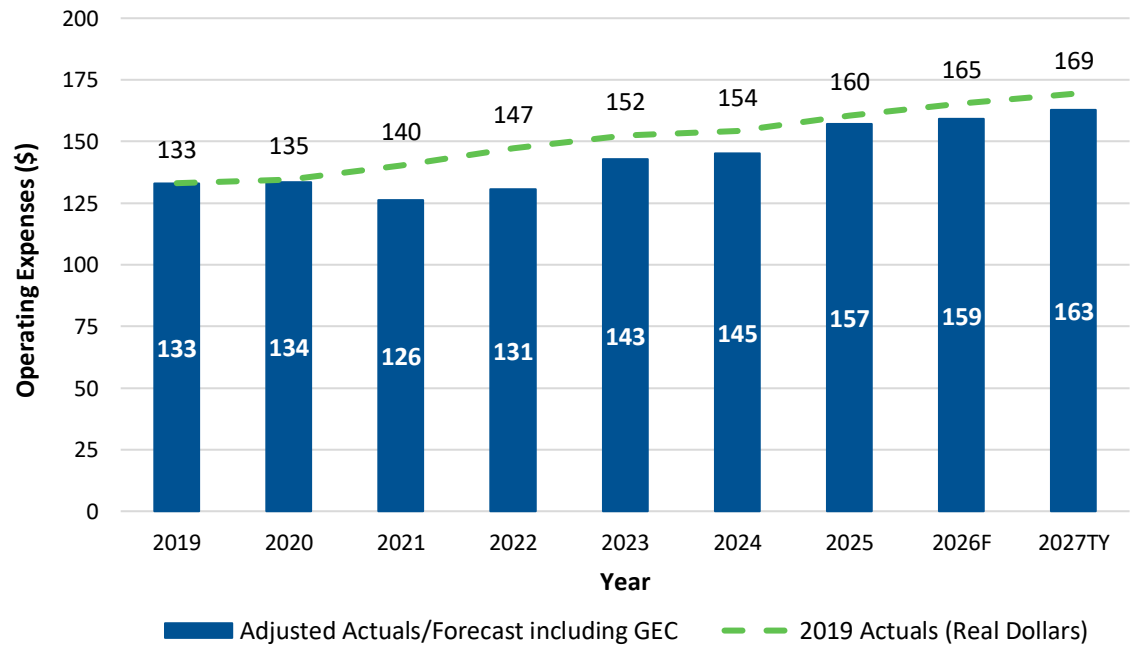


Q. Reference: Volume I, Section 2.3, Charts 2-12 to 2-14, Issue Topic: Operating Efficiencies

Please revise Chart 2-12 to show operating costs gross of deferred costs to the General Expenses Capitalized Deferral Account and productivity allowances. Please also show the inflation-adjusted line from 2019 actual as opposed to from the 2019 test year.

A. The adjusted Chart 2-12 shows Newfoundland and Labrador Hydro’s (“Hydro”) gross operating cost trend from 2019 Actuals through 2027 Test Year adjusted for deferred costs to the General Expenses Capitalized (“GEC”) Deferral Account.



Adjusted Chart 2-12: 2019 Actual Operating Costs vs Inflation Normalized for GEC (\$ Millions)

The productivity allowances reflected in the 2026 forecast and 2027 Test Year form an integral part of Hydro's operating cost forecast. The forecast presented by Hydro represents its best estimate of the costs required to operate the system safely and reliably while also incorporating anticipated productivity improvements and cost efficiencies. Accordingly, it would be

1 inappropriate to present a separate forecast excluding the productivity allowance, as such a
2 forecast does not represent Hydro's expected operating costs or the basis upon which rates are
3 being proposed.

4 Further, the productivity allowance is not a discrete adjustment that can simply be removed
5 from the forecast to produce a meaningful alternative view. Rather, it reflects Hydro's
6 expectation that productivity improvements will be achieved across the organization through
7 ongoing management actions and efficiency initiatives. Presenting the forecast gross of the
8 productivity allowance would therefore produce a hypothetical scenario that Hydro does not
9 consider representative of its expected operating costs.

10 The appropriate comparison is therefore between Hydro's actual historical costs and the
11 operating cost forecast as filed, which already reflects Hydro's commitment to achieve
12 productivity savings and deliver the benefits of those efficiencies to customers.