0%
NL system operator	550	513	775	863	313	57%	350	68%	88	11%
Asset management	-	-	(61)	(61)	(61)		(61)		-	0%
Major projects	-	-	-	-	-		-		-	
Operations technology	5,128	5,608	6,567	5,594	466	9%	(14)	0%	(973)	-15%
Total Operations	**2,505**	**(238)**	**972**	**2,580**	**75**	**3%**	**2,818**	**-1184%**	**1,608**	**165%**
General and Administrative:										
Executive	-	630	549	578	578		(52)	-8%	29	5%
Financial services & other	(2,420)	(4,798)	(4,036)	(4,525)	(2,105)	87%	273	-6%	(489)	12%
People, culture and corporate affairs	1,173	1,176	733	782	(391)	-33%	(394)	-34%	49	7%
Regulatory, customer service & energy optimization	(1,380)	(2,005)	(2,331)	(2,309)	(929)	67%	(304)	15%	22	-1%
Total General and Administrative	**(2,627)**	**(4,997)**	**(5,085)**	**(5,474)**	**(2,847)**	**108%**	**(477)**	**10%**	**(389)**	**8%**
Total Cost Allocations	**(122)**	**(5,235)**	**(4,113)**	**(2,894)**	**(2,772)**	**2272%**	**2,341**	**-45%**	**1,219**	**-30%**

By division, the decline in cost recoveries from 2025A to 2027TY is driven by Operations, which moves from a net recovery of $0.2 million in 2025A to a net charge of $2.6 million in 2027TY. This is partially offset by increased recoveries within General and Administrative activities, which increase from $5.0 million to $5.5 million over the same period.

Intercompany

Intercompany Guidelines

Hydro manages and isolates the costs of its regulated and non-regulated operations. This ensures that customers ultimately pay only the cost associated with providing them the regulated service as part of Hydro's recovery through customer rates. Costs incurred are allocated in accordance with the Intercompany Guidelines.

The Intercompany Guidelines were updated in 2026 and reviewed by KPMG, a third-party expert, who determined them to be reasonable.[225] Hydro's 2026 Intercompany Costing Guidelines retain substantially the same allocation principles and mechanisms as in the July 2017 Guidelines. Hydro has introduced several targeted updates to their existing methodology, including the use of a Hybrid Allocator for certain shared services functions, the transition of selected activities from timesheet-based allocations to Admin Fees, the exclusion of Administrative Business Unit components from allocator calculations, and the simplification of Admin fee allocations through a move from a partial two-step allocation process to a one-step

[225] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Page 1.13 and 2.40.

approach.[226] KPMG concluded that Hydro's proposed updates represent a reasonable approach to allocating shared service costs and generally align with practices of comparator utilities. KPMG's overall assessment included the following:

Figure 155 – KPMG's overall assessment of Hydro's intercompany transaction approach by evaluation criteria[227]

No.	Criteria	Description
1	Direct assigned where practical	All Hydro staff complete time sheets; therefore, all staff can directly assign some of their time (and their associated labour cost) to specific lines of business or projects. Additionally, Hydro directly assigns non-labour costs to specific lines of business where appropriate. Overall, Hydro's approach allows for direct assignment where practical.
2	Cost causality	The allocators used by Hydro to allocate Admin Fees are generally consistent with the comparator utilities. Where there are differences, for example AP (using invoices) and GL (using transactions), the allocators used are rational proxies for level of effort and cost. Overall, Hydro's allocators reasonably reflect the cost of service.
3	Transparency	The allocators are based on transparent data sets and can be easily calculated. Hydro has documented their methodology in an updated Intercompany Transaction Costing Guidelines (2026). Hydro's proposed transition from a partial two-step allocation to a one-step allocation has further simplified the cost allocation approach making it easier to trace how costs flow from source to final line of business.
4	Regulatory precedence	While Hydro has gone through organization changes and made modifications to its intercompany transactions (largely in the form of combining teams into shared services and creating new Admin Fees), the fundamental approach of Hydro's Intercompany Transaction Costing Guidelines (2026) remains largely consistent from the 2013 and 2017 iterations which were filed with the Board under respective GRAs.
5	Objectivity	The allocators are based on clear and quantifiable measures. Additionally, Hydro's proposed change where Administration Business Unit components of allocators are excluded from the allocator calculations removes bias related to the assignment of 'Home BU'. Overall, Hydro's approach is reasonably objective.

[226] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume II – Exihibt 2 – Appendix 2 – Page 9-10.

[227] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume II – Exihibt 2 – Appendix 2 – Page 39.

No.	Criteria	Description
6	Cost effectiveness/ administrative effort	Hydro's proposed transition from a partial two-step allocation to a one-step allocation simplifies the allocation calculations and does not appear to result in a material difference in the Admin Fee allocations.
7	Flexibility/ adaptability	Hydro's approach has demonstrated flexibility and adaptability with respect to changes in Hydro's structure, notably the dissolution of Nalcor.

Subsequent to KMPG's review, the Board hired Doane Grant Thornton to complete an assessment of the reasonableness of Certain Proposed Changes to Hydro's 2026 Intercompany Transactions Costing Guidelines. This report is included as part of this matter and can be found on the Board's website under the 2026 GRA's information items.[228] Doane Grant Thornton's overall conclusion, as outlined in Section 9.5 of the report, is as follows:

> *"In our opinion, the three proposed methodology changes, considered individually and as a package, are reasonable and result in a fair and reasonable allocation of costs to ratepayers. The changes largely retain the established structure of Hydro's cost allocation framework while refining specific methodologies. As set out in Section 8, the net effect on regulated operations is modest. It is estimated to be no greater than approximately 0.05% of Hydro's regulated revenue requirement. The net effect reflects the correction of a distortion rather than a shifting onto ratepayers of costs properly attributable to non-regulated operations."*[229]

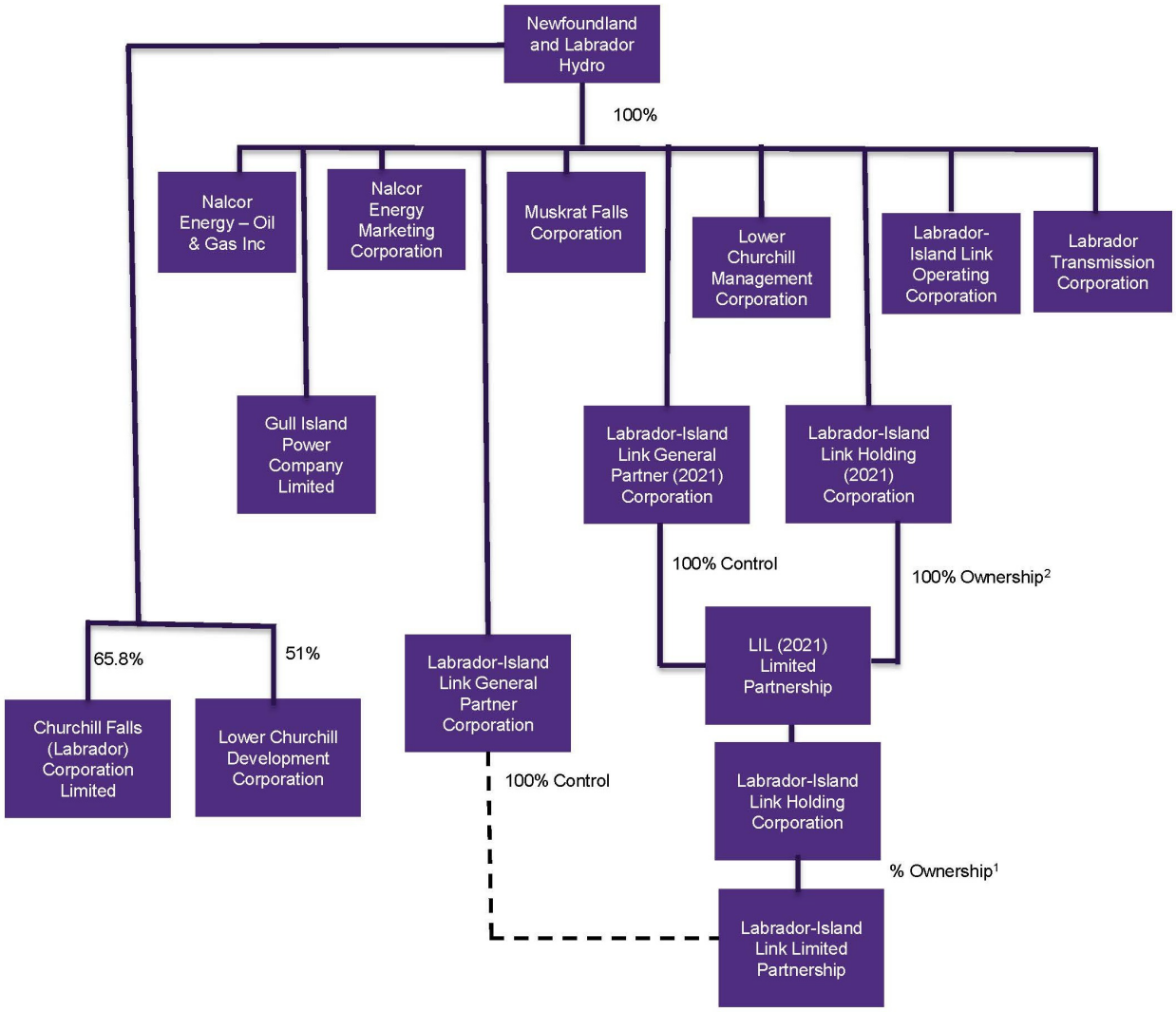
Corporate structure

The following figure details Hydro's corporate structure, as outlined in the GRA.

[228] Doane Grant Thornton LLP - Assessment of the Reasonableness of Certain Proposed Changes to Newfoundland and Labrador Hydro's 2026 Intercompany Transactions Costing Guidelines, prepared for the Board of Commissioners of Public Utilities of Newfoundland and Labrador, August 28, 2026 – retrieved from: Board of Commissioners of Public Utilities.

[229] Doane Grant Thornton LLP - Assessment of the Reasonableness of Certain Proposed Changes to Newfoundland and Labrador Hydro's 2026 Intercompany Transactions Costing Guidelines, prepared for the Board of Commissioners of Public Utilities of Newfoundland and Labrador, August 28, 2026 – Page 37 - retrieved from: Board of Commissioners of Public Utilities.

Figure 156 – Corporate structure effective January 1, 2025[230]



Note1: Final ownership percentage will be determined upon amendment to the LIL Partnership Agreement.

Note 2: Canada to hold Convertible Debenture with rights to convert debt to Class 8 Units in LIL (2021) Limited Partnership

[230] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume I – Figure 1-3 – Page 1.12

The following table provides a detailed list of Hydro's subsidiaries per their 2024 Annual Report.

Figure 157 – Subsidiaries of Hydro[231]

Company	Interest	Description
Nalcor Energy - Oil and Gas Inc.	100% Interest	Has a mandate to engage in the upstream and downstream sectors of the oil and gas industry. Upstream includes exploration, development and production activities, while downstream includes transportation and processing activities.
Nalcor Energy Marketing Corporation	100% Interest	A subsidiary established to manage Hydro's participation in extra-provincial electricity markets.
Muskrat Falls Corporation	100% Interest	Principal activity is to operate the Muskrat Falls Plant on the lower Churchill River.
Labrador Transmission Corporation	100% Interest	Principal activity is to operate and maintain the Labrador Transmission Assets, which includes transmission lines connecting the Muskrat Falls Plant with the Labrador-Island Link ("LIL"), the Churchill Falls hydroelectric generating facility and Hydro's Labrador transmission assets.
Labrador-Island Link Operating Corporation	100% Interest	Created to operate and maintain the LIL.
Lower Churchill Management Corporation	100% Interest	Created to carry out the project development and management functions of the Lower Churchill Project including planning, engineering and design management, construction management, risk management, finance, procurement and supply chain management.
Labrador-Island Link General Partner (2021) Corporation and consolidated Labrador-Island Link Holding (2021) Corporation	100% Interest	Created to control, manage and hold Hydro's interest in the LIL (2021) Limited Partnership. The consolidated LIL Holdco (2021) includes the financial statements of LIL Holdco (2021) and its subsidiary companies LIL (2021) LP, LIL Holdco, and LIL LP.
Labrador-Island Link General Partner Corporation	100% Interest	Created to control, manage and hold Hydro's interest in the Labrador-Island Link Limited Partnership.
Gull Island Power Company Limited	100% Interest	Inactive.
Churchill Falls (Labrador) Corporation Limited	65.8% Interest	Incorporated under the laws of Canada and owns and operates a hydroelectric generating plant and related transmission facilities in Labrador which has a rated capacity of 5,428 megawatts (MW).

[231] Newfoundland and Labrador Hydro – 2025 Annual Report, June 2026 – Page 65.

Company	Interest	Description
Lower Churchill Development Corporation Limited	51% Interest	transmission facilities situated in Labrador which has a rated capacity of 5,428 megawatts (MW).
LIL (2021) LP	Limited Partnership	The 2021 Partnership holds the common shares of Labrador-Island Link Holding Corporation and is administering a Federal Government of Canada investment in the LIL that is a component of the Province's Rate Mitigation Plan.
LIL LP	Limited Partnership	Created to develop, construct and finance the assets and property constituting the LIL, a transmission link constructed between the Muskrat Falls Plant and the Newfoundland and Labrador Island Interconnected System. LIL Holdco holds 100% of the Class A and Class C limited partnership units. KKR Island Link Incorporated (KKR) holds 25 Class B units.

Intercompany salaries

All employees of Hydro are required to charge time by completing time sheets, which allocate labour to work orders based on activity. The guiding principle is that where an employee spends time on specific tasks and work activities for another entity or line of business, time is to be charged at cost. Cost, or the bill rate, is defined as labour costs, fringe benefits (including time off) and other direct costs. The operating bill rates are reviewed annually and updated as required. Labour hours that are recharged through this process are used in the calculation of net FTEs.[232]

The table below details the regulated salaries, including overtime, charged (to) from Non-Regulated Hydro for 2019A, to 2027TY.

[232] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Volume II – Exhibit 2 – Page 8.

Figure 158 – Labour costs - Regulated charged (to) from Non-Regulated Hydro[233]

($000s)	2019A	2020A	2021A	2022A	2023A	2024A	2025A	2026F	2027TY
Exploits/Menihek/ Non-regulated Hydro	(3,574)	(2,781)	(2,874)	(3,480)	(3,071)	(3,786)	(4,801)	(2,929)	(2,660)
Exploits/Menihek/ Non-regulated Hydro	342	521	872	1,915	2,887	4,004	4,120	2,640	2,714
Net Exploits/Menihek/Non-regulated Hydro	(3,232)	(2,260)	(2,002)	(1,565)	(184)	218	(681)	(289)	54
Churchill Falls	(419)	(556)	(573)	(376)	(342)	(594)	(639)	(504)	(519)
Churchill Falls	908	680	492	501	435	472	443	646	665
Net Churchill Falls	489	124	(81)	125	93	(122)	(196)	142	146
Energy Marketing	(9)	(9)	(14)	(41)	(74)	(99)	(167)	(138)	(143)
Energy Marketing	-	-	-	-	-	76	-	-	-
Net Energy Marketing	(9)	(9)	(14)	(41)	(74)	(23)	(167)	(138)	(143)
Lower Churchill	(1,285)	(1,178)	(1,216)	(242)	(502)	(635)	(708)	(531)	(547)
Oil&Gas / Bull Arm Fabrication	(25)	(12)	(1)	-	(5)	-	(4)	-	-
Total	**(4,062)**	**(3,335)**	**(3,314)**	**(1,723)**	**(672)**	**(562)**	**(1,756)**	**(816)**	**(490)**

As illustrated in the table above, most labour charges to and from Non-Regulated Hydro pertain to the Exploits/Menihek/Non-Regulated Hydro business units. Intercompany labour charges result in a net of $490,000 recovery from Non-Regulated Hydro in 2027TY.

Conclusion

We have completed our procedures in the review of Hydro's cost allocations (recoveries). Our analysis included the preparation of a trend analysis for cost recoveries by sub-category for 2024 Actual, 2025 Actual, 2026 Forecast and 2027 Test Year. Our analysis identified notable trends, and we made subsequent inquiries with Hydro for further clarification. We are satisfied with Hydro's explanations in response to our inquiries.

Hydro forecasts recoveries of $2.9 million in the 2027 Test Year, a decrease of approximately $2.3 million (45%) from 2025 Actuals. The reduction is driven primarily by lower removal and decommissioning recoveries ($3.6 million) and other cost recoveries ($2.2 million), partially offset by a decrease in administrative fees ($1.5 million) and the productivity allowance ($4.0 million). By division, the decline in cost recoveries from 2025A to 2027TY is driven by Operations, which moves from a net recovery of $0.2 million in 2025A to a net charge of $2.6 million in 2027TY. This is partially offset by increased recoveries within General and Administrative activities, which increase from $5.0 million to $5.5 million over the same period.

Hydro's Intercompany Cost Allocation Guidelines were updated effective January 1, 2026, with revisions intended to refine allocation methodologies and cost recovery practices used to determine the intercompany cost allocations reflected in the 2027 Test Year. The revised guidelines were subsequently reviewed by KPMG, which found the updates to be reasonable and generally consistent with accepted cost allocation practices. Doane Grant Thornton completed their assessment of the reasonableness of Certain Proposed Changes to Hydro's 2026 Intercompany transactions costing guidelines which is included in the information items for the GRA. Doane Grant Thornton concluded that the proposed updates to Hydro's intercompany

[233] Newfoundland and Labrador Hydro 2026 General Rate Application, May 27, 2026 – Response to Request for Information – NP-NLH-006.

transaction costing framework are reasonable both individually and collectively, and result in a fair and reasonable allocation of costs to ratepayers.[234]

[234] Doane Grant Thornton LLP - Assessment of the Reasonableness of Certain Proposed Changes to Newfoundland and Labrador Hydro's 2026 Intercompany Transactions Costing Guidelines, prepared for the Board of Commissioners of Public Utilities of Newfoundland and Labrador, August 28, 2026 – Page 37 - retrieved from: Board of Commissioners of Public Utilities.

Appendix A – Glossary of terms

Glossary of terms	
2017 GRA	2017 General Rate Application filed by Newfoundland and Labrador Hydro
2023 Depreciation Study	2023 Depreciation Study prepared by Concentric Energy Advisors, Inc.
2024 Technical Update	2024 Technical Update prepared by Concentric Energy Advisors, Inc.
2026 GRA, GRA, Application	Newfoundland and Labrador Hydro's 2026 General Rate Application
2025 Build Application	Newfoundland and Labrador Hydro's 2025 Application for Early Execution Capital Work for Bay d'Espoir Unit 8 and Avalon Combustion Turbine
A	Actual
AFUDC	Allowance for funds used during construction
ALG	Average Life Group
ARO	Asset retirement obligation
ASL	Average Service Life
ASLG	Average Service Life Group
B	Budget
Bbl	Barrel
Board, P.U.B	Board of Commissioners of Public Utilities
CA	Consumer Advocate
CBA	Capital Budget Application
CBPP	Corner Brook Pulp and Paper
CDM	Conservation Demand Management
CIAC	Contributions in aid of construction
Company, Hydro	Newfoundland and Labrador Hydro
Concentric	Concentric Energy Advisors, Inc.
CPI	Consumer Price Index
CT	Combustion Turbine
EBITDA	Earnings before interest, taxes, depreciation, and amortization
ERP	Enterprise Resource Planning
EV	Electric vehicle
F	Forecast
FTE	Full-time equivalent
GEC	General expenses capitalized
Holyrood TGS	Holyrood Thermal Generating Station
IBA	Impact and Benefits Agreement
IDC	Interest During Construction
IFRS	International Financial Reporting Standards
IIS	Island Interconnected System
IIC	Island Industrial Customer Group

Glossary of terms	
IS	Information systems
JOC	Joint Operations Committee
LIL	Labrador-Island Link
LIL LP	Labrador-Island Link Limited Partnership
LIL Opco	Labrador-Island Link Operating Corporation
LTA	Labrador Transmission Asset
LTC	Labrador Transmission Corporation
Muskrat Falls Plant	Muskrat Falls Hydroelectric Generating Facility
Nalcor	Nalcor Energy
Newfoundland Power, NP	Newfoundland Power Inc.
Newfoundland Power's 2013/2014 GRA	2013/2014 General Rate Application Filed by Newfoundland Power filed on September 14, 2012
Newfoundland Power's 2025/2026 GRA	2025/2026 General Rate Application filed on December 12, 2023
NLSO	Newfoundland and Labrador System Operator
Non-Regulated Hydro	Newfoundland and Labrador Hydro's non-regulated operations
NUG	Non-Utility Generator
O&M	Operations and maintenance
PPA	Purchase Price Agreement
Regulated Hydro	Newfoundland and Labrador Hydro's regulated operations
RRA	Reliability and Resource Adequacy
Significant concerns	Findings of mathematical errors and internal inconsistencies throughout the Application or Hydro's responses to information requests
S&P	Standard & Poor
SCVDA	Supply cost variance deferral account
SEM	System Equipment Maintenance
TFA	Transmission Funding Agreement
TY	Test Year
Vale	Vale Newfoundland and Labrador Limited
VHF	Very High Frequency
WACC	Weight average cost of capital
We, us, our, Doane Grant Thornton	Doane Grant Thornton LLP
WIP	Work in progress

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Appendix B – Summary of deferred charges with 2027 regulatory impact

Deferred Charges[2]	Board Order No.	Rate Base Inclusion (Y/N)	Recovery	Approval of Disposition	Amortization Period	Amortization Classification	Financing Rate	January 1, 2027 Opening Balance	Additions	Dispositions	Amortization	December 31, 2027 Ending Balance
Existing:												
Foreign Exchange Losses	P.U. 7(2002–2003)	Y	Base Rates (Finance Charges)	Yes	40 years	Other Expense	Return on Rate Base	32,354	-	-	(2,157)	**30,197**
Foreign Exchange on Fuel[3]	P.U. 30(2019)	Y	Note 3	Yes	N/A	N/A	Return on Rate Base	(1,214)	-	-	-	**(1,214)**
Conservation Demand Management	P.U. 30(2019)	Y	Rider	Annual Application	10 years	N/A	Return on Rate Base	6,520	(506)	(48)	-	**5,966**
Conservation Demand Management - Labrador Interconnected	P.U. 33(2023) and P.U. 14(2026)	Y	Base Rates	Yes	10 years	Note 8	Return on Rate Base	525	176	48	(75)	**674**
GRA Hearing Costs[4]	To be determined	Y	Base Rates	Proposed	4 years	Operating Expenses	Return on Rate Base	-	1,500	-	(375)	**1,125**
Phase II Hearing Costs[4]	P.U. 13(2016)	Y	Base Rates	Proposed	8 years	Operating Expenses	Return on Rate Base	1,705	-	-	(213)	**1,492**
Asset Disposal	P.U. 13(2016)	Y	Base Rates	Yes	22 years	Depreciation	Return on Rate Base	197	-	-	(19)	**178**
Isolated Supply	P.U. 30(2019)	Y	Transfer to RSP	Annual Application	N/A	N/A	Return on Rate Base then RSP	(193)	-	193	-	**-**
Business Systems Transformation Program[4,5]	P.U. 16(2019) and P.U. 27(2022)	Y	Base Rates	Proposed	8 years	Operating Expenses	Return on Rate Base	14,491	-	-	(1,878)	**12,613**
Reliability and Resource Adequacy[4]	P.U. 29(2019)	Y	Base Rates	Proposed	8 years	Operating Expenses	Return on Rate Base	4,413	650	-	(633)	**4,430**
Hydraulic Resource Optimization	P.U. 49(2018)	Y	Transfer to SCVDA	Annual Application	N/A	N/A	Return on Rate Base then SCVDA	(183)	-	-	-	**(183)**

Deferred Charges[2]	Board Order No.	Rate Base Inclusion (Y/N)	Recovery	Approval of Disposition	Amortization Period	Amortization Classification	Financing Rate	January 1, 2027 Opening Balance	Additions	Dispositions	Amortization	December 31, 2027 Ending Balance
Frequency Converter[4]	P.U. 35(2020)	Y	Note 9	Proposed	N/A	N/A	SCVDA and Return on Rate Base - See Note 8	(1,618)	-	1,618	-	**-**
Power Purchase Expense Recognition[6]	P.U. 9(2021) and P.U. 33(2021)	N	Note 6	Note 6	Note 6	Note 6	Note 6	1,428,718	284,716	-	-	**1,713,434**
Muskrat Falls Export Revenue Recognition[7]	P.U. 33(2021) and P.U. 4(2022)	N	Note 7	Note 7	Note 7	Note 7	Note 7	35,040	5,920	-	-	**40,960**
Muskrat Falls Power Purchase Agreement Sustaining Capital[4]	P.U. 33(2021) and P.U. 4(2022)	Y	Base Rates	Proposed	Composite depreciation rate	Depreciation	Return on Rate Base	43,620	9,030	-	(721)	**51,929**
Holyrood Thermal Generating Station Accelerated Depreciation	P.U. 33(2021) and P.U. 4(2022)	Y	To Be Determined	To be Determined	To be Determined	N/A	Return on Rate Base	(11,443)	-	-	-	**(11,443)**
Return on Equity[4]	P.U. 10(2025)	Y	Note 9	Proposed	N/A	N/A	SCVDA and Return on Rate Base - See Note 9	491	-	(491)	-	**-**
Electrification Cost[4]	P.U. 33(2023)	N	Rider	Proposed	10 years	N/A	Note 10	900	99	-	(54)	**945**
General Expenses Capitalized	P.U. 32(2025)	Y	Base Rates	Yes	Composite depreciation rate	Depreciation	Return on Rate Base	12,251	6,578	-	(389)	**18,440**
Allowance for Funds Used During Construction[12]	N/A	Y	Base Rates	Proposed	Composite depreciation rate	Depreciation	Return on Rate Base	2,117	4,153	-	(50)	**6,220**

Deferred Charges[2]	Board Order No.	Rate Base Inclusion (Y/N)	Recovery	Approval of Disposition	Amortization Period	Amortization Classification	Financing Rate	January 1, 2027 Opening Balance	Additions	Dispositions	Amortization	December 31, 2027 Ending Balance
Cloud Cost Deferral	P.U. 35(2025)	Y	Base Rates	Yes	Note 11	Depreciation	Return on Rate Base	1,978	-	-	(322)	**1,656**
Proposed:												
Revenue Deficiency - Island Utility[4]	To be determined	Y	Transfer to SCVDA	Proposed	N/A	N/A	SCVDA	-	60,083	(60,083)	-	**-**
Revenue Deficiency - Island Industrial[4]	To be determined	Y	Transfer to SCVDA	Proposed	N/A	N/A	SCVDA	-	2,674	(2,674)	-	**-**
Revenue Deficiency - Labrador Industrial[4]	To be determined	Y	Rider	Proposed	N/A	N/A	Return on Rate Base	-	1,753	(15)	(248)	**1,490**
Revenue Deficiency - Labrador Interconnected Rural[4]	To be determined	Y	TBD	Proposed	N/A	N/A	Return on Rate Base	-	1,679	(53)	-	**1,626**
Total Deferred Charges								**1,570,669**	**378,505**	**(61,505)**	**(7,134)**	**1,880,535**
Less: Deferred Charges Excluded from Rate Base												
Electrification Cost Deferral								(900)				(945)
Power Purchase Expense Recognition								(1,428,718)				(1,713,434)
Muskrat Falls Export Revenue Recognition								(35,040)				(40,960)
Total Deferred Charges for Rate Base								**106,011**				**125,196**
Current Year Opening								80,610				106,010
Average Deferred Charges for Rate Base								**93,311**				**115,603**

Note 1: Numbers may not add due to rounding.

Note 2: The deferred charges balance presentation is consistent with the approach followed in the Annual Return. In the Annual Return, the Supply Cost Variance Deferral Account ("SCVDA"), and Rate Stabilization Plan ("RSP") are not included in deferred charges as they are interest-bearing and excluded from rate base, and they are also presented separately in their own Returns. Similarly, there are capital-related deferred charges (Retirement Asset Pool, Removal Provision and Insurance) that are excluded from Deferred charges because they were approved to be included in capital. These deferred charges are presented in capital Returns in the Annual Return and are included in Capital Assets in the 2026 General Rate Application.

Note 3: Foreign exchange is included in fuel inventory and recognized upon the consumption of fuel expense which is included the SCVD calculation. The balance of this account is expected to reverse with additions to the account and is not amortized.

Note 4: Disposition has been proposed within this application.

Note 5: Board Order No. P.U. 27(2022) approved the recovery of $6.7 million. Hydro requested approval of an additional $7.8 million of costs in its recovery of costs associated with information systems assets application, currently before the Board. Disposition has been proposed within this application.

Note 6: This deferral represents timing differences in expense recognition and therefore is excluded from rate base, as per Board Order Nos. P.U. 9(2021) and P.U. 33(2021). Recovery from customers has not been proposed.

Note 7: This deferral represents a timing difference in revenue recognition and is therefore excluded from rate base, as per Board Order Nos. P.U. 33(2021) and P.U. 4(2022). Recovery from customers has not been proposed.

Note 8: Functionalized as Generation and allocated based on system load factor.

Note 9: Disposition or transfer is through the SCVDA for Island Interconnected System Customers and through transfer to the respective Revenue Deficiency Deferral Accounts for Labrador customers.

Note 10: As per Board Order No. P.U. 33(2023), the account shall be increased (reduced) by an interest charge (credit) on the balance in the account at the beginning of the month, at a monthly rate equivalent to the midpoint of the Company's allowed rate of return on rate base.

Note 11: Cloud Cost Deferral is amortized over a period approved in Hydro's depreciation study for similar software commencing at the in-service date.

Note 12: Subsequent to the filing of the Application, the Board issued Order No. P.U. 30 (2026), which denied Hydro's application for an AFUDC deferral account.



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