Q. **Reference: Application, Chapter 1, page 1.9**

Hydro states "*The Muskrat Falls Assets are a significant component of the province's generation portfolio and, while managed by Hydro, are exempt from the Act, regulation and oversight by the Board.*" Footnote 16 states "*OC2013-343 and the Muskrat Falls Project Exemption Order expressly provide that all associated costs are fully recoverable through Island Interconnected System customer rates and are not subject to disallowance, reduction, or regulatory adjustment.*"

a) Do the IIS customer rates proposed in the 2026 GRA fully recover the cost of the Muskrat Falls assets without *"disallowance, reduction, or regulatory adjustment"*?

b) From an accounting perspective, how does Hydro categorize the rate mitigation cost of $502 million; i.e., a regulatory adjustment?

c) While the Board does not have oversight of the Muskrat Falls assets, does it have oversight of rate mitigation amounts?

A. **a)** The costs associated with the Muskrat Falls Assets included in Newfoundland and Labrador Hydro's ("Hydro") revenue requirement are recoverable in accordance with Order in Council OC2013-343 and the Muskrat Falls Project Exemption Order. As described in Hydro's 2026 General Rate Application ("GRA"), Muskrat Falls supply costs are fully included in Hydro's 2027 Test Year revenue requirement and form part of Hydro's costs of providing service to Island Interconnected System customers. The rate mitigation plan announced in 2024 affects the rates charged to customers by offsetting a portion of those costs but does not alter the full inclusion of Muskrat Falls supply costs in Hydro's revenue requirement.

b) As approved in Board of Commissioners of Public Utilities Order No. P.U. 34(2025), rate mitigation revenue received by the regulated operating segment is recorded as a regulatory adjustment under IFRS 14 – Regulatory Deferral Accounts. Rate mitigation funding is also recorded as an expense in Hydro's non-regulated operating segment.

c) The rate mitigation framework reflected in Hydro's 2026 GRA is established through Government of Newfoundland and Labrador direction in Order in Council OC2024-062. Hydro is directed to structure rate applications such that retail rate increases to domestic rate class customers attributable to Hydro are targeted at 2.25% annually through 2030. Hydro is further directed that any additional funding necessary to mitigate the Muskrat Falls Project costs to achieve the annual targeted 2.25% rate increase for customers subject to Island Interconnected System rates be through Hydro’s own sources. Hydro's 2026 GRA has been prepared in accordance with that direction.