

1 Q. **Reference: Response to CA-NLH-100, part c**

2 Further to the response to CA-NLH-100, part c, please (i) explain why there is no short-term
3 variable-rate debt or no long-term variable-rate debt in Hydro's total debt portfolio and (ii)
4 provide a forecast of the interest rate at which Hydro could access short-term variable-rate debt
5 and the interest rate at which Hydro could access long-term variable-rate debt in the 2027 Test
6 Year.

7
8
9 A. **(i)** Newfoundland and Labrador Hydro ("Hydro") does not currently have long-term variable-
10 rate debt because its long-term financing strategy is focused on limiting exposure to variable
11 interest rate fluctuations, providing certainty of interest costs and matching the term of
12 debt with the long-lived nature of its underlying assets, which provides greater certainty in
13 not only forecasting financing costs, but customer rates as well.

14 In contrast, using a borrowing structure where the interest rate varies over the life of long-
15 term financing would expose Hydro to greater interest-rate risk. While variable-rate
16 borrowing may have a lower initial interest rate than long-term fixed-rate financing, the
17 initial rate does not represent the cost over the full term because the rate may vary as
18 market conditions change. As a result, Hydro considers the predictability of long-term fixed-
19 rate financing an important consideration in managing its overall debt portfolio.

20 Hydro's short-term borrowings, including Promissory Notes and CORRA¹-based borrowings,
21 ensure liquidity, fund working-capital requirements and are generally intended to be short-
22 term in nature based on Hydro's short-term cash requirements. The applicable interest rate
23 for Hydro's short-term borrowings is established based on prevailing market conditions
24 when the borrowing is booked based on the upcoming short-term cash flow requirements
25 (typically less than 30 days) and remains fixed for the applicable term.

¹ Canadian Overnight Repo Rate Average ("CORRA").

1 (ii) For short-term borrowings, Hydro's Promissory Notes and CORRA-based borrowings are
2 priced at a rate established at the time of issuance or drawdown for the applicable
3 borrowing term. While the interest rate on an individual borrowing does not reset during its
4 term, the rate applicable to new borrowings is influenced by prevailing short-term market
5 rates at the time of pricing. Accordingly, Hydro considers these borrowings to have variable-
6 rate characteristics from a forecasting perspective, as the cost of new short-term
7 borrowings will fluctuate with changes in prevailing short-term interest rates.

8 For purposes of the 2027 financial forecast, Hydro has assumed a short-term borrowing rate
9 of 2.78%, inclusive of the applicable borrowing spread, as the forecast rate for short-term
10 variable-rate debt.

11 Hydro does not issue long-term variable-rate debt as part of its financing strategy. Hydro's
12 long-term borrowings are issued on a fixed-rate basis to provide greater certainty over long-
13 term financing costs and to manage exposure to changes in interest rates.

14 Accordingly, Hydro has no long-term variable-rate debt outstanding and does not forecast
15 issuing long-term variable-rate debt in the 2027 Test Year. As a result, Hydro does not have
16 an applicable forecast rate for long-term variable-rate debt. Providing such a rate would
17 require Hydro to develop a hypothetical financing assumption that is not contemplated in its
18 2027 financial forecast.