Q. **Reference: Reference: Volume 1, table 5-10 and table 5-11, page 5.15, schedule D-IV and schedule D-II, page 4 of 7**

Hydro provides (table 5-10) a table with a comparison of the average debt and finance charges and (table 5-11) a table which calculates the return on rate base and rate of return on rate base with a comparison between the 2019 Test Year and the 2027 Test Year. Schedule D-IV provides a summary of the composition of Hydro’s total debt from the 2019 Test Year to the 2027 Test Year. Schedule D-II, page 4 of 7 provides the calculation of return on rate base.

a) Provide an explanation of the source and calculation of the total forecast interest rate for debt Series 4A of 4.68% in 2026 and debt Series 5A of 4.73% in 2027 with a breakdown between the forecast benchmark interest rate and forecast provincial spread and confirm that the quoted interest rates do not include the debt guarantee fee.

b) Provide the projected % rate of the debt guarantee fee for 2026 Forecast and 2027 Test Year.

c) Explain why Interest Cost of Service Exclusions ($8.792 million) that related to the disallowed portion of the debt guarantee fees are included in the Net Interest component ($81.3 million) of Return on Rate Base (Schedule D-II, page 4 of 7) and ultimately in total revenue requirements for the 2027 Test Year.

A. **a)** The forecasted interest rates for Debt Series 4A and 5A were estimated using the average of the quarterly forecasted 30-year benchmark interest rates published by Canadian Financial Institutions, together with the forecasted provincial credit spread. Newfoundland and Labrador Hydro’s (“Hydro”) provincial spread assumption is based on the average 30-year indicative provincial spreads forecast by Canadian Financial Institutions that participate in the province's borrowing syndicate.

The total forecasted interest rate for Debt Series 4A is 4.68% in 2026, consisting of a 30-year benchmark rate of 3.75% and a provincial spread of 0.93%. For Debt Series 5A, the total forecasted interest rate is 4.73% in 2027, consisting of a 30-year benchmark rate of 3.80% and the same provincial spread of 0.93%.

The forecast interest rates presented above exclude the Debt Guarantee Fee.

b) The Debt Guarantee Fee varies depending on the term to maturity of the debt. For debt outstanding as of December 31, 2010, the province charges Hydro an Annual Guarantee Fee of 25 basis points on total debt (net of sinking funds) with a remaining term to maturity of ten years or less, and 50 basis points on total debt (net of sinking funds) with a remaining term to maturity of more than ten years.

For debt issued after December 31, 2010, the guarantee fee is based on the original term to maturity. An annual fee of 25 basis points applies to total debt (net of sinking funds) with an original term to maturity of ten years or less, while 50 basis points applies to total debt (net of sinking funds) with an original term to maturity of more than ten years.

The Debt Guarantee Fee associated with the debt issuances forecasted for 2026 and 2027 is currently not included for recovery in the 2027 Test Year. The 2027 Test Year only includes the Debt Guarantee Fee associated with Debt Series Y, AB, AD and AF, as well as the short-term borrowings, which were previously approved for recovery by the Board of Commissioners of Public Utilities in Order No's. P.U. 16(2019) and P.U. 49(2016).

c) The disallowed portion of the Debt Guarantee Fees is excluded from the Net Interest component of Return on Rate Base.

The Interest Cost of Service Exclusion of $8.8 million is excluded from the Regulated Interest of $72.5 million in Schedule D-II, page 4 of 7 of Hydro's 2026 General Rate Application ("GRA"). The Cost of Service Exclusions are added back in the Return on Rate Base calculation in Schedule D-II, page 4 of 7 of Hydro's 2026 GRA, as it was included in Net Income.

Hydro has restated Table 5-11 of the 2026 GRA to present the adjustment in the Net Income component rather than the Net Interest component. There is no net change to the total Return on Rate Base of $136.7 million.

Restated Table 5-11: Return on Rate Base ($ Millions)[1]

	2019 Test Year	2027 Test Year
Average Rate Base[2]	**2,317.3**	**2,802.1**
Regulated Returns		
Net Interest[3]	88.9	72.5
Net Income[4]	36.9	64.2
Return on Rate Base	**125.8**	**136.7**
Rate of Return on Rate Base (%)	**5.43**	**4.88**
Allowable Return on Rate Base Range (+/-0.20) (%)	**5.23 to 5.63**	**4.68 to 5.08**

[1] Numbers may not add due to rounding.
[2] Please refer to “2026 General Rate Application,” Newfoundland and Labrador Hydro, May 27, 2026, vol. I, ch. 5, sec. 5.3, p. 5.11, Table 5-7.
[3] Please refer to “2026 General Rate Application,” Newfoundland and Labrador Hydro, May 27, 2026, vol. I, sch. D-II, p. 4 of 7, Regulated Interest.
[4] Please refer to “2026 General Rate Application,” Newfoundland and Labrador Hydro, May 27, 2026, vol. I, sch. D-II, p. 4 of 7, Net Income plus Cost of Service Exclusions.