NEWFOUNDLAND AND LABRADOR
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

AN ORDER OF THE BOARD

NO. P.U. 32(2025)

IN THE MATTER OF the **Electrical Power Control Act**, 1994, SNL 1994, Chapter E-5.1 (the "**EPCA**") and the **Public Utilities Act**, RSNL 1990, Chapter P-47 (the "**Act**"), as amended, and regulations thereunder; and

IN THE MATTER OF an application by Newfoundland and Labrador Hydro for approval of a deferral account to enable the deferral and recovery of capital-related general expenses, pursuant to sections 58 and 80 of the **Act.**

DECISION SUMMARY

The Board approves Newfoundland and Labrador Hydro's application for a new deferral account to enable the deferral and recovery of capitalized general expenses, effective January 1, 2025. The Board is satisfied that the evidence supports the approval of this account at this time, in advance of Newfoundland and Labrador Hydro's next general rate application.

APPLICATION

On August 12, 2025, Newfoundland and Labrador Hydro ("Hydro") filed an application requesting approval of a General Expenses Capitalized Deferral Account, to be effective January 1, 2025 ("GEC Deferral Account"), as well as the proposed methodology for the capitalization of general expenses (the "Application").

This Application was copied to Newfoundland Power Inc. ("Newfoundland Power"); the Consumer Advocate, Mr. Dennis Browne, KC (the "Consumer Advocate"); the Island Industrial Customer Group;[1] the Labrador Interconnected Group;[2] Linde Canada Inc.; and Teck Resources Limited.

[1] The members of the Island Industrial Customer Group are Corner Brook Pulp and Paper Limited, Braya Renewable Fuels (Newfoundland) GP Inc., and Vale Newfoundland and Labrador Limited.
[2] The members of the Labrador Interconnected Group are the communities of Sheshatshiu, Happy Valley-Goose Bay, Wabush, and Labrador City.

On September 9 and 10, 2025 requests for information were filed by the Board, Newfoundland Power, and the Island Industrial Customer Group, and on September 22, 2025 Hydro filed responses to these requests.

On October 1, 2025 submissions and comments were filed. Newfoundland Power did not object to the Application and submitted that it appears to be consistent with the direction the Board provided in Order No. P.U. 16(2021). The Island Industrial Customer Group submitted that it is more appropriate to address the Application proposals in the context of a full general rate application ("GRA"). On October 7, 2025 Hydro filed its reply addressing the Island Industrial Customer Group submissions and submitting that the Application is fully supported on the record.

APPLICATION PROPOSALS

The Application proposed the creation of the GEC Deferral Account, capitalized overhead percentages for the annual labour costs by department and the transfer of these costs to the GEC Deferral Account. The amortization of the balance in the GEC Deferral Account was proposed to commence the year after the transfer to the account using the composite depreciation rate in Hydro's approved depreciation study.

The Application proposed the use of the incremental method of capitalizing general expenses, which would capitalize only general expenses that are incremental to the utility as a result of its capital program. According to the Application, Hydro completed an assessment of its capital-related operating costs to determine whether a change in its capital program would result in a change in general expenses. This enabled Hydro to estimate the amount of general expenses in each department to be allocated to capital. The assessment identified seven departments where varying percentages of the operating labour costs should be capitalized for deferred recovery. The percentages range from 1% of the operating labour costs within Transmission and Rural Operations to 100% of operating labour costs within the Major Projects department. The Application stated that Hydro determined that 4.2% of its operating costs in 2025, and 4.4% of 2026 operating costs should be deferred and effectively treated as capital costs. This would increase Hydro's overhead capitalization rate to approximately 4.8% in 2025 and 6.0% in 2026. Even with this change in methodology, Hydro stated that it would remain below both the Canadian industry average and Newfoundland Power's rate for general expenses capitalized.

The Application stated that approval would increase consistency with the principles of intergenerational equity and reduce disparities between Hydro and Newfoundland Power with respect to the recovery of capital-related overhead costs and that the proposed approach is generally consistent with the Board's established regulatory principles and sound public utility practice.

BOARD DECISION

The Island Industrial Customer Group suggested that the approval of the deferral account and the proposed methodology and capitalization rate should be delayed until Hydro's next GRA. The Board notes that Hydro first applied for approval to implement a deferral account to enable the deferral and recovery of capital-related overhead costs in early 2021. At the time, the Board accepted Hydro's proposal to defer and recover capital-related overhead costs but did not accept the proposed account definition or proposed interim capitalization rate.[3] The Board found that further information was required in relation to the proposed methodology and capitalization rate and directed Hydro to file a proposed deferral account definition as part of its next GRA.

The Island Industrial Customer Group submitted that the proposals should be addressed as a part of Hydro's GRA as it aligns with resetting the budgets for all Hydro departments. The Board notes that, in 2021, when Hydro first applied for a GEC Deferral Account it was anticipated that Hydro's GRA would be filed in the fall of 2021 and the Order noted that in the event of a delay, the matter could be considered earlier through existing regulatory processes.[4] Considering the passage of time since the changes were first proposed in 2021 and given that the Order contemplated an earlier resolution of the matter if there were delays beyond 2022, the Board believes that it is reasonable to consider Hydro's proposals at this time.

The Island Industrial Customer Group submitted that approving the Application would amount to a tacit rate increase without testing and that addressing the proposals as part of a GRA would align with resetting the budget for all Hydro departments. The Board notes that Hydro is entitled to earn annually a just and reasonable return and that after the approval of the proposed changes Hydro's forecast rate of return on rate base for 2025 and 2026 would remain well below the approved range.[5] In addition, approval of the Application at this time would contribute to regulatory efficiency as it would assist in mitigating the issues to be addressed in Hydro's next GRA. The Board notes that Hydro is reporting regularly with respect to the filing of its GRA and has most recently indicated that it will be filed in the first quarter of 2026.

The Board is satisfied that Hydro's proposal to use an incremental method of capitalizing general expenses is reasonable. The Board is satisfied that this approach will increase the comparability of Hydro and Newfoundland Power's capital-related overhead costs. The Board notes that Hydro's proposal to capitalize only those general expenses incremental to its capital program is consistent with Canadian utility practice. Further based on the evidence Hydro's general expenses capitalized rate would remain below both Newfoundland Power's and the Canadian industry average. The Board accepts the proposed GEC Deferral Account and the proposed capitalized overhead percentages by department. As a result, the Board is satisfied that the Application should be approved.

In terms of the annual amount of Hydro's general expenses capitalized, Hydro indicated that it intends to file an application by December 15 each year for approval of the proposed amount to be transferred to the GEC Deferral Account.[6] The Board notes that Newfoundland Power's general expenses capitalized are approved as a part of its annual capital budget application, in accordance with section 41 of the **Act**. The Board believes that Hydro should consider a similar approach which would contribute to regulatory efficiency and consistency with Newfoundland Power. The Board will direct Hydro separately in relation to this matter.

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[3] Order No. P.U. 16(2021).
[4] Order No. P.U. 16(2021).
[5] PUB-NLH-001.
[6] PUB-NLH-003.

IT IS THEREFORE ORDERED THAT:

1. The proposed General Expenses Capitalized Deferral Account, as set out in Schedule A, to be effective as of January 1, 2025, is approved.

2. The proposed capitalized overhead percentages by department are approved, as follows:

Department	**Capitalized Overhead Percentage (%)**
Major Projects	100
Engineering Services	22
Regulatory Affairs	21
Supply Chain	16
Finance, Human Resources and Information Services	10
Production Operations	3
Transmission and Rural Operations	1

3. Newfoundland and Labrador Hydro shall pay the expenses of the Board arising from this application.

DATED at St. John’s, Newfoundland and Labrador this 28th day of October 2025.

Dwanda Newman, LL.B.
Vice-Chair

John O’Brien, FCPA, FCA, CISA
Commissioner

Christopher Pike, LL.B., FCIP
Commissioner

Colleen Jones
Colleen Jones
Assistant Board Secretary

NEWFOUNDLAND AND LABRADOR HYDRO
General Expenses Capitalized Deferral Account

This account shall be charged with the approved portion of Newfoundland and Labrador Hydro's ("Hydro") Operating and Maintenance ("O&M") Labour expenses which are directly attributable to Hydro's capital program but cannot, from their general nature, be assigned to a specific capital project. This account will be charged at the conclusion of each calendar month based upon the following formula:

Monthly Transfer = Actual Monthly O&M Labour Expenses * X

Where:

Actual Monthly O&M Labour Expenses = actual operating and maintenance Labour expenses incurred in each of the applicable Department; and

X = capitalized overhead percentages for each applicable Department as approved by the Board of Commissioners of Public Utilities

Disposition of any Balance in this Account

The balance in this account will be amortized using the composite depreciation rate in the latest depreciation study approved by the Board, commencing the year after the transfer of the cost to the General Expenses Capitalized Deferral Account.