Q. **Reference: Application, Chapter 2, page 2.36**

Hydro states "The Rural Deficit is approximately 8% of Hydro's overall revenue requirement." It is understood that the revenue shortfall in the 2027 Test Year is 39% ($502 million / $1300 million).

a) What are each of these deficits when translated into cents/kWh?

b) Identify the amount of the 2027 Rural Deficit allocated to Newfoundland Power customers and explain how Hydro reconciles that allocation with the fact that, owing to rate mitigation, Newfoundland Power customers' rates recover less than the cost of supply. Provide any analysis Hydro has undertaken on this point.

A. **a)** The all-in unit revenue for Newfoundland Power Inc.'s ("Newfoundland Power") test year is 10.59 cents/kwh.[1] In theory, if the Rural Deficit was not included in the revenue requirement, the all-in unit revenue would be 9.54 cents/kWh.[2] Therefore, the Rural Deficit is contributing to 1.05 cents/kWh of the overall unit revenue.[3]

The all-in unit revenue for the Labrador Interconnected System is 3.165 cents/ kWh.[4] In theory, if the Rural Deficit was not included in the revenue requirement, the all-in revenue

[1] $636,815,801 2027 Test Year Revenue as per Schedule F.12 of the 2027 Cost of Service Study, divided by projected energy sales of 6,014.6 GWh as per Schedule A-1 of Newfoundland and Labrador Hydro's ("Hydro") 2026 General Rate Application ("GRA").

[2] $636,815,801 2027 Test Year Revenue less $62,778,788 Rural Deficit as per Schedule F.12 of the 2027 Cost of Service Study, divided by projected energy sales of 6014.6 GWh as per Schedule A-1 of Hydro's 2026 GRA.

[3] This amount is purely hypothetical. An important piece of context is that even if no Rural Deficit amount was allocated to Newfoundland Power, its all-in unit revenue would remain approximately 10.59 cents/kWh. Newfoundland Power's revenue requirement of $636,815,801 is the targeted amount required to limit the rate increase for Newfoundland Power customers to 2.25%. If the Rural Deficit allocation were removed, the amount of rate mitigation would be adjusted accordingly to maintain that targeted revenue requirement. Therefore, the resulting all-in unit revenue would remain approximately 10.59 cents/kWh while rates are being mitigated.

[4] $22,230,560 Test Year revenue as per Schedule F.12 of the 2027 Cost of Service Study, divided by the projected energy sales of 702.2 GWh.

would be 2.85 cents/kWh.[5] Therefore, the Rural Deficit is contributing to 0.31 cents/kWh of the overall unit revenue.

b) As shown in Schedule F1.2 of Hydro’s proposed 2027 Cost of Service Study, $62,778,788 of the Rural Deficit is allocated to Newfoundland Power. This amount is included in Newfoundland Power’s total allocated revenue requirement of $636,815,801. The $636,815,801 revenue requirement reflects the amount targeted for recovery from Newfoundland Power to limit the rate increase attributable to Hydro’s costs to 2.25%. To achieve this target, $435,587,127 of rate mitigation was applied to Newfoundland Power’s cost of service. The rates charged to Newfoundland Power reflect the cost to serve, plus their allocated portion of the rural deficit as directed in Order in Council OC2003-347, reduced by rate mitigation funding to limit the impact on customer rates as directed in Orders in Council OC2024-062 and OC2024-063 per the rate mitigation plan.

The mitigated revenue requirement and Rural Deficit for each system are provided in Schedule F 1.2 of the Cost of Service Study. The corresponding unmitigated revenue requirements and Rural Deficits are provided in Schedule G 1.2.

[5] $22,203,560 Test Year less $2,191,541 Rural Deficit as per Schedule F.12 of the 2027 Cost of Service Study, divided by the projected energy sales of 702.2 GWh.