Q. **Reference: Application, Chapter 5, page 5.1**

Hydro states "*Hydro's revenue requirement is generally comprised of the return on rate base and other reasonable costs, including operating costs, fuels, power purchases, other supply costs and depreciation; however, for the 2027 Test Year, the revenue requirement includes Muskrat Falls supply costs and is calculated net of rate mitigation funding that offsets a portion of Hydro's costs that would otherwise be recovered through customer rates.*" Is Hydro allowed a return on assets that are not under Board jurisdiction? Is Hydro proposing to earn a return on the costs of the Muskrat Falls assets, or on the costs of the Muskrat Falls assets less the cost of rate mitigation?

A. Newfoundland and Labrador Hydro ("Hydro") is not proposing to earn a regulated return on Muskrat Falls supply costs.

Muskrat Falls supply costs are included in the 2027 Test Year revenue requirement and are recovered pursuant to the applicable Orders in Council and contractual arrangements, including the Muskrat Falls Project Exemption Order (OC2013-343). These costs are recovered as supply costs and are not included in Hydro's regulated rate base.

Hydro does, however, earn a return on Board of Commissioners of Public Utilities ("Board")-approved Muskrat Falls and Labrador Transmission Assets sustaining capital costs that have been included in rate base pursuant to Board Order No. P.U. 33(2021).