Q. **Reference: Volume 1, pages 5.22 and 5.23 and Schedule D-V. Exhibit 10, Section A**

Hydro states (page 5.22 lines 15 to 18 and page 5.23, lines 1 to 2) "The existing Supply Cost Variance Deferral Account accumulates costs, revenues and variances from the 2019 Test Year until the conclusion of Hydro's 2026 GRA; after that time, once a new test year is approved, Hydro proposes transitioning to the Long-Term Supply Cost Variance Deferral Account, effective January 1, 2027. Hydro will propose the disposition of any balances remaining in the existing Supply Cost Deferral Account after the transitioning to the Long-Term Supply Cost Variance Deferral Account in an application following the GRA." Hydro provides (Schedule D-V) a summary continuity schedule (opening balance on January 1, 2027, additions, dispositions and amortizations and ending balance on December 31, 2027) for the "Power Purchase Expense Recognition" and "Muskrat Falls Export Revenue Recognition" deferred charges for the 2027 Test Year only. Forecast balances in these deferred charges as at December 31, 2027 are $1.713 billion and $40.960 million, respectively, with a total of $1.754 billion. Hydro provides (Section A of Exhibit 10) the Long-Term Supply Cost Variance Deferral Account Definition which specifies nine underlying variances that together make up this regulatory deferral account.

a) Confirm (or explain otherwise) that the "Power Purchase Expense Recognition" and "Muskrat Falls Export Revenue Recognition" deferred charges in Schedule D-V are the forecasts of the ending balances in the existing Supply Cost Variance Deferral Account (SCVDA) at December 31, 2026 and the forecast additions to the Long-Term SCVDA during the 2027 Test Year.

b) Provide a detailed continuity schedule of the existing SCVDA for each year up to and including the 2027 Test Year that is broken down between the nine underlying variances in Exhibit 10 and breaks out carrying costs as a separate item.

c) Provide a detailed continuity schedule of the Long-Term SCVDA for each year of the three-year period from 2028 Forecast to 2030 Forecast that is broken down between the nine underlying variances in Exhibit 10 and breaks out carrying costs as a separate item.

d) Explain why it is in the public interest that discussions related to the disposition of the $1.754 billion and growing Long-Term SCVDA be deferred to a future application following the current GRA proceeding, as opposed to occurring at the current GRA proceeding.

A. **a)** The Power Purchase Expense Recognition and Muskrat Falls Export Revenue Recognition deferred charges in Schedule D-V of Newfoundland and Labrador Hydro's ("Hydro") 2026 General Rate Application ("GRA") are separate regulatory deferrals and are not components of either the existing Supply Cost Variance Deferral Account ("SCVDA") or the Long-Term SCVDA.

The Power Purchase Expense Recognition deferral was approved in the Board of Commissioners of Public Utilities ("Board") Order Nos. P.U. 9(2021) and P.U. 33(2021). The deferral reflects the difference between power purchase expenses recognized under International Financial Reporting Standards ("IFRS") and the commercial payment obligations under the Muskrat Falls Power Purchase Agreement ("PPA") and Labrador-Island Link Transmission Funding Agreement ("TFA"). Under the approved regulatory accounting treatment, these differences are deferred for future recovery rather than recognized immediately in earnings. Currently, IFRS expense recognition exceeds the corresponding commercial payments, resulting in the accumulation of a regulatory asset balance.

The Muskrat Falls Export Revenue Recognition deferral was approved in Board Order Nos. P.U. 33(2021) and P.U. 4(2022). The deferral represents the estimated value of future monetization proceeds associated with undelivered Schedule 2 energy under the Muskrat Falls PPA. Under the approved regulatory treatment, Hydro recognizes an estimate of the monetization benefit in the year the related export energy is generated and exported, rather than in the subsequent year when the amount becomes contractually monetizable. Accordingly, the balance represents a regulatory asset reflecting the estimated future monetization proceeds associated with export energy already delivered by Muskrat Falls.

b) Please refer to Hydro's response to part a) of LAB-NLH-020 of this proceeding.

c) Please refer to Hydro's response to CA-NLH-196 of this proceeding.

d) The forecast unrecovered balance of approximately $1.75 billion shown in Schedule D-V relates to the Power Purchase Expense Recognition deferral described above and not the existing or Long-Term SCVDA. The accumulated balance has arisen since IFRS expense recognition exceeds the corresponding commercial payments, resulting in the accumulation of a regulatory asset balance. The disposition of the Power Purchase Expense Recognition deferral is not proposed to be addressed in the 2026 GRA because the balance does not represent an amount requiring recovery during the 2027 Test Year. The balance reflects a timing difference between IFRS accounting recognition and the underlying commercial payment obligations, and the balance is expected to be realized over time through those contractual payment streams.