

1 Q. **Reference: Vol. I, Ch. 5, secs. 5.4–5.5, Tables 5-9 to 5-11, pp. 5.13–5.15 (PDF pp. 156–158); Vol.**
2 **II, Exhibit 7 (2023 Depreciation Study); Vol. I, Schedule F 2.5E (Labrador Interconnected,**
3 **Functional Classification of Depreciation Expense) (PDF p. 294).**

4 Preamble:

5 Return and depreciation are components of the revenue requirement allocated to Labrador
6 Industrial customers.

7 Provide the rate of return on rate base and the weighted average cost of capital applied in the
8 2027 Test Year, any change from the 2019 Test Year, and the effect of that change on the
9 Labrador Industrial transmission demand rate.

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12 A. Newfoundland and Labrador Hydro’s (“Hydro”) proposed rate of return on average rate base for
13 the 2027 Test Year is **4.88%**. This rate is equivalent to Hydro’s proposed weighted average cost
14 of capital (“WACC”) for revenue requirement purposes.

15 The reduction in the WACC from 5.43% to 4.88% (2019 Test Year to 2027 Test Year) reduces the
16 proposed Labrador Industrial transmission demand rate by approximately \$0.09/kW/month, all
17 else held constant. If the 2019 Test Year WACC had been applied to the 2027 Test Year
18 transmission demand rate base, allocation factor, and billing determinants, the proposed
19 transmission demand rate would have been approximately \$2.09/kW/month, compared with
20 the filed rate of \$2.00/kW/month.

21 The cost of capital change is therefore a mitigating factor in the proposed Labrador Industrial
22 transmission demand rate. It is not a contributor to the increase from the existing transmission
23 demand rate to the proposed 2027 Test Year rate.