Q. **Reference: Application, Chapter 1, page 1.18**

Hydro states "Government's rate mitigation plan has been incorporated into Hydro's 2027 Test Year and reflects the funding required to offset the portion of Hydro's costs that are not expected to be recovered through customer rates."

a) What has driven the increase in rate mitigation funding from an average of $350 million per year (pages 1.17 and 1.18) to over $500 million per year?

b) Does the proposed rate mitigation amount of $502 million impact customers other than those on the IIS?

c) Explain how Hydro satisfies itself that funding upwards of $350 million per year of rate mitigation from internal sources is financially sustainable through 2030.

A. **a)** The average rate mitigation funding noted in Chapter 1, page 1.18 of Newfoundland and Labrador Hydro's ("Hydro") 2026 General Rate Application of upwards of $350 million per year is calculated using 2024 Actuals, 2025 and 2026 Forecast, and 2027 Test Year for Hydro's internal sources as shown in Table 5-6 on page 5.10, and excludes funding related to government grants and the Government of Canada convertible debenture. The total rate mitigation funding of $502 million for 2027 noted on page 1.18 is reflected in Table 5-6 and includes all sources of rate mitigation funding and, as a result, the two figures are not directly comparable.

The figures in Table 5-6 represent the actual and forecast timing of receipt of rate mitigation funding, and not necessarily the difference between the cost to supply customers and that which is recovered through customer rates in that particular period[1]. For example, per Government of Newfoundland and Labrador ("Government") direction in Order in Council

[1] This is applicable to forecasts for 2025 and 2026. In the case of the 2027 Test Year, for the purpose of rate design, it is assumed that the rate mitigation required to fund the difference between the costs to supply customers and the revenue collected from customers is all received within the 2027 fiscal year.

OC2024-062, rate mitigation funding related to variances in actual supply costs, and those which were included in customer rates related to the 2023 fiscal year, was received over the 2024–2026 period. As such, $90.0 million of rate mitigation funding in each of these three years presented in Table 5-6 relates to the 2023 fiscal year. As noted in footnote 44 on page 5.9, the estimated timing of rate mitigation funding transfers may cause fluctuations in the balance on a year-over-year basis.

b) No. The proposed rate mitigation funding of $502 million does not directly impact Hydro customers outside of the Island Interconnected System, as no rate mitigation funding has been allocated to those customers in the Cost of Service Study. However, customer rates on Hydro’s Isolated systems and in L’Anse-au-Loup are linked, through Government direction, to Newfoundland Power Inc.'s customer rates or rate changes on the Island Interconnected System and may therefore be indirectly impacted by rate mitigation.

c) Please refer to Hydro’s response to CA-NLH-063 of this proceeding.