

Q. **Reference: Volume 1, table 4-5, page 4.12**

Hydro provides (table 4-5) a table which summarizes the sub-components of the Transmission Funding Agreement Supply Costs from 2024 actual to the 2027 Test Year - with the Rent components of return on equity, interest and depreciation representing approximately 92% (\$426.3/\$465.1) of the total costs for the 2027 Test Year. Hydro states (lines 5 to 6) *“Unlike the Muskrat Falls PPA, the Transmission Funding Agreement payments are not dependent on the volume of energy; rather they are based on a return on rate base approach.”*

a) Provide the calculations of the return on equity, interest and depreciation that were used to derive the amounts for 2024 actual to the 2027 Test Year in table 4-5

b) Extend table 4-5 to include 2028 Forecast to 2030 Forecast and provide the forecast calculations of return on equity, interest and depreciation to derive the forecast amounts.

A. a) Please refer to Table 1 for supporting calculations for return on equity, interest and depreciation.

Table 1: TFA¹ Rent – Return on Equity, Interest and Depreciation 2024–2027 (\$ Millions)²

	2024 Actual	2025 Actual	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast	2030 Forecast
Return on Equity							
Original Capital Costs	206.3	206.0	203.5	200.9	198.4	195.8	193.3
Sustaining Capital	1.0	2.6	4.9	6.5	6.6	6.7	6.9
	207.3	208.6	208.4	207.5	205.0	202.6	200.2
Interest							
Interest Expense	118.0	117.6	117.2	116.8	116.3	115.9	115.4
Interest Earned	(23.4)	(12.2)	(12.9)	(13.2)	(13.8)	(15.5)	(17.2)
	94.6	105.4	104.3	103.6	102.5	100.3	98.1
Depreciation							
Original Capital Costs	113.2	113.4	113.4	113.4	113.4	113.4	113.4
Sustaining Capital	0.3	0.7	1.5	1.8	1.7	1.8	1.9
	113.5	114.1	114.9	115.2	115.1	115.2	115.3

¹ Transmission Funding Agreement (“TFA”).

² Numbers may not add due to rounding.

Return on equity for a given year is calculated on the average opening and closing balance of the partnership equity accounts for that year. The return on equity rate is equal to the rate approved by the Board of Commissioners of Public Utilities for privately-owned regulated electric utilities in Newfoundland and Labrador (Article 3.9 of the TFA), which is currently 8.6%. In 2024, this rate was 8.5%.

Interest is comprised of interest expense on the debt financing incurred to finance the development of the Labrador-Island Link (“LIL”) less the interest earned on the bank accounts that hold funds in relation to debt financing of the LIL (i.e., Sinking Fund Account, Debt Service Escrow Account, Debt Service Reserve Account).

Depreciation on the original capital costs to construct the LIL is calculated by taking the undepreciated capital costs divided by the remaining service life of the LIL. The service life of the LIL is 50 years and is determined by commercial contracts linked to cost recovery rather than the actual estimated useful life of the assets themselves.³

b) Table 4-5 extended to include the 2028–2030 forecast is presented in Table 2.

Table 2: TFA Supply Costs 2024–2030 (\$ Millions)⁴

	2024 Actual	2025 Actual	2026 Forecast	2027 Test Year	2028 Forecast	2029 Forecast	2030 Forecast
Rent							
Return on Equity	207.3	208.6	208.4	207.5	205.0	202.6	200.2
Interest	94.6	105.4	104.3	103.6	102.5	100.3	98.1
Depreciation	113.5	114.1	114.9	115.2	115.1	115.2	115.3
Other	1.6	0.8	1.3	1.2	1.2	1.3	1.3
Total Rent	417.0	428.9	428.9	427.5	423.9	419.4	415.0
Operating Costs	31.1	31.9	37.9	37.6	39.4	40.4	41.3
Fixed Payment of \$30,000⁵	-	-	-	-	-	-	-
Total TFA Supply Costs	448.1	460.8	466.8	465.1	463.3	459.8	456.4

³ Further information on the service life of the LIL is included in Newfoundland and Labrador Hydro’s (“Hydro”) response to CA-NLH-046 of this proceeding.

⁴ Numbers may not add due to rounding.

⁵ The fixed payment of \$30,000 is included in the TFA supply costs; however, it does not show in the table due to rounding.

- 1 The supporting calculations for the forecasted return on equity, interest and depreciation are
- 2 explained in Hydro's response to part a) above.