Q. **Reference: Volume 1, page 127; Schedules C-III and C-V (Volume 1, pages 225, 227)**

Describe Hydro's processes for verifying Muskrat Falls PPA, LTA, and TFA invoices and charges before including them in revenue requirement, deferral accounts, or rate mitigation calculations. Provide audit-right provisions, internal control descriptions, invoice review procedures, exception reports, dispute history, external audit or independent review summaries, and any unresolved billing or interpretation issues from 2021-2027.

A. ***Muskrat Falls Power Purchase Agreement ("PPA")***

The costs associated with the Muskrat Falls PPA are governed by the Amended and Restated PPA between Newfoundland and Labrador Hydro ("Hydro") and the Muskrat Falls Corporation ("Muskrat Falls"). Under the Muskrat Falls PPA, Hydro Regulated is required to pay Muskrat Falls the Base Block Energy on the first day of each operating month, during the supply period of the Muskrat Falls PPA.

Each monthly invoice from Muskrat Falls to Hydro includes:

i. Base Block Payment (annual Base Block Capital Cost Recovery for that operating year invoiced evenly over 12 months);

ii. Estimated operations and maintenance ("O&M") costs; and

iii. Sustaining Capital Costs (latest forecasted sustaining capital costs for the operating month).

The Base Block Capital Cost Recovery recovers the development costs (capital and financing costs) of the Muskrat Falls Plant and Labrador Transmission Assets ("LTA") as well as the assigned internal rate of return. The total balance for recovery is calculated by Hydro's Financial Planning team in accordance with Schedule 1 and Schedule 2 of the Muskrat Falls PPA. The calculation takes the Base Block Capital Supply Price, which is the escalating supply price in dollars per MWh applied to the Base Block Energy scheduled for delivery over the supply period of the Muskrat Falls PPA. These calculations are reviewed by the Team Lead, Finance Lower Churchill, the Controller, Lower Churchill and Senior Manager, Capital.

The Budgeted O&M Costs included in the Muskrat Falls PPA invoices are based upon the Muskrat Falls and Labrador Transmission Corporation ("LTC") budgets as approved by the Muskrat Falls and LTC Boards of Directors.

The sustaining capital costs included in the Muskrat Falls PPA invoices are agreed to the most recent forecasted sustaining capital cash flow information for the period invoiced. Sustaining capital starts with the capital budgets as approved by the Muskrat Falls and LTC Boards of Directors, with forecasted changes from budget confirmed with the Capital Accounting team to ensure that they are in line with Capital Program Change Management Committee[1] meeting approvals.

Prior to approval of the O&M and the sustaining capital budgets by the Boards of Directors, the Joint Operations Committee ("JOC"), as per Article 5 of the Muskrat Falls PPA, participate in the review of the budgets. As well, the budgets, as approved by the Boards of Directors, are provided to the Collateral Agent and the Government of Canada for the opportunity to review, provide questions and comment. Each month, the invoices are prepared by the Team Lead, Finance Lower Churchill and reviewed by the Controller, Lower Churchill and Senior Manager, Capital. The invoices and calculations are sent to Hydro before the first of each month and received by the Controller, Regulated Hydro, Energy Marketing, Financial Services, and the Manager, Financial Reporting and Accounting (a member of the Controller, Regulated Hydro's team). Invoices are reviewed by the Manager, Financial Reporting and Accounting before being sent to the Controller, Regulated Hydro for approval for payment. The Manager, Financial Reporting and Accounting and the Controller, Regulated Hydro have access to the approved Muskrat Falls and LTC budgets and actuals to assist in invoice review.

[1] The Change Management Committee meets frequently (monthly to biweekly) to review and approve any changes to the annual capital plan spending. The committee consists of senior management from Finance, Non-Regulated Operations and Engineering Services, plus the Vice President, Churchill and Muskrat Falls. Changes less than $5 million are within the committee's scope for approval. Changes include increasing, decreasing, removing or deferring capital projects to prioritize preservation of the assets.

On a quarterly basis, the Lower Churchill Finance team prepares the Actual Quarterly O&M Cost Accounting invoice, which reflects the difference between the invoiced O&M and sustaining capital costs for Muskrat Falls and LTA for the prior quarter (invoiced as per description above) and the actual costs incurred. These quarterly 'true-up' invoices are prepared by the Team Lead, Finance Lower Churchill, and reviewed by the Controller, Lower Churchill and Senior Manager, Capital. The invoices and calculations are sent to Hydro Regulated and received by the Controller, Regulated Hydro, Energy Marketing and Financial Services, and the Manager, Financial Reporting and Accounting (a member of the Controller, Regulated Hydro's team). Invoices are reviewed by the Manager, Financial Reporting and Accounting before being sent to the Controller, Regulated Hydro, for approval for payment if the quarterly true-up invoice is payable by Hydro or the Controller, Lower Churchill and Senior Manager, Capital for approval for payment if the quarterly true-up invoice is payable by Muskrat Falls.

Transmission Funding Agreement ("TFA")

Charges for the transmission costs of the Labrador-Island Link ("LIL") are governed by the TFA. Under the TFA, Hydro Regulated pays Labrador-Island Link Operating Corporation ("LIL Opco") for O&M costs, Rent for the LIL and a $30,000 administration fee per operating year.

Each monthly invoice from LIL Opco to Hydro Regulated includes:

1. O&M costs of LIL Opco (budgeted O&M costs for the operating month);
2. Rent of the LIL (annual Rent of the LIL calculated in accordance with the LIL Lease Agreement and invoiced evenly over 12 months); and
3. $30,000 administration fee per operating year (invoiced evenly over 12 months).

The Budgeted O&M Costs included in the TFA invoices are billed based upon the LIL Opco and the Labrador-Island Link Limited Partnership ("LIL LP") budgets as approved by the LIL Opco and Labrador-Island Link General Partner ("LIL GP") Boards of Directors. Prior to approval of the O&M and Capital budgets by the Boards of Directors, the JOC participates in the review of the budgets. This JOC is established pursuant to the Joint Operations Agreement between Hydro[2] and Emera Energy. As well, the budgets, as approved by the Board of Directors, are provided to the Collateral Agent and the Government of Canada for the opportunity to review, provide questions and comment.

Rent of the LIL is calculated based on the LIL Lease Agreement. Rent includes the O&M, depreciation, return on undepreciated capital and recovery of cost of capital for LIL, calculated on an annual basis and invoiced equally each month. This amount is modelled and prepared by Hydro's Financial Planning team and reviewed by the Team Lead, Finance Lower Churchill and the Controller, Lower Churchill and Senior Manager, Capital.

Similar to the Muskrat Falls PPA, each month the invoices are prepared by the Team Lead, Finance Lower Churchill and reviewed by the Controller, Lower Churchill and Senior Manager, Capital. The invoices and supporting calculations are sent to Hydro Regulated before the first of each month and received by the Controller, Regulated Hydro, Energy Marketing and Financial Services, and the Manager, Financial Reporting and Accounting. Invoices are reviewed by the Manager, Financial Reporting and Accounting before being sent to the Controller, Regulated Hydro, for approval for payment. The Manager, Financial Reporting and Accounting and the Controller, Regulated Hydro have access to the approved LIL budget to assist in invoice review.

On a quarterly basis, the Lower Churchill Finance team prepares the Actual Quarterly TFA Payment Invoice, which reflects the difference between the invoiced Rent and the actual Rent and the invoiced O&M costs for LIL Opco and the actual costs incurred. These quarterly true-up invoices are prepared by the Team Lead, Finance Lower Churchill and reviewed by the Controller, Lower Churchill and Senior Manager, Capital. The invoices and supporting calculations are sent to Hydro Regulated and received by the Controller, Regulated Hydro, Energy Marketing and Financial Services, and the Manager, Financial Reporting and Accounting. Invoices are reviewed by the Manager, Financial Reporting and Accounting before being sent to the Controller, Regulated Hydro, for approval for payment if the quarterly true-up invoice is

---

[2] On June 23, 2021, the Government of Newfoundland and Labrador announced that the operations of Nalcor Energy ("Nalcor") would be moved to Hydro. Effective January 1, 2025, Hydro and Nalcor Energy were amalgamated pursuant to the *Hydro Corporation Act, 2024*, resulting in a single continued Crown utility. As a result of the amalgamation, Nalcor's and Hydro's assets, liabilities, obligations and agreements continue under the new Hydro, and all Nalcor subsidiaries are now Hydro subsidiaries.

payable by Hydro or the Controller, Lower Churchill and Senior Manager, Capital, for approval for payment if the quarterly true-up invoice is payable by LIL Opco.

In addition to the process noted above around the calculation of the charges and the invoice review and approval for both the Muskrat Falls PPA and the TFA, on a monthly basis, as part of the reporting process for each line of business and the consolidated entity, variance analysis is performed on revenue and expenditures. Significant variances are investigated and explained, and reviewed by the respective controllers of each line of business. This acts as another control to ensure costs are recorded accurately and in accordance with the respective commercial arrangements. In addition, common coding structures are established in the accounting system to facilitate the consistent categorization of costs.