Q. **Reference: Volume I, page 3.7, Table 3-3**

a) Why did Hydro include a $4 million productivity allowance in the 2026F when it is not a test year for the purposes of this GRA?

b) Has the 2026F been adjusted since it was prepared for the purposes of this Application?

c) How was the productivity allowance for the 2026 Forecast considered in the preparation of the budget for the 2027 Revenue Requirement?

A. **a)** By incorporating the productivity allowance commencing in 2026, Newfoundland and Labrador Hydro ("Hydro") is afforded the opportunity to continue its systematic review of costs and identify, evaluate, and implement sustainable efficiency initiatives over an appropriate timeframe. This approach supports the achievement of productivity improvements through prudent cost management and operational efficiencies, while avoiding reliance on short-term or non-recurring measures that may not be sustainable. It also allows Hydro to ensure that identified efficiencies are implemented in a manner that does not compromise safety, system reliability, or customer service.

Inclusion of the productivity allowance in the 2026 Forecast recognizes that productivity improvements are achieved on an ongoing basis and are not limited to a single test year. Establishing the allowance in 2026 also enables Hydro to identify and implement efficiency gains that can be sustained into the 2027 Test Year and contribute to achievement of the separate $4.0 million productivity allowance reflected in the 2027 revenue requirement.

Identifying and implementing sustainable efficiencies requires sufficient time to assess existing costs, evaluate alternatives, and implement changes in a manner that delivers lasting benefits to customers. If Hydro were to defer implementation of the productivity allowance until the 2027 Test Year, Hydro would have a shorter period in which to identify and realize efficiencies necessary to achieve the productivity allowance. Accordingly, inclusion of the productivity allowance beginning in 2026 provides a reasonable and practical approach to supporting the achievement of productivity improvements across the 2026 Forecast and 2027 Test Year.

b) The 2026 Forecast has not been adjusted for the purpose of this application since it was filed. Hydro does produce a monthly annual forecast during the applicable year that is updated with the latest actuals and anticipated forecast. These 2026 updates have not been applied to the 2026 General Rate Application.

c) The $4.0 million productivity allowances for the 2026 Forecast and 2027 Test Year were established as separate targets and do not compound from one year to the next. In each year, the productivity allowance has been allocated across departments on a percentage of total budget dollar basis to drive organization-wide prioritization of cost management. Hydro expects that efficiency gains and cost savings will be realized across many areas of the regulated business segment as 2026 progresses. To the extent that these efficiencies are sustainable, certain savings and efficiencies identified in 2026 may continue into the 2027 Test Year and contribute toward achieving the separate $4.0 million productivity allowance reflected in the 2027 revenue requirement.