

1 Q. **Reference: PUB-NLH-061; NP-NLH-120**

2 For a permanent 25% reduction in aggregate Island Industrial demand and energy requirements,
3 please explain separately the financial consequences to Newfoundland Power and Rural Island
4 Interconnected customers during the period before Hydro's next Cost of Service Study and
5 following the next Cost of Service Study, including the reallocation of fixed or common costs
6 that would remain in Hydro's revenue requirement.

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9 A. For a permanent 25% reduction in aggregate Island Industrial demand and energy requirements,
10 the financial consequences to Newfoundland Power Inc. ("Newfoundland Power") and Rural
11 Island Interconnected customers during the period would be related to the allocation of the
12 resulting load variation and supply cost variations from test year values resulting from the
13 decrease in load.

14 At a high level, the impact of reduced energy requirements in the load variation of the proposed
15 Long-Term Supply Cost Variance Deferral Account ("SCVDA") would be offset through an
16 increase in the Net Revenue from Exports component. For other supply cost savings that may
17 result from reduced Island Industrial load, Newfoundland Power and Island Rural
18 Interconnected customers would be allocated a higher portion of those savings since the
19 demand and energy allocators for the Island Industrial customers have decreased. For supply
20 cost increases not related to the decrease in volume, Newfoundland Power and Rural Island
21 Interconnected customers would be allocated a higher share, since their proportionate usage
22 increased on the system.

23 The allocation methodology for supply cost variances is detailed in Chapter 5, Section 5.7
24 Proposal of Long-Term SCVDA of Newfoundland and Labrador Hydro's 2026 General Rate
25 Application. While the allocation methodology is proposed specifically for this deferral account,
26 the allocation of supply cost variances between customer classes on the Island Interconnected

1 System is based on past practice for the allocation and recovery of supply cost variances
2 between test years.

3 While supply cost variations may be allocated to customers for recovery, annual rate changes
4 for customers on the Island Interconnected System will be targeted in accordance with the rate
5 mitigation plan up to 2030 (i.e., the variance allocation will not impact the targeted rate change
6 percentages).

7 In Hydro's next general rate application, the Cost of Service Study will reflect updated allocators
8 for cost allocation between the customers on the Island Interconnected System. If the only
9 change was to be the 25% reduction in Island Industrial load, Newfoundland Power and Rural
10 Island Interconnected customers would be allocated a higher portion of demand and energy
11 costs.¹

¹ Demand and energy allocators for the 2027 Test Year Cost of Service Study for the Island Interconnected System are included in Schedule F 3.1A.