Q. **Reference: Exhibit 10 – Deferral Account Definitions**

Would it be more transparent and efficient if Hydro were to combine a number of these deferral accounts relating to the IIS into a single supply cost deferral account reflecting the difference between the actual cost of supply and the cost of supply included in the 2027 Test Year?

A. Exhibit 10 of Newfoundland and Labrador Hydro's ("Hydro") 2026 General Rate Application ("GRA") contains four deferral account definitions, three of which contain costs which are applicable to the Island Interconnected System: the Muskrat Falls Power Purchase Agreement ("PPA") Sustaining Capital Deferral Account, Electrification Cost Deferral Account, and Long-Term Supply Cost Variance Deferral Account ("SCVDA").

Hydro's primary deferral account, which captures variances between actual and test year supply costs, is the Long-Term SCVDA. Typically, deferral accounts which capture supply cost variances on an annual basis are recovered from customers over shorter periods, in line with the principles of intergenerational equity.

Hydro's Muskrat Falls PPA Sustaining Capital Deferral Account captures Hydro's funding of Muskrat Falls and Labrador Transmission Asset ("LTA") sustaining capital through its payments under the Muskrat Falls PPA. Without this deferral account, annual sustaining capital costs funded by Hydro would be included in Hydro's supply costs and recovered from customers as they are incurred. As noted by Hydro when this account was proposed, recovering these costs as incurred would not be appropriate, as it would result in the recovery of the costs of long-life assets in the period incurred rather than over the period in which customers receive the benefit of those assets. Such treatment would be inconsistent with the principle of intergenerational equity and could contribute to rate volatility. In the 2026 GRA, Hydro has proposed recovery of these costs using the most recently approved composite depreciation rate for the Muskrat Falls plant and the LTA. Given the distinct nature of these costs and their significantly different recovery profile, maintaining a separate deferral account provides greater transparency regarding the amounts being deferred and the rationale for their recovery, while also facilitating the appropriate treatment of the costs.

Hydro’s Electrification Cost Deferral Account captures costs incurred by Hydro in implementing the Customer Electrification Program Portfolio and certain approved electric vehicle charging infrastructure capital costs. In the Board of Commissioners of Public Utilities (“Board”) Order No. P.U. 33(2022), the Board directed Hydro to establish a separate deferral account to capture electrification-related costs. The establishment of a separate account was intended to enhance transparency and facilitate consideration of the appropriate regulatory treatment of these costs.

Hydro agrees that consolidating similar supply cost variances into a single account can improve administrative efficiency and transparency. Hydro has already advanced this objective through its proposed Long-Term SCVDA. However, the Muskrat Falls PPA Sustaining Capital Deferral Account and the Electrification Cost Deferral Account do not represent conventional supply cost variances as they capture distinct categories of costs that are subject to different policy considerations, recovery approaches, and amortization periods.

In Hydro’s view, combining these accounts into a single supply cost deferral account would reduce, rather than enhance, transparency by obscuring the nature of the underlying costs and the basis for their recovery. It would also reduce efficiency by requiring the tracking and administration of different categories of costs with differing recovery methodologies within a single account. Accordingly, Hydro believes the proposed structure, which consolidates supply cost variances in the Long-Term SCVDA, while maintaining separate accounts for costs requiring distinct regulatory treatment, is the most transparent and efficient approach.