

1 Q. **Reference: Volume 2, Exhibit 3, Implementation of Rate Mitigation Plan Report, October 2024,**
2 **table 2, page 5**

3 Hydro provides (table 2) a table which summarizes projected rate mitigation required and rate
4 mitigation funding sources and timing from 2024 to 2030. The projected rate mitigation funding
5 includes LCP Dividends and Hydro internally generated funding. LCP Dividends includes any
6 excess cash generated from operations associated with the Lower Churchill entities which is
7 forecast to be provided to the parent company through a common dividend. Hydro states (lines
8 3 to 5 on page 5) *"Orders in Council...directed the retirement of the 2023 SCVDA balance of*
9 *\$271.3 million over the 2024-2026 period. This timing is reflected accordingly in Table 2, spread*
10 *evenly over the three years."*

11 a) Explain whether the required rate mitigation is a back-calculation of the amount of
12 funding required to achieve 2.25% rate increases to 2030 or a forward-looking forecast
13 of amounts available to mitigate rate increases.

14 b) Provide a detailed explanation of how Table 2 on page 5 of Exhibit 3 results in the
15 retirement of the \$271.3 million balance of the 2023 SCVDA balance over the 2024 to
16 2026 period.

17 c) Elaborate on which of the Hydro subsidiaries the LCP dividends are expected to be
18 provided from and how the projections to 2030 have been calculated.

19 d) Provide a description and breakdown of the projection of Hydro's various internally
20 generated funding sources for rate mitigation in Table 2 from 2024 to 2030.

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23 A. a) Rate mitigation is a back-calculation of the amount of funding required to achieve the target
24 annual rate increase of 2.25% up to and including 2030.

25 b) The 2023 Supply Cost Variance Deferral Account ("SCVDA") balance of \$271.3 million is the
26 Beginning Balance, Rate Mitigation Required in 2024, found in Exhibit 3, Table 2 of

1 Newfoundland and Labrador Hydro's ("Hydro") 2026 General Rate Application. Table 2
2 forecast and actual annual total rate mitigation funding is based on the timing of receipt of
3 funding forecast to be received during the period and is not necessarily equal to the rate
4 mitigation required to fund the difference between costs incurred and revenue earned
5 during that period, as further outlined in Hydro's response to CA-NLH-058 of this
6 proceeding. Of the total rate mitigation funding during the period outlined in Table 2 for
7 each of the years 2024, 2025, and 2026, \$90 million per year relates to the retirement of the
8 2023 SCVDA balance of \$271.3 million.

- 9 c) Lower Churchill Project dividends are expected to be provided from Muskrat Falls
10 Corporation, Labrador Transmission Corporation and the Labrador-Island Link Limited
11 Partnership (through the Labrador-Island Link Holding (2021) Corporation). Hydro's
12 corporate structure as of January 1, 2025 is provided in Chapter 1, Figure 1-3. Projections to
13 2030 have been calculated based on forecast cash flows for these subsidiaries.
- 14 d) The projection of rate mitigation required from Hydro's internally generated sources of
15 funding is calculated based on the rate mitigation required after the Government of Canada
16 convertible debenture funding and Lower Churchill Project dividends are taken into account.
17 Hydro forecasts its non-regulated cash flows to ensure sufficient cash is available to fund
18 rate mitigation as well as other operating requirements. Dividends from Hydro's subsidiaries
19 are paid to Hydro and become part of Hydro's non-regulated cash position. These funds are
20 managed on a pooled basis together with other internally generated cash flows and are
21 used to fund rate mitigation and other corporate requirements, as necessary. Consequently,
22 Hydro does not attribute specific portions of internally generated funding outlined in Table 2
23 of Exhibit 3 to individual cash sources. Sources of rate mitigation funding are further
24 outlined in Chapter 1, Figure 1-5.