Q. **Volume I, Section 6.7.5, Issue Topic: Cost of Service Methodology**

Please provide a summary of changes in the 2027 Cost of Service Study compared to the 2019 Cost of Service Study that contributed towards a lower revenue requirement for Island Industrial Customers in Hydro’s 2027 Test Year.

A. Table 1 summarizes the movement in revenue requirement from the 2019 Test Year to the proposed 2027 Test Year.

**Table 1: Revenue Requirement Change ($ Millions)[1]**

| | Island Industrial | Newfoundland Power | Rural Interconnected | Total |
|---|---|---|---|---|
| **2019 Test Year Revenue Requirement** | **45.66** | **445.21** | **73.03** | **563.91** |
| Change in Costs[2] | (17.86) | (61.98) | 0.22 | **(79.62)** |
| Muskrat Falls Supply Costs | 49.28 | 626.39 | 46.17 | **721.85** |
| Rate Mitigation | (34.27) | (435.59) | (32.11) | **(501.96)** |
| **2027 Test Year Revenue Requirement** | **42.82** | **574.04** | **87.32** | **704.17** |

For Island Industrial Customers:

- The 2019 Test Year Island Industrial Customer revenue requirement is approximately $45.66 million.
- Changes in supply costs, changes in other test year costs, and updated functionalization, classification, load, and allocation factors decreased the 2027 revenue requirement by approximately $17.86 million.
- The inclusion of Muskrat Falls supply costs is approximately $49.28 million.
- Rate mitigation accounts for approximately $34.27 million.

[1] Numbers may not add due to rounding.
[2] Excludes direct project-related costs.

- After rate mitigation, the 2027 Island Industrial Customer revenue requirement is approximately $42.82 million.

Changes in demand and energy requirements for the 2027 Test Year reduced Island Industrial Customer and increased Newfoundland Power Inc.'s ("Newfoundland Power") share of costs, in relation to the 2019 Test Year, as shown in Table 2.

**Table 2: Allocator Classification (%)**

| | Island Industrial | Newfoundland Power | Rural Interconnected |
|---|---|---|---|
| **Demand Allocator** | **(0.96)** | **0.94** | **0.02** |
| 2019 Test Year | 5.94 | 87.80 | 6.26 |
| 2027 Test Year | 4.98 | 88.74 | 6.28 |
| | | | |
| **Energy Allocator** | **(1.97)** | **1.91** | **0.07** |
| 2019 Test Year | 10.63 | 82.93 | 6.44 |
| 2027 Test Year | 8.65 | 84.84 | 6.51 |
| | | | |
| **Transmission Allocator** | **(0.94)** | **0.92** | **0.02** |
| 2019 Test Year | 5.80 | 88.08 | 6.12 |
| 2027 Test Year | 4.86 | 89.00 | 6.13 |