

1 Q. **Reference: GRA, Vol. I, pages 76-77 pdf**

2 Citation:

3 Through mechanisms such as energy “banking” and “de-banking” under the Churchill River
4 Water Management Agreement, Hydro can store energy that would otherwise be spilled and
5 use, or export it, at a later time.³⁸ This optimizes resource utilization and can generate revenues
6 that benefit customers by directly contributing to rate mitigation. For example, on behalf of
7 Muskrat Falls, in recent years, Hydro sold energy banked in the Churchill Falls reservoir system
8 out of province.³⁹

9 Note 38: De-banking of this energy to meet demand is not forecast to occur during the 2027
10 Test Year, as the deliveries are considered non-firm.

11 Note 39: The delivery of additional blocks of energy was agreed to in 2023, with a total of 1.9
12 TWh delivered between 2024 and 2025.

13 Please clarify, in the cases referred to in Note 39, the accounting treatment of the resulting
14 export revenues.

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17 A. The revenue associated with the sale of banked Muskrat Falls energy stored in the Churchill Falls
18 reservoir system under the Churchill River Water Management Agreement is recorded by
19 Muskrat Falls Corporation (“Muskrat Falls”) as export revenue, consistent with the accounting
20 treatment applied to other Muskrat Falls Residual Block¹ export sales.

¹ Energy, Capacity and associated Greenhouse Gas Credits attributed to the Muskrat Falls Plant not otherwise forecasted or scheduled by Newfoundland and Labrador Hydro (“Hydro”) to meet demand shall be available for sale by Muskrat Falls for the purpose of making non-firm sales and Contracted Commitments, excluding the Nova Scotia Block and shall be referred to as the “**Residual Block**”. (Article 3.1(e) of the Amended and Restated Power Purchase Agreement between Newfoundland and Labrador Hydro and Muskrat Falls Corporation.)

1 Under the Muskrat Falls Power Purchase Agreement (“PPA”), export energy revenues earned by
2 Muskrat Falls are used to fund monetization of Hydro's Deferred Energy² balance, as described
3 in Chapter 4, Section 4.2.1 of the Hydro’s 2026 General Rate Application. Accordingly, revenues
4 associated with the sale of de-banked energy form part of the export energy revenues available
5 to fund Hydro's monetized Deferred Energy balance.

6 For example, for the year ended December 31, 2024, Hydro’s Deferred Energy balance was
7 2.4 TWh, while Muskrat Falls had export energy volumes of 3.0 TWh, including 1.9 TWh of
8 energy from de-banking. As available export energy exceeded Hydro's Deferred Energy balance,
9 Hydro was able to fully monetize its Deferred Energy balance, the value of which was recorded
10 in the Supply Cost Variance Deferral Account as a benefit to customers.

11 To the extent that export energy revenues exceed those required to fund Hydro's monetized
12 Deferred Energy balance under the Muskrat Falls PPA, the remaining net income is retained by
13 Muskrat Falls and may subsequently be paid to Hydro through dividends. These internally
14 generated earnings contribute to the non-regulated cash flows available to support rate
15 mitigation from internal sources.

² Hydro’s Deferred Energy is the cumulative volume of annual differences between the amount of delivered energy to Hydro in an operating year and Hydro’s energy entitlement in that operating year. (Article 3.1(c) of the Amended and Restated Power Purchase Agreement between Newfoundland and Labrador Hydro and Muskrat Falls Corporation).