Q. **Reference: Volume I, Section 5.6, Issue Topic: Deferral Accounts Excluding Long Term Supply Cost Variance Deferral Account**

Please provide past Board practice or industry practice that supports the amortization of cost deferrals over a period that spans approximately two regulatory review cycles.

A. Newfoundland and Labrador Hydro ("Hydro") is not aware of a Board of Commissioners of Public Utilities-established practice requiring that deferral account balances be amortized over a period linked to a specific number of regulatory review cycles. Hydro considers a number of factors when determining the appropriate amortization period based on the circumstances of a particular deferral account balance, including the nature and magnitude of the costs, intergenerational equity, and the potential impact on customer rate stability.

In Hydro's 2026 General Rate Application ("GRA"), Hydro proposed an eight-year amortization period for the Phase Two Hearing Costs Deferral Account and the Reliability and Resource Adequacy Study Review Deferral Account. Hydro considered alternative amortization periods, including shorter periods, and determined that an eight-year amortization period appropriately balances timely cost recovery with rate stability and moderates near-term customer rate impacts. Hydro also considered that the benefits associated with the Phase Two proceeding and the *Reliability and Resource Adequacy Review* extend beyond a single regulatory review cycle and continue to inform system planning, reliability assessments, and regulatory oversight. Accordingly, Hydro believes that recovering these costs over an eight-year period provides a reasonable matching of costs and benefits across customer generations. Hydro notes that, in this instance, the proposed eight-year period spans approximately two regulatory review cycles, reflecting the typical frequency of GRAs by regulated utilities.

In the 2026 GRA, Hydro proposed an eight-year recovery period for its Business Systems Transformation ("BST") Program Deferral Account. Hydro considered alternative amortization periods in determining the appropriate recovery period for the deferral account balance,

including the useful life of the underlying assets. The assets underlying the deferral account were placed into service in 2018. As a result, the average remaining useful life of the original cost of these assets as of the 2027 Test Year is approximately two years, based on the Unit of Property used in Hydro's latest depreciation study.[1] Hydro determined that an eight-year amortization period appropriately balances timely recovery of prudently incurred costs and intergenerational equity with the objective of moderating the annual customer revenue requirement impact associated with the recovery of the approximately $14.5 million forecast deferral account balance as of January 1, 2027. In making this determination, Hydro considered that the BST Program established core business systems and capabilities that continue to support Hydro's operations and will continue to provide customer benefits through ongoing maintenance, upgrades, and enhancement activities. Accordingly, Hydro believes that an eight-year amortization period provides a reasonable balance between cost recovery, intergenerational equity, and rate stability.

[1] Hydro notes that the Unit of Property is a blended average of assets, including those associated with upgrades and enhancements. It is highly likely that this asset will continue to provide service and value well beyond the remaining two-year period.