Q. **Reference: Volume I, Section 6.8.3, page 6.27, lines 13-15**

"At the end of four years, Hydro is projecting a revenue deficiency of approximately $3.3 million and proposes that this residual revenue deficiency be addressed as part of Hydro's next GRA."

a) Provide the projected $3.3 million residual revenue deficiency as a percentage of 2027 Test Year allocated costs for Hydro Rural customers on the Labrador Interconnected System.

b) Will the rate smoothing proposal that projects a revenue deficiency to be collected contribute to potential rate shock for these customers in its next GRA? Explain.

c) Is the rate smoothing proposal consistent with the principal of intergenerational equity? Explain.

A. **a)** As shown in Schedule F1.2, page 1 of 6 of Newfoundland and Labrador Hydro's ("Hydro") 2026 General Rate Application ("GRA"), the 2027 Test Year allocated cost for Hydro Rural customers on the Labrador Interconnected System is $20,039,020 before the Rural Deficit allocation and $22,230,560 after the allocation. The projected $3.3 million residual revenue deficiency represents approximately 16.5% of 2027 Test Year allocated costs and 14.8% of allocated costs inclusive of the Rural Deficit allocation.

b) As per the proposed definition of the Rural Labrador Interconnected Revenue Deficiency Deferral Account, the monthly revenue adjustment will continue until the account balance is reduced to zero or final disposition of the balance is approved by the Board of Commissioners of Public Utilities ("Board").[1] At this time, Hydro is not able to project proposed future rates to serve Rural Labrador Interconnected customers and if that rate increase in conjunction with recovery of the deferral account balance would contribute to potential rate shock. However, Hydro notes that it is anticipated there will be a shorter time

[1] Please refer to "2026 General Rate Application," Newfoundland and Larbador Hydro, May 27, 2026, vol. III, exh. 10.

period between its GRAs going forward, reducing the risk of significant increases in the cost of service for these customers in the next GRA. In addition, Government of Newfoundland and Labrador are supportive of avoiding potential rate shock, as indicated by their support of the rate smoothing proposal.

c) Yes, Hydro believes the proposed rate smoothing mechanism is generally consistent with the principle of intergenerational equity. The proposal is intended to moderate the impact of an immediate rate increase and promote rate stability while maintaining the opportunity for future review and disposition of any accumulated balance by the Board. Any recovery of the deferred balance would be subject to Board approval and consideration of the appropriate allocation of costs among customers. This approach is consistent with the use of deferral mechanisms to mitigate a significant rate increase while balancing the regulatory principle of rate stability and predictability with intergenerational equity.