Q. **Reference: Volume 1, Chart 4-1 and page 4.15, including footnote 59; Tables 4-3, 4-4 and 4-5**

a) Hydro states (lines 10 to 12) "*…approximately 90% of Hydro's costs under the Muskrat Falls PPA and Transmission Funding Agreement are commercially fixed and are unable to be changed or influenced by Hydro.*" Explain why costs under the Muskrat Falls PPA and Transmission Funding Agreement are unable to be changed or influenced by Hydro, when the subsidiaries that have negotiated this PPA and agreement are controlled by the same Board of Directors that control Hydro.

b) Provide the calculation supporting this split, in Excel, identifying each cost line included in each category and whether the split is calculated before or after the Muskrat Falls PPA Sustaining Capital Deferral credit.

c) For each operationally managed line, provide budget-to-actual results for 2021-2025, forecast values for 2026-2027, variance explanations, procurement controls, and any performance benchmarks.

A. **a)** It is not correct that the Board of Directors for Newfoundland and Labrador Hydro ("Hydro") is also the Board of Directors for the relevant subsidiaries. Each corporation has its own Board of Directors, who have specific fiduciary duties to the corporation to which they are appointed to govern. Additionally, the *Hydro Corporation Act, 2024* requires the Board of Directors of a subsidiary to have a specific number of independent directors, depending on the number of members the Board has.[1] An independent director is defined as a person who is not a member of the Hydro Board of Directors or another subsidiary, or an employee or officer of Hydro, another subsidiary, or the Crown.[2] Further, the Transmission Funding Agreement ("TFA") involves other organizations in addition to Hydro subsidiaries.

[1] *Hydro Corporation Act, 2024*, s. 26(6)(e).
[2] *Hydro Corporation Act, 2024*, s. 26(7).

The costs recovered under the Muskrat Falls Power Purchase Agreement ("PPA") and TFA are established through legally binding contractual and financing arrangements that were put in place as part of the broader commercial and financing framework, including arrangements associated with the federal loan guarantees and project financing, to support the development of the Muskrat Falls Project. Alteration of the PPA and related agreements would have significant consequences for those contractual and financing arrangements, including the arrangements supporting the federal loan guarantees and project financing, and therefore cannot be considered in isolation from the broader financing structure established for the Muskrat Falls Project.

b) Please refer to CA-NLH-040, Attachment 1, provided in Excel format.

c) Please refer to CA-NLH-040, Attachment 2 for budget-to-actual results for 2021–2025, forecast values for 2026 and 2027 Test Year and variance explanations.

The procurement controls applicable to the operationally managed costs identified in this response 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 financial reporting processes. This approach is consistent with the management of costs within Hydro's regulated business. For further information on the budgeting process and controls, please refer to Hydro’s responses to CA-NLH-049 and PUB-NLH-010 of this proceeding.

Operationally Managed Costs
Budget to Actuals 2021–2025 and Forecast 2026–2027
($ Millions)[1]

	Budget 2021	Actual 2021	Budget 2022	Actual 2022	Budget 2023	Actual 2023	Budget 2024	Actual 2024	Budget 2025	Actual 2025	Forecast 2026	Test Year 2027	2021B vs 2021A Variance	2022B vs 2022A Variance	2023B vs 2023A Variance	2024B vs 2024A Variance	2025B vs 2025A Variance	Note
Muskrat Falls PPA[2]																		
Other Costs																		
Operating Costs	3.0	2.9	26.8	20.9	23.9	22.2	26.0	26.8	27.6	26.5	24.6	21.7	(0.1)	(5.9)	(1.7)	0.8	(1.1)	**1**
Muskrat Falls Sustaining Capital Costs	-	-	0.2	-	0.3	0.4	0.9	0.3	3.3	2.0	3.7	5.4	-	(0.2)	0.1	(0.6)	(1.3)	
Other[3]	0.3	0.3	(0.1)	(0.0)	0.0	(0.1)	0.0	0.0	(0.0)	(2.8)	-	-	-	0.1	(0.1)	0.0	(2.8)	**2**
LTA[4] Operating Costs	0.9	0.9	6.8	4.4	6.5	4.6	6.2	4.9	6.3	5.5	6.6	6.3	0.0	(2.4)	(1.9)	(1.3)	(0.8)	**3**
LTA Sustaining Capital Costs	-	-	9.0	0.5	9.0	3.9	6.8	10.5	4.4	4.3	15.3	3.2	-	(8.5)	(5.1)	3.7	(0.1)	**4**
Muskrat Falls PPA Sustaining Capital Deferral	-	-	(9.2)	(0.5)	(9.2)	(4.4)	(7.7)	(10.8)	(7.7)	(6.3)	(18.9)	(8.6)	-	8.7	4.8	(3.1)	1.4	**5**
Total PPA Operationally Managed Supply Costs	**4.1**	**4.1**	**33.6**	**25.3**	**30.5**	**26.6**	**32.3**	**31.7**	**33.8**	**29.2**	**31.3**	**28.0**	**(0.0)**	**(8.3)**	**(3.8)**	**(0.6)**	**(4.7)**	
TFA[5]																		
Rent																		
Return on Equity	-	-	-	-	-	-	-	1.0	3.0	2.6	4.9	6.6	-	-	-	1.0	(0.4)	
Depreciation	-	-	-	-	-	-	0.1	0.3	0.9	0.7	1.5	1.8	-	-	-	0.2	(0.2)	
Other[6]	-	-	-	-	0.1	0.2	0.3	0.9	0.5	0.2	0.5	0.5	-	-	0.1	0.6	(0.3)	
Operating Costs	-	-	-	-	25.4	23.1	35.1	31.1	38.0	31.9	37.9	37.6	-	-	(2.3)	(4.0)	(6.1)	**6**
Total TFA Operationally Managed Supply Costs	-	**-**	-	**-**	**25.5**	**23.3**	**35.5**	**33.3**	**42.4**	**35.4**	**44.8**	**46.5**	**-**	**-**	**(2.2)**	**(2.2)**	**(7.0)**	
Total Operationally Managed Supply Costs	**4.1**	**4.1**	**33.6**	**25.3**	**55.9**	**49.9**	**67.8**	**65.0**	**76.3**	**64.6**	**76.1**	**74.5**	**(0.0)**	**(8.3)**	**(6.1)**	**(2.8)**	**(11.7)**	

[1] Numbers may not add due to rounding.
[2] Muskrat Falls Commissioning occurred in November of 2021, upon which payments from Newfoundland and Labrador Hydro ("Hydro") to Muskrat Falls Corporation commenced under the Muskrat Falls Power Purchase Agreement ("PPA").
[3] Primarily consists of insurance proceeds.
[4] Labrador Transmission Assets ("LTA").
[5] The Labrador-Island Link ("LIL") was commissioned in April 2023, and payments from Hydro to LIL Operating Corporation under the Transmission Funding Agreement ("TFA") commenced in May 2023.
[6] Primarily consists of LIL Limited Partnership operating costs.

Note 1 - The 2022 variance of $5.9 million for Muskrat Operating Costs is primarily due to lower labour costs and savings in System Equipment Maintenance ("SEM") contracts.
Note 2 - The 2025 variance of $2.8 million for Muskrat Falls Other costs relates to a one-time unbudgeted recovery of insurance proceeds.
Note 3 – The 2022 variance of $2.4 million for LTA Operating Costs is primarily due to lower labour costs.
Note 4 – The 2022–2024 variances of $8.5 million, $5.1 million and ($3.7) million for LTA Sustaining Capital Costs are primarily related to timing of the Shunt Reactors capital project.
Note 5 – The 2022–2024 variances of ($8.7) million, ($4.8) million and $3.1 million for the Sustaining Capital Deferral is primarily related to the timing of the Shunt Reactors capital project.
Note 6 – The 2023 variance of $2.3 million for TFA Operating Costs primarily relates to savings in insurance and labour costs. The 2024 variance of $4.0 million for TFA Operating Costs primarily relates to lower labour costs and the timing of spend on professional services. The 2025 variance of $6.1 million for TFA Operating Costs primarily relates to savings in SEM contracts, professional services and labour.