

1 Q. **Reference: Response to CA-NLH-196**

2 In the response to CA-NLH-196, Hydro states that under the “existing SCVDA and proposed
3 Long-Term SCVDA framework, any net balance in the account owing from customers is funded
4 annually through the rate mitigation plan...Accordingly, continuity schedules...for each
5 component for the existing and Long-Term SCVDA extending through 2030 would not provide
6 meaningful information regarding the eventual disposition of either account, as customer-
7 funded balances will continue to be extinguished each year through the rate mitigation plan up
8 to and including 2030...future applications will address the timing, disposition methodology,
9 review process, and any resulting customer impacts”. Given these assertions by Hydro, please
10 explain

- 11 a) why is it appropriate/necessary for Hydro to charge carrying costs to the Long-Term
12 SCVDA at its WACC as proposed by Hydro in the 2026 GRA Application when customer-
13 funded balances are expected to be extinguished each year
- 14 b) why is it necessary to file future applications/approvals related to the Long-Term SCVDA
15 after rates resulting from the 2026 GRA are implemented and not as part of the current
16 GRA proceeding and
- 17 c) why it is necessary to address the timing, disposition methodology, review process, and
18 any resulting customer impacts in these future applications.

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21 A. a) Newfoundland and Labrador Hydro's (“Hydro”) proposal to apply financing charges at its
22 approved Weighted-Average Cost of Capital (“WACC”) reflects the long-term nature of the
23 proposed Long-Term Supply Cost Variance Deferral Account (“SCVDA”) as an ongoing
24 regulatory mechanism designed to address supply cost variances over time. The proposed
25 financing treatment is intended to reflect the underlying regulatory principles applicable to
26 the account and is not dependent on the current rate mitigation framework. While

1 customer-funded balances are currently forecast to be largely extinguished annually, this
2 outcome is driven by the manner in which rates are currently being managed and does not
3 alter the underlying purpose or design of the Long-Term SCVDA.

4 Hydro finances its operations through an integrated capital structure consisting of short-
5 term debt, long-term debt, and equity. Funds are managed on a pooled basis and Hydro
6 does not assign specific sources of financing to individual assets, liabilities, or regulatory
7 deferral account balances.

8 The Long-Term SCVDA is intended to operate as a standing supply cost deferral mechanism
9 similar in principle to Hydro's historical Rate Stabilization Plan ("RSP"), which applied
10 financing charges based on Hydro's approved WACC. Unlike the SCVDA approved in Board of
11 Commissioners of Public Utilities ("Board") Order No. P.U. 33(2021), which was established
12 as a transitional mechanism associated with the commissioning of the Muskrat Falls Project
13 and was expected to be financed using short-term borrowings in the near term, the Long-
14 Term SCVDA is proposed as Hydro's enduring approach to managing supply cost variances
15 within the regulatory framework. The Board's determination in Order No. P.U. 33(2021) that
16 short-term borrowing costs should apply to the existing SCVDA was based on the specific
17 circumstances of that account, including the anticipated use of short-term debt financing.

18 Absent annual rate mitigation funding, variances may remain in the account for extended
19 periods before recovery begins. Depending on when a variance arises and when it is
20 reflected in customer rates, Hydro may not begin recovering the variance for up to
21 approximately 18 months, during which time Hydro is required to finance the outstanding
22 balance. As a result, the financing costs associated with the account are not necessarily
23 representative of short-term borrowing requirements.

24 Hydro therefore considers financing at its approved WACC to be the appropriate approach
25 for the Long-Term SCVDA, similar to Hydro's other deferral accounts included in rate base,
26 as it provides a reasonable opportunity to recover the cost of capital associated with
27 financing deferred balances and is consistent with the long-term regulatory purpose of the
28 account.

1 **b)** As noted in Hydro's 2026 General Rate Application ("GRA"), Hydro proposes to file a future
2 application addressing the disposition of balances in the proposed Long-Term SCVDA once
3 the rates in the 2026 GRA have been implemented.

4 Hydro considers it appropriate to address the timing of disposition, the disposition
5 methodology, the review process, and any resulting customer impacts in that future
6 application because those matters relate to the disposition of actual accumulated account
7 balances and are not required for the establishment and operation of the proposed Long-
8 Term SCVDA.

9 A future application will provide the Board and interested parties with the opportunity to
10 review and assess the proposed timing of disposition, the proposed disposition
11 methodology, and any resulting customer impacts based on the circumstances and
12 information available at that time.

13 **c)** Please refer to Hydro's response to part b).