

1 **Q. Reference: Responses to PUB-NLH-097, PUB-NLH-099 and PUB-NLH-100**

2 **a)** Confirm that capital additions relating to the Holyrood Thermal Generating assets that
3 are subject to the accelerated depreciation are included in rate base when the capital
4 addition is placed in service and that rate base is reduced by the accumulated
5 depreciation relating to these assets.

6 **b)** Assuming that the balance in the deferral account is forecast to be owing from
7 customers, does this mean that Hydro is earning on these assets again?

8 **c)** Explain why Hydro is requesting to include this deferral account in rate base.

9 **d)** Has Hydro considered whether a carrying charge/credit would be appropriate for this
10 deferral account instead of including it in rate base? Explain why or why not.

11 **e)** If there is a future extension to end of steam generation past March 31, 2030, will there
12 be a true-up/adjustment of depreciation for the assets that have been subject to
13 accelerated depreciation based on March 31, 2030? Explain the process Hydro will use if
14 a future extension were to occur and how would it impact the deferral account.

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17 **A. a)** It is confirmed.

18 **b)** The Holyrood Thermal Generating Station (“Holyrood TGS”) Accelerated Depreciation
19 Deferral Account records accelerated depreciation expense associated with Holyrood TGS
20 assets and does not restore the net book value of those assets to rate base. The underlying
21 Holyrood TGS assets continue to be depreciated, and accumulated depreciation continues
22 to reduce rate base.

23 The purpose of the deferral account is to defer the difference between actual accelerated
24 depreciation expense and the depreciation expense reflected in approved rates. As a result,
25 the account captures depreciation expense that has not yet been recovered from customers
26 or amounts owing to customers rather than the value of the underlying assets.

Newfoundland and Labrador Hydro (“Hydro”) notes that the forecast balance in the account on December 31, 2027 is a balance due to customers; however, assuming the balance in the account is a balance due from customers, inclusion of the deferral account balance in rate base does not result in Hydro earning a return a second time on the Holyrood TGS assets. Rather, it provides compensation for the financing of deferred costs that would otherwise have been recovered through customer rates. Similarly, if the account balance were owing to customers, customers would receive the same treatment through a credit balance in rate base.

c) Hydro is requesting inclusion of the Holyrood TGS Accelerated Depreciation Deferral Account in rate base because the account represents prudently incurred costs or credits that have been deferred for future disposition pursuant to Board of Commissioners of Public Utilities approved accounting treatment. Similar to other regulatory assets or liabilities included in rate base, the deferred balance reflects costs or credits that have been incurred but not yet recovered from or provided to customers. Where the account has a balance owing from customers, inclusion in rate base recognizes that Hydro has financed the deferred amounts until their disposition and provides Hydro with compensation for that financing. Where the account has a balance owing to customers, the credit balance reduces rate base, providing customers with the corresponding benefit.

d) Hydro considered alternative approaches, including the application of a carrying charge or credit. Hydro notes that both a carrying charge mechanism and inclusion of the account in rate base are acceptable regulatory approaches for recognizing the financing cost or benefit associated with deferred balances.

While Hydro acknowledges that a carrying charge/credit approach is an available option, the approach may be particularly suitable for deferral accounts with balances that fluctuate frequently, including accounts that may transition between debit and credit balances within forecast periods. In such circumstances, a carrying charge or credit directly reflects the financing cost or benefit associated with the changing balance in each period.

The forecast balance of this deferral account has been in a credit position since its inception; however, it is currently forecast to transition from a credit balance to a debit balance in

2029. The forecast, and whether this balance will transition to a debit balance in the forecast period, is subject to a degree of uncertainty and is dependent on the assumptions for the actual retirement date of the Holyrood TGS, as noted by Hydro in Exhibit 11 of Hydro's 2026 General Rate Application.¹ Given the nature of the account and its forecast balance, Hydro considers inclusion in rate base to be a reasonable approach to recognizing the financing cost or benefit associated with the deferred balance.

- e) If the end of steam generation date were extended beyond March 31, 2030, Hydro would review the remaining useful lives of the affected Holyrood TGS assets and recalculate depreciation rates based on the updated expected retirement date.

Any change in depreciation rates would be applied prospectively. There would not be a retroactive reversal or true-up of depreciation previously recorded based on the March 31, 2030 end-of-steam-generation date. Rather, the remaining net book value of the assets would be depreciated over the revised remaining service life of the assets.

The Holyrood TGS Accelerated Depreciation Deferral Account would continue to record the difference between actual accelerated depreciation expense and the depreciation expense reflected in approved rates. As a result, an extension of steam generation beyond March 31, 2030 would affect future additions to the deferral account. The revised retirement date would decrease the forecasted depreciation additions to the deferral account.

An extended retirement date would decrease depreciation expense and would cause the current forecast December 31, 2027 balance due to customers to grow in subsequent years. The ultimate balance in the deferral account would depend on the revised retirement date, any capital additions during the extended operating period, and the resulting depreciation expense.

¹ Forecast is based on a retirement date of March 31, 2030, however, the actual retirement date of Holyrood TGS will be dependent on the timing and in-service status of replacement generation, such as Hydro's proposed system additions in its 2025 Build Application, which includes the Avalon CT and Bay d'Espoir Unit 8, the regulatory proceeding for which is ongoing.