Q. **a)** Provide a detailed explanation of Hydro's budgeting process.

b) Provide any guidelines issued to staff regarding the development of annual budgets.

A. **a)** The budget process begins with the request for updates of all major assumptions:

- The forecast reflects a combination of direct input from the Industrial customers and Newfoundland and Labrador Hydro's ("Hydro") Utility customer, Newfoundland Power Inc. ("Newfoundland Power"), as well as Hydro's internal load forecasts for Newfoundland Power and the Rural Interconnected and Isolated systems. The model produces the generation requirements, including power purchase agreements and firm contractual commitments, to meet forecasted demand.
- Capital budgets are submitted to the Hydro Board of Directors and the Board of Commissioners of Public Utilities for approval.
- The capital asset amortization budget is prepared based on capital asset additions and projected in-service dates for construction projects in progress.
- Depreciation and accretion expenses associated with asset retirement obligations are estimated based on the timing of the settlement of the obligation.
- Long-term debt-related payments are forecasted based on debt repayment schedules.
- Operating expenses are estimated based on the labour forecast and costs associated with maintenance and operational activity.
- The major operating cost components are derived using a zero-based budgeting approach, including, but not limited to, salaries and benefits, professional services and system equipment and maintenance costs. Operating costs that are expected to be consistent in normal year-to-year operations are derived using a historical

average reflecting Hydro's recent experience and expected pattern for the coming period.

- Operating costs are prepared by business unit and reviewed and approved by the Vice President of each area.
- Once the operating costs are approved by the respective Vice President, they are submitted as part of Hydro's total budget submission.
- All elements are consolidated and create a forecasted income statement by line of business.
- The budgeted income statement and detailed operating costs are then presented to the applicable Vice President for approval.
- The budgets for each line of business are then consolidated and reviewed in detail with all Vice Presidents and CEO.
- Final review and approval is provided by the Hydro Board of Directors.

The operating costs for the test year were prepared during the 2025 Budget Cycle, where a three-year budget estimate was completed for 2025, 2026 and 2027 Test Year, which is not part of the typical budget process. During the 2026 budget process, Hydro updated operating costs for targeted and known changes, including proposals in the 2026 General Rate Application. All other items were updated during the 2026 budget cycle using the latest load forecast and production plan and finalized in early 2026. This also included updated depreciation and borrowing costs.

b) The approach and assumptions issued during the 2025 and 2026 budget cycles are attached as PUB-NLH-010, Attachment 1 and PUB-NLH-010, Attachment 2, respectively.

Budget 2025, 2026 & 2027 Budget Guidelines

April 17, 2024

newfoundland labrador hydro

Key Messages

- Hydro is the people's utility that you can count on - **providing safe, cost-conscious, reliable electricity** while harnessing sustainable energy opportunities to benefit the people of Newfoundland and Labrador;
- While responding to societal shifts and government policies towards net-zero and electrification, Hydro continues to be **committed to cost management and has taken strides to decrease spending organization wide;**
- This **commitment towards cost management must be reflected** when preparing estimates during the upcoming budget cycle:
  - Through our public engagement, our customers have expressed great concern about the cost of living, including electricity rates. Customer impact should always be top of mind as you prepare your budgets;
  - It is critical that business unit owners look for opportunities to implement change in a prudent manner so that cost savings can be achieved;
- Hydro Regulated's GRA will be filed in 2025 and will reflect budgets for 2025, 2026 and 2027:
  - All operating segments will also be required to prepare a three year budget.

Key Messages (Cont'd.)

- Budget approach for 2025, 2026 and 2027 will:
  - Differ from the prior years approach for certain cost types;
  - Generally require:
    - Where there is significant variability historically or where multi-year workplans, projections/quotes currently exist detailed budgets will be prepared;
    - Where there is little variability historically or where multi-year workplans or projections/quotes do not exist budgets will be based on:
      - Three year historical average * GDP Deflator for 2025B:
        - The three year historical data would include 2022 actual, 2023 actual and 2024 forecast;
      - 2025B * GDP Deflator for 2026B;
      - 2026B * GDP Deflator for 2027B.

Key Messages (Cont'd.)

- Similar to prior years:
  - Hydro is responsible for the provision of safe, reliable, least-cost electricity supply in an environmentally responsible manner;
  - Expenditures should only be budgeted based on providing safe, least cost, reliable service;
  - All budget holders are accountable for all costs within their business units, and will be required to explain and monitor all costs, regardless the source of the estimate (ie. HR, Admin Fees);
  - VP approval of budget for each operating segment is required prior to submitting proposed budget expenditures.

Additional Information

Budget Approach by Cost Type

Description	Budget Approach		
	2025	2026	2027
Salary Costs			
Salaries	Salary Templates	Salary Templates	Salary Templates
Allowances	3 Yr historical average * Labour Inflator	2025B * Labour Inflator	2026B * Labour Inflator
Directors Fees	Based on Flat Amount per Director	Based on Flat Amount per Director	Based on Flat Amount per Director
EFB	Actuary Report	Actuary Report	Actuary Report
Fringe	Updated rates from HR	2025B * Labour Inflator	2026B * Labour Inflator
Group	Updated rates from HR	Updated rates from HR	Updated rates from HR
Other Salary Cost	Detailed Budgets	2025B * Labour Inflator	2026B * Labour Inflator
Overtime	3 Yr historical average * Labour Inflator	2025B * Labour Inflator	2026B * Labour Inflator
Recharge	Detailed Budgets - Based on Relational File	2025B * Labour Inflator	2026B * Labour Inflator
SEM			
Contract Labour	Detailed Budgets - Based on Work Plans	Detailed Budgets - Based on Work Plans	Detailed Budgets - Based on Work Plans
Contract Materials	Detailed Budgets - Based on Work Plans	Detailed Budgets - Based on Work Plans	Detailed Budgets - Based on Work Plans
Other SEM	3 Yr historical average * GDP Deflator	2025B * GDP Deflator	2026B * GDP Deflator
Professional Services			
Audit	Detailed Budgets - Based on Quote	Detailed Budgets - Based on Quote	2026B * GDP Deflator
Consulting	Detailed Budgets - Based on Work Plans	Detailed Budgets - Based on Work Plans	Detailed Budgets - Based on Work Plans
Legal	Detailed Budgets - Based on Work Plans	Detailed Budgets - Based on Work Plans	Detailed Budgets - Based on Work Plans
PUB Related Costs	Detailed Budgets - Based on Work Plans	Detailed Budgets - Based on Work Plans	Detailed Budgets - Based on Work Plans
Software Acquisition & Maintenance	Detailed Budgets - Based on Work Plans	Detailed Budgets - Based on Work Plans	Detailed Budgets - Based on Work Plans
Building Rental and Safety Supplies			
Building Rentals	Detailed Budgets - Based on Contract	2025B * GDP Deflator	2026B * GDP Deflator
Safety Supplies	3 Yr historical average * GDP Deflator	2025B * GDP Deflator	2026B * GDP Deflator

Budget Approach by Cost Type (Cont'd.)

Description	Budget Approach 2025	2026	2027
Customer Costs	Based on % of Revenue	Based on % of Revenue	Based on % of Revenue
Equipment Rental			
Computer	3 Yr historical average * GDP Deflator	2025B * GDP Deflator	2026B * GDP Deflator
Equipment Rental	3 Yr historical average * GDP Deflator	2025B * GDP Deflator	2026B * GDP Deflator
Telecommunication Equipment	Detailed Budget	2025B * GDP Deflator	2026B * GDP Deflator
Insurance	Rates provided Risk	Rates provided Risk	Rates provided Risk
Micellaneous			
CDM	Detailed Budgets	Detailed Budgets	Detailed Budgets
Employee Expenses & Sundry	3 Yr historical average * GDP Deflator	2025B * GDP Deflator	2026B * GDP Deflator
Taxes	Calculated based on Revenue/Salaries	Calculated based on Revenue/Salaries	Calculated based on Revenue/Salaries
Training	Detailed Budgets - Based on HR Recommendation	2025B * GDP Deflator	2026B * GDP Deflator
Writeoffs	3 Yr historical average * GDP Deflator	2025B * GDP Deflator	2026B * GDP Deflator
Office Supplies & Expenses			
Advertising	3 Yr historical average * GDP Deflator	2025B * GDP Deflator	2026B * GDP Deflator
Books & Subscriptions	3 Yr historical average * GDP Deflator	2025B * GDP Deflator	2026B * GDP Deflator
Heat & Light	Based on NLP Rate Increase	2025B * GDP Deflator	2026B * GDP Deflator
Memberships and Dues	Detailed Budgets	2025B * GDP Deflator	2026B * GDP Deflator
Postage	3 Yr historical average * GDP Deflator	2025B * GDP Deflator	2026B * GDP Deflator
Telephone	3 Yr historical average * GDP Deflator	2025B * GDP Deflator	2026B * GDP Deflator
Transportation			
Aircraft Costs	Detailed Budget - Based on Contract	2025B * GDP Deflator	2026B * GDP Deflator
Capital Fleet	3 Yr historical average * GDP Deflator	2025B * GDP Deflator	2026B * GDP Deflator
Fuel	Fuel Rates Provided by IE	Fuel Rates Provided by IE	Fuel Rates Provided by IE
Vehicle Allowance & Rentals	3 Yr historical average * GDP Deflator	2025B * GDP Deflator	2026B * GDP Deflator
Travel			
Relocation	Detailed Budgets - Based on HR Recommendation	2025B * GDP Deflator	2026B * GDP Deflator
Travel	3 Yr historical average * GDP Deflator	2025B * GDP Deflator	2026B * GDP Deflator
Cost Recoveries (excl. admin fees)	3 Yr historical average * GDP Deflator	2025B * GDP Deflator	2026B * GDP Deflator

NL Hydro B2026 & B2027 Guidelines

April 29th, 2025

Budget Cycle 2026

- Regulatory filing requirements for 2026 estimates have changed:
  - 2026 RORB application June 2025- Budget for O&M and all other lines items to be finalized by mid May 2025.
- Regulatory filing requirements for 2027 estimates remain unchanged:
  - 2027 Test Year for GRA filed in late 2025
  - Budget for O&M and all other lines items finalized by mid June 2025.
- Majority of companies/Reporting Segments will align their budgets with the above noted applications:
  - NL Hydro (Co. 10);
  - LC Generation/Transmission;
  - Energy Marketing;
  - NL Hydro NR (Co. 5);
  - Exploits/Star Lake

Budget Cycle 2026 – Phase I

- Current expectation is to complete budget submission in May;
- Starting point will be the B2026 and B2027 completed in the Budget cycle for 2025;
- There will be no change to O&M costs outside of the targeted changes that we have identified and will be completed by the Corporate Budgeting and Forecasting Team:

Budget Cycle 2026- Phase II

- NL Hydro’s 2026 & 2027 Annual Budget requirements and process for all lines of business remains;
- O&M estimates are expected to align with the Phase 1 estimates;
- Updates will be made for the following items:
  - Depreciation – Updating 2025 Forecast and new 2026 Budget;
  - Production Profile –Updating for the summer production profile;
  - Borrowing Costs.

Key Messages

Key Messaging will align with our B2025 cycle :

- Hydro is the people's utility that you can count on - **providing safe, cost-conscious, reliable electricity** while harnessing sustainable energy opportunities to benefit the people of Newfoundland and Labrador;
- While responding to societal shifts and government policies towards net-zero and electrification, Hydro continues to be **committed to cost management and has taken strides to decrease spending organization wide;**
- This **commitment towards cost management was reflected** when preparing estimates during the budget cycle:
  - Through our public engagement, our customers have expressed great concern about the cost of living, including electricity rates. Customer impact should always be top of mind as you prepare your budgets;
  - It is critical that business unit owners look for opportunities to implement change in a prudent manner so that cost savings can be achieved;

Key Messages (Cont'd.)

- Hydro is responsible for the provision of safe, reliable, least-cost electricity supply in an environmentally responsible manner;
- Expenditures should only be budgeted based on providing safe, least cost, reliable service;
- All budget holders are accountable for all costs within their business units, and will be required to explain and monitor all costs, regardless the source of the estimate (ie. HR, Admin Fees);
- VP approval will be achieved for each operating segment prior to submitting proposed budget expenditures.

Budget Considerations

- FTEs and salary costs will be managed by the HR team;
- Labour Recharge for 26 & 27 has already been established and will not be adjusted;
  - Labour recharge from LOBs using zero-based approach will not be adjusting labour recharge that impacts LOBs that are locked for 2026 and 2027 estimates.
- Throughout the course of the budget review process, budget adjustments may be identified.

Appendix

Budget Cycle 2025 - Instructions

- Budget approach for 2025, 2026 and 2027 will:
  - Differ from the prior years approach for certain cost types;
  - Generally require:
    - Where there is significant variability historically or where multi-year workplans, projections/quotes currently exist detailed budgets will be prepared;
    - Where there is little variability historically or where multi-year workplans or projections/quotes do not exist budgets will be based on:
      - Three year historical average * GDP Deflator for 2025B:
        - The three year historical data would include 2022 actual, 2023 actual and 2024 forecast;
      - 2025B * GDP Deflator for 2026B;
      - 2026B * GDP Deflator for 2027B.

Budget Cycle 2025 – Instructions (Cont'd.)

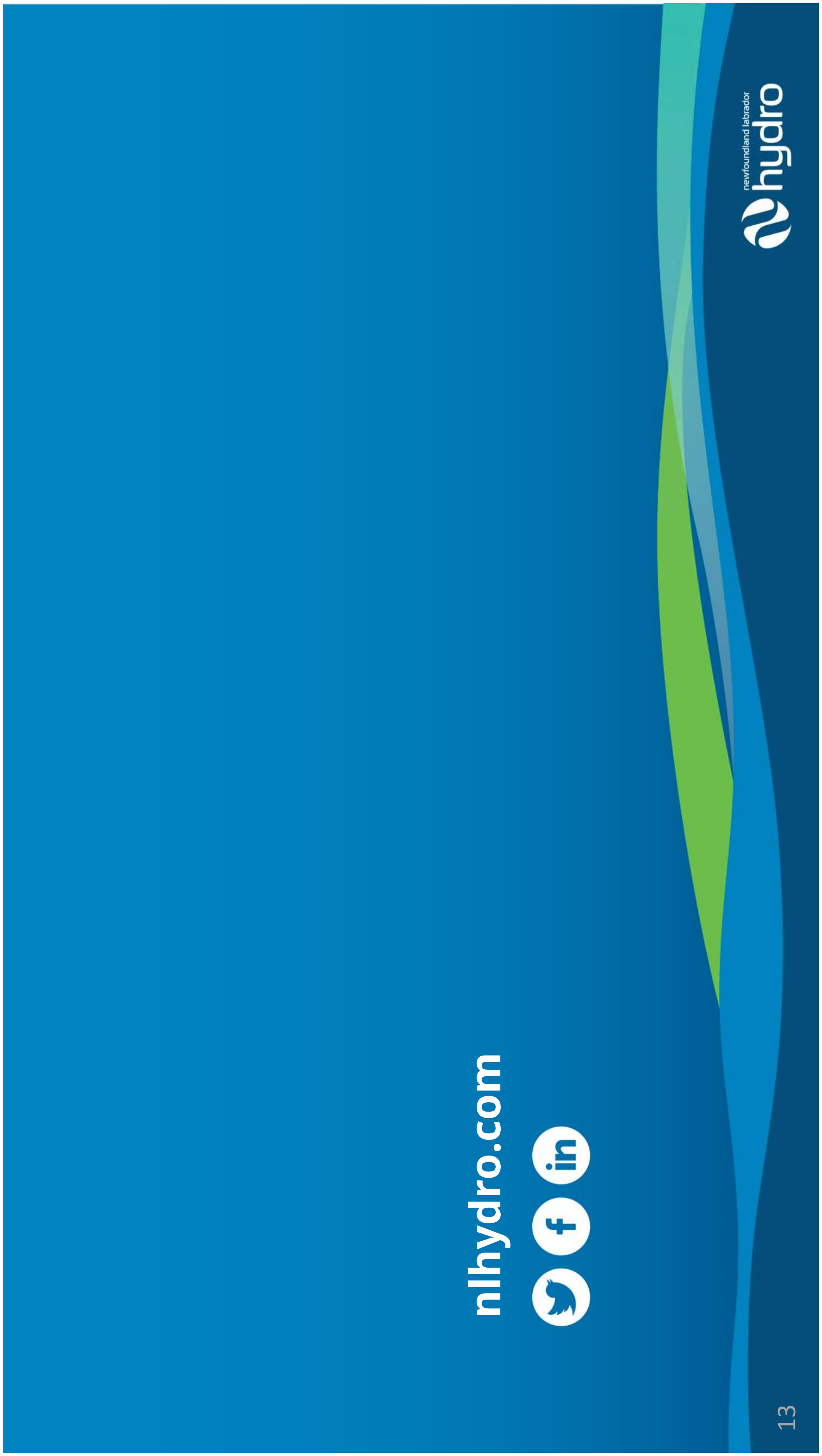
- Similar to prior years:
  - Hydro is responsible for the provision of safe, reliable, least-cost electricity supply in an environmentally responsible manner;
  - Expenditures should only be budgeted based on providing safe, least cost, reliable service;
  - All budget holders are accountable for all costs within their business units, and will be required to explain and monitor all costs, regardless the source of the estimate (ie. HR, Admin Fees);
  - VP approval of budget for each operating segment is required prior to submitting proposed budget expenditures.

Budget Approach by Cost Type in B2025 Cycle

Description	Budget Approach		
	2025	2026	2027
Salary Costs			
Salaries	Salary Templates	Salary Templates	Salary Templates
Allowances	3 Yr historical average * Labour Inflator	2025B * Labour Inflator	2026B * Labour Inflator
Directors Fees	Based on Flat Amount per Director	Based on Flat Amount per Director	Based on Flat Amount per Director
EFB	Actuary Report	Actuary Report	Actuary Report
Fringe	Updated rates from HR	2025B * Labour Inflator	2026B * Labour Inflator
Group	Updated rates from HR	Updated rates from HR	Updated rates from HR
Other Salary Cost	Detailed Budgets	2025B * Labour Inflator	2026B * Labour Inflator
Overtime	3 Yr historical average * Labour Inflator	2025B * Labour Inflator	2026B * Labour Inflator
Recharge	Detailed Budgets - Based on Relational File	2025B * Labour Inflator	2026B * Labour Inflator
SEM			
Contract Labour	Detailed Budgets - Based on Work Plans	Detailed Budgets - Based on Work Plans	Detailed Budgets - Based on Work Plans
Contract Materials	Detailed Budgets - Based on Work Plans	Detailed Budgets - Based on Work Plans	Detailed Budgets - Based on Work Plans
Other SEM	3 Yr historical average * GDP Deflator	2025B * GDP Deflator	2026B * GDP Deflator
Professional Services			
Audit	Detailed Budgets - Based on Quote	Detailed Budgets - Based on Quote	2026B * GDP Deflator
Consulting	Detailed Budgets - Based on Work Plans	Detailed Budgets - Based on Work Plans	Detailed Budgets - Based on Work Plans
Legal	Detailed Budgets - Based on Work Plans	Detailed Budgets - Based on Work Plans	Detailed Budgets - Based on Work Plans
PUB Related Costs	Detailed Budgets - Based on Work Plans	Detailed Budgets - Based on Work Plans	Detailed Budgets - Based on Work Plans
Software Acquisition & Maintenance	Detailed Budgets - Based on Work Plans	Detailed Budgets - Based on Work Plans	Detailed Budgets - Based on Work Plans
Building Rental and Safety Supplies			
Building Rentals	Detailed Budgets - Based on Contract	2025B * GDP Deflator	2026B * GDP Deflator
Safety Supplies	3 Yr historical average * GDP Deflator	2025B * GDP Deflator	2026B * GDP Deflator

Budget Approach by Cost Type in B2025 Cycle(Cont'd.)

Description	Budget Approach		
	2025	2026	2027
Customer Costs	Based on % of Revenue	Based on % of Revenue	Based on % of Revenue
Equipment Rental			
Computer	3 Yr historical average * GDP Deflator	2025B * GDP Deflator	2026B * GDP Deflator
Equipment Rental	3 Yr historical average * GDP Deflator	2025B * GDP Deflator	2026B * GDP Deflator
Telecommunication Equipment	Detailed Budget	2025B * GDP Deflator	2026B * GDP Deflator
Insurance	Rates provided Risk	Rates provided Risk	Rates provided Risk
Micellaneous			
CDM	Detailed Budgets	Detailed Budgets	Detailed Budgets
Employee Expenses & Sundry	3 Yr historical average * GDP Deflator	2025B * GDP Deflator	2026B * GDP Deflator
Taxes	Calculated based on Revenue/Salaries	Calculated based on Revenue/Salaries	Calculated based on Revenue/Salaries
Training	Detailed Budgets - Based on HR Recommendation	2025B * GDP Deflator	2026B * GDP Deflator
Writeoffs	3 Yr historical average * GDP Deflator	2025B * GDP Deflator	2026B * GDP Deflator
Office Supplies & Expenses			
Advertising	3 Yr historical average * GDP Deflator	2025B * GDP Deflator	2026B * GDP Deflator
Books & Subscriptions	3 Yr historical average * GDP Deflator	2025B * GDP Deflator	2026B * GDP Deflator
Heat & Light	Based on NLP Rate Increase	2025B * GDP Deflator	2026B * GDP Deflator
Memberships and Dues	Detailed Budgets	2025B * GDP Deflator	2026B * GDP Deflator
Postage	3 Yr historical average * GDP Deflator	2025B * GDP Deflator	2026B * GDP Deflator
Telephone	3 Yr historical average * GDP Deflator	2025B * GDP Deflator	2026B * GDP Deflator
Transportation			
Aircraft Costs	Detailed Budget - Based on Contract	2025B * GDP Deflator	2026B * GDP Deflator
Capital Fleet	3 Yr historical average * GDP Deflator	2025B * GDP Deflator	2026B * GDP Deflator
Fuel	Fuel Rates Provided by IE	Fuel Rates Provided by IE	Fuel Rates Provided by IE
Vehicle Allowance & Rentals	3 Yr historical average * GDP Deflator	2025B * GDP Deflator	2026B * GDP Deflator
Travel			
Relocation	Detailed Budgets - Based on HR Recommendation	2025B * GDP Deflator	2026B * GDP Deflator
Travel	3 Yr historical average * GDP Deflator	2025B * GDP Deflator	2026B * GDP Deflator
Cost Recoveries (excl. admin fees)	3 Yr historical average * GDP Deflator	2025B * GDP Deflator	2026B * GDP Deflator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