

1 Q. **Reference: PUB-NLH-095(a)–(d), pp. 1–2; PUB-NLH-100; CA-NLH-199, CA-NLH-200 and CA-NLH-**
2 **209; Volume III, Revision 1 (September 15, 2026), Exhibit 9, pp. 1–2, and Exhibit 10, Muskrat**
3 **Falls PPA Sustaining Capital Deferral Account Definition, p. 1**

4 a) For the sustaining-capital projects described in PUB-NLH-095(d), provide monthly 2027
5 balances, capitalized financing charges, rate-base return, in-service dates and recovery.
6 Identify interest during construction (IDC) recorded by Hydro’s regulated operations and
7 any allowance for funds used during construction (AFUDC) top-up; confirm whether
8 project-company invoices contain any separate financing charge. Explain how the
9 concurrent return and capitalized financing described in PUB-NLH-095(d) are consistent
10 with CA-NLH-209.

11 b) Provide the analysis supporting PUB-NLH-095(d)’s statement that the impacts should be
12 immaterial over the life of the account. Compare annual and present-value recovery for
13 the same projects under the proposed treatment and exclusion from rate base until in
14 service, holding contractual payments constant. State the IDC, amortization, rate-base
15 reset, discount-rate and calculation-period assumptions. Show residual balances and
16 separately quantify any claimed offsets involving other projects.

17 c) Calculate amortization using disclosed project service lives and forecast expenditure
18 weights. Compare annual and cumulative recovery under that approach with recovery
19 using the proposed 1.42% Muskrat Falls and 1.71% Labrador Transmission Assets rates,
20 including the effect of amortization start dates.

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23 A. a) As discussed in part b) of PUB-NLH-095 of this proceeding, the sustaining capital payments
24 made by Newfoundland and Labrador Hydro (“Hydro”) to Muskrat Falls Corporation
25 (“Muskrat Falls”) are to fund sustaining capital project spend expected to be incurred in that
26 month. The sustaining capital payments do not include any amount for Interest During
27 Construction (“IDC”), Allowance for Funds Used During Construction (“AFUDC”) or any other

1 financing charge as Muskrat Falls is not incurring any financing costs related to these
2 sustaining capital projects. The financing for these projects is coming from Hydro. Hydro has
3 applied AFUDC in the Muskrat Falls Sustaining Capital Deferral Account based on the
4 sustaining capital projects that meet Hydro's Capitalization Guidelines for capitalization of
5 borrowing costs. Please refer to CA-NLH-330, Attachment 1 for the calculation of AFUDC
6 (including the IDC portion and AFUDC true-up) for the Muskrat Falls Sustaining Capital
7 Deferral Account, a listing of the sustaining capital balance by month, as well as the
8 estimated in-service date of the projects. It should be noted that given these are forecasted
9 projects, the in-service dates for any project closing in 2027 is assumed to be December
10 2027.

11 **b)** In the case of the 2027 Test Year, Hydro is forecasting that all sustaining capital projects that
12 are included in the balance of the Muskrat Falls Sustaining Capital Deferral Account will be
13 in-service at the end of 2027. As a result, there is no difference between the in-service date
14 of the projects and the year of inclusion in rate-base. There is, however, a difference
15 between the in-service dates of the 2026 sustaining capital projects and the timing of their
16 inclusion in the Muskrat Falls Sustaining Capital Deferral Account at the end of 2026, which
17 impacts the opening balance of the Muskrat Falls Sustaining Capital Deferral Account used
18 to calculate the average rate base in 2027 and the amortization of the account balance in
19 2027. The Install Downstream Public Safety Boom project for Muskrat Falls has spend in
20 2026 of \$254,271 and is not forecast to go into service until 2027. As a result, the opening
21 balance of the deferral account in 2027 used to calculate average rate base in the return on
22 rate base calculation includes \$254,271 of project expenditures which are not yet in service.
23 The impact of including this balance in the calculation of average rate base (versus excluding
24 it until in-service) is an immaterial increase of \$9,816 on 2027 Test Year revenue
25 requirement. Please refer to CA-NLH-330, Attachment 2 for further detail on the calculation.

26 **c)** Project service lives are not established at the project level. At the completion of a project,
27 the assets placed in service are identified, componentized and assigned to the applicable
28 units of property, each with its associated depreciation rate. Accordingly, the requested
29 calculation requires Hydro to assume that each sustaining capital project relates to a single
30 unit of property and apply an estimated service life to the project as a whole.

1 This assumption may provide a reasonable approximation for projects involving the
2 acquisition of a single asset or a group of similar assets, such as vehicles. However, greater
3 judgment is required for projects involving the construction or replacement of assets
4 comprising multiple components with different service lives. Consequently, the resulting
5 calculation remains an estimate and is not necessarily more accurate than the use of the
6 proposed composite rates.

7 For illustrative purposes, Hydro applied estimated project service lives based on one unit of
8 property for each project and calculated amortization of the deferral account. On this basis,
9 the estimated 2027 Test Year revenue requirement is approximately \$544,000 higher than
10 under the proposed composite rates of 1.42% for Muskrat Falls assets and 1.71% for
11 Labrador Transmission Assets.

12 From an ongoing administrative perspective, calculating and tracking amortization at the
13 individual asset-component level over the lives of all assets recorded in the sustaining
14 capital deferral accounts would require additional system functionality and administrative
15 resources. The proposed composite rates provide a consistent and practical basis for
16 estimating amortization and recovering the account balances. This approach was supported
17 by Hydro's external depreciation expert, Concentric Advisors, Inc., in Exhibit 9 of Hydro's
18 2026 General Rate Application.

Breakdown of Muskrat Falls PPA Sustaining Capital Deferral Account 2027 Proposed Additions (\$000)¹

<u>Muskrat Falls Additions</u>	<u>2027</u>	<u>In-Service Dates</u>
Purchase Office Furniture	61	December 2027
Purchase Tools and Equipment	86	December 2027
Replace Light-Duty Vehicles	132	December 2027
Install Downstream Public Safety Boom, Muskrat Falls ²	4,372	December 2027
Core OT Infrastructure	83	December 2027
Replace M&M Network Equipment at End of Life	13	December 2027
Replace Muskrat Falls Powerhouse - Network Systems	24	December 2027
In-Service Failures	626	December 2027
Total Muskrat Falls Additions	5,396	
Allowance for Funds Used During Construction ³	111	
Total Muskrat Falls Sustaining Capital Additions	5,507	
<u>Labrador Transmission Asset ("LTA") Additions</u>	<u>2027</u>	<u>In-Service Dates</u>
Replace M&M Network Equipment at End of Life	28	December 2027
315 kV Right-of-Way Vegetation Clearing and Access Trail Improvements	2,202	December 2027
Replace Muskrat Falls Switchyard - Network Systems	25	December 2027
Replace SCADA RTU	268	December 2027
Replace Churchill Falls Switchyard - Network Systems	25	December 2027
Replace Churchill Falls Extension - Network Systems	25	December 2027
Core OT Infrastructure	17	December 2027
In-Service Failures	634	December 2027
Total LTA Additions	3,224	
Allowance for Funds Used During Construction ³	62	
Total LTA Sustaining Capital Additions	3,286	
Total Additions	8,619	
Total Allowance for Funds Used During Construction ³	173	
Total Muskrat Falls PPA Sustaining Capital Deferral Account	8,792	

¹ Numbers may not add due to rounding.

² Multi-year project which began in 2026.

³ Allowance for Funds Used During Construction ("AFUDC") amounts have been corrected for errors identified in previous submission. The AFUDC amount for 2027 Additions to Muskrat Falls Sustaining Capital have been corrected from \$328,452 to \$110,689. The AFUDC amount for 2027 Additions to Labrador Transmission Asset Sustaining Capital have been corrected from \$82,277 to \$61,906. Total immaterial difference of \$238,134.

Test Year 2027

Labrador Transmission Assets Sustaining Capital

	27-Jan	27-Feb	27-Mar	27-Apr	27-May	27-Jun	27-Jul	27-Aug	27-Sep	27-Oct	27-Nov	27-Dec	Total
Capital Expenditure by Month - Forecast	64,681	129,520	170,050	171,122	252,010	275,190	328,961	355,672	324,848	416,438	414,697	320,442	3,223,632
Interest During Construction	109	437	942	1,518	2,232	3,122	4,141	5,297	6,445	7,696	9,098	10,339	
Allowance for Funds Used During Construction True-up	22	90	193	311	457	640	849	1,085	1,321	1,577	1,865	2,119	
Allowance for Funds Used During Construction	132	526	1,136	1,829	2,690	3,762	4,990	6,382	7,766	9,273	10,963	12,458	61,906
Total Sustaining Capital Deferral Additions	64,813	130,046	171,185	172,952	254,699	278,952	333,951	362,054	332,614	425,712	425,660	332,900	3,285,538

Muskrat Falls Sustaining Capital

	27-Jan	27-Feb	27-Mar	27-Apr	27-May	27-Jun	27-Jul	27-Aug	27-Sep	27-Oct	27-Nov	27-Dec	Total
Capital Expenditure by Month - Forecast	108,266	216,794	284,634	286,430	421,821	460,622	550,625	595,335	543,740	697,047	694,132	536,366	5,395,811
Interest During Construction	1,031	1,552	2,354	3,268	4,402	5,814	7,433	9,267	11,090	13,076	15,303	17,272	
Allowance for Funds Used During Construction True-up	211	318	482	670	902	1,192	1,523	1,899	2,273	2,680	3,136	3,540	
Allowance for Funds Used During Construction	1,243	1,870	2,837	3,938	5,304	7,006	8,956	11,166	13,363	15,756	18,439	20,812	110,689
Total Sustaining Capital Deferral Additions	109,509	218,564	287,471	290,368	427,125	467,628	559,582	606,501	557,103	712,803	712,570	557,178	5,506,500

Sustaining Capital Deferral Balance - GRA Reflecting adjustments for impacts of project in-service dates					Sustaining Capital Deferral Balance - GRA Current Treatment					Variance
Account	Balance, December 31, 2024 - Actuals	Balance, December 31, 2025 - Forecast	Balance, December 31, 2026 - Forecast	Balance, December 31, 2027 - Forecast	Account	Balance, December 31, 2024 - Actuals	Balance, December 31, 2025 - Forecast	Balance, December 31, 2026 - Forecast	Balance, December 31, 2027 - Forecast	
10.2415.1000	757,231	4,917,570	8,390,729	14,042,689	10.2415.1000	757,231	4,917,570	8,650,454	14,034,118	
10.2415.2000	15,196,939	18,873,870	35,168,176	37,852,338	10.2415.2000	15,196,939	18,873,870	35,168,176	37,852,338	
Additions	3,591,958	15,264,798	5,650,082	3,223,632	Additions	3,591,958	15,264,798	5,395,811	3,223,632	
Interest During Construction	84,973	1,029,508	121,026	(601,376)	Interest During Construction	84,973	1,029,508	110,689	61,906	
Depreciation	-	-	(119,148)	(601,376)	Depreciation	-	-	(122,836)	(601,376)	
Balance, December 31, 2024 - Actuals	15,954,170	23,791,440	43,558,905	51,895,027	Balance, December 31, 2024 - Actuals	15,954,170	23,791,440	43,818,629	51,886,456	
Balance, December 31, 2025 - Forecast	23,791,440	43,558,905	81,148,831	100,000,000	Balance, December 31, 2025 - Forecast	23,791,440	43,558,905	81,148,831	100,000,000	
Balance, December 31, 2026 - Forecast	43,558,905	81,148,831	121,026,000	150,000,000	Balance, December 31, 2026 - Forecast	43,818,629	81,148,831	121,026,000	150,000,000	
Balance, December 31, 2027 - Forecast	81,148,831	121,026,000	150,000,000	180,000,000	Balance, December 31, 2027 - Forecast	81,148,831	121,026,000	150,000,000	180,000,000	
2027 Test Year Depreciation ³	720,524	2,329,076	3,049,600		2027 Test Year Depreciation	724,212	2,335,204	3,059,416		(3,688)
Return on Rate Base (4.88%) ¹	2,329,076				Return on Rate Base (4.88%)	2,335,204				(6,128)
Impact on 2027 Revenue Requirement	3,049,600				Impact on 2027 Revenue Requirement	3,059,416				(9,816)

¹ The 2026 Additions balance of this table only reflects the capital projects that are in-service at the end of each year. As a result the \$254,271 spend in 2026 for the Install Downstream Public Safety Boom is excluded in this table in 2026 and included as an addition in 2027 when the full project spend is put in service. This change in timing impacts the opening and closing deferral balance in 2027 for the purpose of calculating the average rate base calculation resulting in a decrease in return on rate base and 2027 Test Year revenue requirement of \$6,128.15.

² As a result of the change in the in-service date for the 2026 spend on the Install Downstream Public Safety Boom, no depreciation would be taken on the \$254,271 in 2027. This would reduce the 2027 depreciation expense in the deferral account and 2027 Test Year revenue requirement by \$3,688.09.