Q. Reference: Chapter 1, pages 1.17, 1.21, 6.33; Chapter 6, Section 6.8.3, page 3

The Application states that "Government has directed Hydro to structure future rate applications such that retail electricity rate increases attributable to Hydro's costs are targeted at 2.25% annually for Domestic customers on the Island Interconnected System through 2030, with rates structured for other customers on the Island Interconnected System [Footnote 17 – Such as Island Industrial Customers] in a manner that is compatible with this target rate increase." It is also stated that "Hydro is proposing a decrease in rates as of July 1, 2027 in comparison to July 1, 2026 rates for Island Industrial customers of 14.3%. The rate decrease reflects the 2027 Cost of Service Study revenue requirement of $42.8 million and utilization of the Project Cost Recovery Rider on July 1, 2027 to target the annual rate increase."

a) Explain whether Hydro considered the public policy implications of proposing material rate decreases for certain customer classes in light of: Government direction to limit rate increases for customers on the IIS including Island Industrial Customers to 2.25%; Hydro's proposed 2.25% rate increase for Newfoundland Power Domestic customers and Rural Labrador Interconnected customers; Hydro's proposal to take a loss of $502 million for rate mitigation purposes in the 2027 Test Year; and Hydro's proposal to transfer the Island Industrial Customer revenue deficiency of $2.7 million to the Supply Cost Variance Deferral Account.

b) Identify any alternative cost allocation or rate design approaches considered by Hydro that would have moderated the proposed decreases to some classes during a period in which Government rate mitigation is being relied upon to limit overall rate increases to other classes to ease the cost-of-living pressures for customers. If not, explain why.

c) What would the rate mitigation amount be if Island Industrial Customers received a rate increase similar to Newfoundland Power?

d) What would the rate mitigation amount be if the rate increase for Newfoundland Power Domestic customers and Rural Labrador Interconnected customers were 0%?

e) Were any intervenors consulted on the proposed rate increases/decreases proposed in this Application prior to filing? If so, provide details on the nature of those discussions.

A. **a)** Newfoundland and Labrador Hydro ("Hydro") recognizes that electricity rates have a direct impact on the individuals, businesses, and communities it serves and, as a Crown corporation and regulated public utility, remains focused on balancing customer affordability, reliable service, and sound financial administration. In developing the 2026 General Rate Application ("GRA"), Hydro was cognizant of customer impacts and the affordability challenges facing customers throughout the province. Hydro's proposals were developed within the context of Government of Newfoundland and Labrador's ("Government") rate mitigation framework, which is intended to limit the rate impacts experienced by customers while ensuring the continued provision of safe and reliable electricity service and maintaining Hydro's financial sustainability.

Hydro recognizes that the proposals within the 2026 GRA result in differing rate impacts among customer classes; however, Hydro's proposals reflect the operation of the approved Cost of Service methodology and the Government-directed rate mitigation framework. The proposed decrease for Island Industrial Customers is not the result of a discretionary decision by Hydro to provide preferential treatment to that customer class. Rather, it results from the application of the Cost of Service Study, including the allocation of rate mitigation funding among customer classes and the resulting cost responsibility for Island Industrial Customers.

b) No alternative cost allocation or rate design approaches were considered by Hydro. The cost of service shares all costs and revenues, including rate mitigation, based upon approved allocators among customer classes. Rate mitigation is allocated to customers in the same manner as the Muskrat Falls Project costs, resulting in fair treatment among customer classes. It is not unusual for certain groups of customers to have different levels of increases or decreases between test years, even if rates were not being mitigated.

c) Please refer to Hydro's response to part b). To do this, Hydro would have to propose a different method for the allocation of costs in the Cost of Service Study.

d) The rate mitigation amount reflected in the 2027 Cost of Service Study is based on the revenue requirement for Newfoundland Power Inc. ("Newfoundland Power") customers using forecast rates effective July 1, 2026.[1] Therefore, the amount of rate mitigation would not change for customers on the Island Interconnected System as a result of setting the Newfoundland Power customer rate increase at 0%.

To achieve a rate increase of 0% as of July 1, 2027, a Project Cost Recovery Rider would not be implemented on that date, resulting in a decrease in recovery from customers and increasing rate mitigation funding required. Rural Labrador Interconnected customers are not impacted by rate mitigation.

e) Labrador Industrial customers were notified of the proposed rate increase prior to filing. Hydro’s actions with respect to the Island Industrial Customer Rate Design are noted in Hydro’s response to part b) of PUB-NLH-048 of this proceeding.

[1] Please refer to “2026 General Rate Application,” Newfoundland and Labrador Hydro, May 27, 2026, vol. I, ch. 6, sec. 6.4.1.