Q. **Reference: Volume 1, pages 1.2 and 1.17**

Hydro states (lines 21 to 23 of page 1.2) "*The purpose of this application is to update the rates to be charged by Hydro for the supply of electricity, enable the review of costs and how they are allocated amongst classes and allow for an opportunity for Hydro to earn a just and reasonable return*". Hydro states (lines 11 to 16 of page 1.17) "*Government has directed Hydro…these directions effectively cap the recovery of Hydro's costs through customer rates and shift a portion of costs away from ratepayers.*" Explain if the direction from Government in the Rate Mitigation Plan is to effectively cap Hydro's return on equity and shift a portion of these costs away from ratepayers.

A. No. The premise of the question is incorrect. The Government of Newfoundland and Labrador's ("Government") rate mitigation plan reflects the intention to limit the amount of costs recovered from customers through electricity rates by directing Newfoundland and Labrador Hydro ("Hydro") to structure any application for utility rate increases such that the retail rate increase to domestic class customers are targeted at 2.25 percent per year.[1] Government's direction from that time does not establish an intention to cap Hydro's return on equity.

A limit on customer rate increases or on cost recovery from ratepayers is not the same as a cap on return on equity. The rate mitigation plan addresses the recovery of costs from customers. Hydro's return on equity reflects the return authorized by the Board of Commissioners of Public Utilities on approved equity and remains a separate regulatory determination.[2]

[1] Government of Newfoundland and Labrador, *Order in Council OC2024-062*, May 7, 2024; and Government of Newfoundland and Labrador, *Order in Council OC2024-063,* May 7, 2024.
[2] In OC2009-063, Government directed that: (i) in calculating the return on rate base for Hydro, the same rate of return on equity would be set for Hydro as was last set for Newfoundland Power Inc. ("Newfoundland Power"); (ii) Hydro would earn return on equity on its entire rate base, including amounts related to its rural assets; and (iii) Hydro would be permitted to have a proportion of equity in its capital structure up to a maximum of the same as is approved for Newfoundland Power.