Q. **Reference: Application, Chapter 1, Chart 1-4, page 1.20**

It is understood from Chart 1-4 that the 2019 Test Year revenue requirement was $643 million, Muskrat Falls supply costs are $780 million, rate mitigation is $502 million, and the revenue requirement is $1,300 million before the rate mitigation adjustment which brings the 2027 revenue requirement down to $798 million.

**a)** How much of Hydro's proposed revenue requirement would have to be denied by the Board before Hydro would change its proposed rate increase for IIS customers?

**b)** Are the Muskrat Falls supply costs 121% of the 2019 Test Year revenue requirement?

A. **a)** Newfoundland and Labrador Hydro ("Hydro") has structured its application in accordance with applicable Orders in Council, including the requirement to target a 2.25% domestic rate increase.

Order in Council OC2013-343 states that all costs associated with the Muskrat Falls Project:

> …shall be included as costs, expenses or allowances, without disallowance, reduction or alteration of those amounts, in Newfoundland and Labrador Hydro's cost of service calculation in any rate application and rate setting process, so that those costs, expenses or allowances shall be recovered in full by Newfoundland and Labrador Hydro in Island interconnected rates charged to the appropriate classes of ratepayers.[1]

Pursuant to Order in Council OC2024-062, Hydro is required to structure its applications for utility rate increases to target a 2.25 percent rate increase for domestic rates.

**b)** In Chart 1-4 of Hydro's 2026 General Rate Application, Muskrat Falls Supply Costs of $780.0 million include charges incurred by Hydro under the Muskrat Falls Power Purchase Agreement and Transmission Funding Agreement. The calculation, which compares these costs to Hydro's 2019 Test Year revenue requirement, does not reflect certain offsetting

[1] Government of Newfoundland and Labrador, *Order in Council OC2013-343*, November 29, 2013.

credits associated with the incurrence of these supply costs, such as net export revenue, transmission tariff revenue, greenhouse gas credit revenue, fuel savings and rate mitigation. Accordingly, the comparison considers only the gross supply costs and does not take into account the full range of associated credits, revenues, savings and mitigation measures.