Q. **Reference: Application, Chapter 1, Chart 1-4, pages 1.19 to 1.20**

Hydro provides a chart that outlines the increases and decreases in revenue requirements between the 2019 Test Year and the 2027 Test Year by revenue requirement component, including the Muskrat Falls Supply Costs and Rate Mitigation as discrete component categories.

a) Provide an analysis of the net 2027 Test Year revenue requirement impact associated with the Muskrat Falls Project including (i) Muskrat Falls Supply Costs (ii) Rate Mitigation and (iii) any other revenue requirement increases or decreases that are included in other revenue requirement components in Chart 1-4 (fuel, power purchases, other adjustments/net export revenues etc.) that result from the Muskrat Falls Project.

b) Provide the overall rate increase and Residential rate increase that would be required for the 2027 Test Year in absence of the rate mitigation.

A. **a)** Newfoundland and Labrador Hydro ("Hydro") is unable to provide the requested analysis. While Hydro can identify the Muskrat Falls Supply Costs included in the 2027 Test Year revenue requirement, Hydro has not prepared a 2027 revenue requirement on a "without Muskrat Falls" basis. Muskrat Falls affects a number of revenue requirement components in addition to Muskrat Falls Supply Costs, including fuel expense, purchased power expense, net export revenues and other system costs. Quantifying the net revenue requirement impact attributable to the Muskrat Falls Project would require a determination of the costs that would have been incurred in 2027 if Muskrat Falls generation and transmission facilities were not available. Hydro has not completed such an analysis. As a result, Hydro cannot quantify the net impact of the Muskrat Falls Project on 2027 Test Year revenue requirement, including impacts reflected through fuel, purchased power, net export revenues and other revenue requirement components.

b) Absent Government of Newfoundland and Labrador's ("Government") rate mitigation plan, the overall and residential rate increases required for the 2027 Test Year would be based on the full recovery of Hydro's approved revenue requirement from customers through rates. However, Hydro's 2027 Test Year proposal has been developed in accordance with Government's rate mitigation directives set out in Orders in Council OC2024-062 and OC2024-063. As such, Hydro has not proposed rates based on the recovery of its full revenue requirement from customers.

Order in Council OC2024-062 directs Hydro to structure future rate applications such that retail electricity rate increases for domestic customers attributable to Hydro are targeted at approximately 2.25% annually, up to and including 2030. The Order further directs that rate increases for other customers subject to Island Interconnected System rates be structured in a manner compatible with this target rate increase.

Consistent with this direction, Hydro's 2027 Test Year revenue requirement includes rate mitigation funding which offsets a portion of the costs that would otherwise be recovered from customers through rates. Hydro's evidence indicates that $502 million in rate mitigation funding has been applied in the 2027 Test Year.

Accordingly, Hydro has calculated and proposed rates based on the Government's rate mitigation framework. Any scenario contemplating an absence of rate mitigation would be inconsistent with the Government's direction in OC2024-062 and OC2024-063. It is Hydro’s opinion that the information requested is not necessary for a satisfactory understanding of the matters to be considered in the 2026 General Rate Application as required by the *Board of Commissioners of Public Utilities Regulations, 1996*.