Q. **Reference: Application, Chapter 1, page 1.18**

Hydro states "Variances from the test year forecast will continue to be deferred as part of Hydro's Supply Cost Variance Deferral Account framework."

a) What is the purpose of this deferral account and what will be done with the proceeds once rate mitigation ends?

b) How will actual rate mitigation dollar amounts be determined beyond 2027?

c) Given that IIS rates are fixed at an equivalent 2.25% annual rate increase for Newfoundland Power's Domestic customer class through 2030, why is it important to track costs in this deferral account rather than undertake a cost of service study when rate mitigation ends?

A. **a)** The purpose of Newfoundland and Labrador Hydro's ("Hydro") Supply Cost Variance Deferral Account ("SCVDA") is primarily to capture variances in Hydro's supply cost from those which are built into customer rates on the Island Interconnected System. Further details can be found in Chapter 5, Section 5.7 of Hydro's 2026 General Rate Application. Under the current SCVDA framework, the balance in the account due from customers is funded annually through the rate mitigation plan. The current rate mitigation plan is effective up to and including 2030, and Hydro will work with the Government of Newfoundland and Labrador ("Government") on the plan for rate mitigation in the post-2030 period.

b) Variances in rate mitigation funding from that which is incorporated into customer rates as part of Hydro's 2027 Test Year are deferred in the proposed Long-Term SCVDA in the post-2027 period. Beyond 2027, the amount of rate mitigation funding required related to a given year will be determined based on the net activity in the Long-Term SCVDA, including revenue from relevant customers, and the amount of rate mitigation included in Hydro's test year. As noted in Hydro's response to CA-NLH-063 of this proceeding, the timing of rate mitigation funding is dependent on direction from Government.

c) On May 16, 2024, the finalization of the rate mitigation plan was announced. The plan, applying only to Island Interconnected System customers paying for the project, came into effect on July 1, 2024 and will ensure domestic residential rate increases attributable to Hydro's costs are targeted at 2.25% annually up to and including 2030. The rate mitigation plan, as directed in Order in Council OC2024-062, requires that any additional funding required to reduce the balance in the SCVDA and achieve the 2.25% targeted rate increase come from Hydro's own sources.

The tracking of the costs in the deferral account allows the settlement of the balance, reducing the balance owing from customers in the account on an annual basis, although the exact timing of the cash flows is currently unknown. In the absence of rate mitigation, the deferral account allows for the assignment of variances by customer to be incorporated into annual rate changes between test years.