Q. **Reference: Volume I, Section 1.7.2, page 1.21, footnote 39**

Recovery of costs for the Muskrat Falls Project has commenced through the Project Cost Recovery Rider charged to the Island Industrial Customer Rate and the Utility Rate. Hydro has been implementing equal annual rate increases to the Project Cost Recovery Rider for the Island Industrial Customers and Newfoundland Power.

a) The estimated rate change for July 1, 2027 includes a reduction in the Project Cost Recovery Rider for the Island Industrial Customers of 21.2%. Should Hydro continue to implement equal annual rate increases if such a reduction is necessary for the Island Industrial Customers?

b) Hydro states that the inclusion of the Project Cost Recovery Rider for the Island Industrial Customers is consistent with the approach utilized for Newfoundland Power to target the annual rate increase and is also consistent with the rate mitigation plan, which directs rates for other customers shall be targeted in a manner that is compatible with the Hydro Target Rate Increase. Explain why the Utility Rate increase, which reflects partial recovery of the Muskrat Falls Project costs allocated to both Newfoundland Power and Hydro Rural customers (i.e., through the rural deficit), is a compatible increase for the Island Industrial Customers.

A. **a)** Yes, Newfoundland and Labrador Hydro (“Hydro”) should continue to implement increases consistent with the wholesale rate increase even though the estimated rate change for July 1, 2027 includes a reduction in the Project Cost Recovery Rider for the Island Industrial Customers of 21.2%.

The proposed rate change for July 1, 2027 includes reflecting costs in base rates that were previously included in the Project Cost Recovery Rider. The proposed rate decrease for July 1, 2027 is 14.3% and includes a 21.2% decrease in the Project Cost Recovery Rider offset by a 6.9% increase in base rates. In the 2027 Cost of Service Study,[1] the revenue requirement allocated to Island Industrial Customers decreased 6.2% compared to the 2019 Cost of Service Study.[2] While it is not unusual for rates to decrease for customer classes resulting from an updated Cost of Service Study, this level of decrease in allocated costs is the primary reason for the proposed rate decrease for Island Industrial customers, in a period when other customer rates are increasing relative to existing rates implemented on October 1, 2019. Hydro does not anticipate this level of change in the future given the 2027 Cost of Service Study reflects the integration of the Muskrat Falls Project costs.

b) The Utility rate increase, which reflects partial recovery of the Muskrat Falls Project costs allocated to both Newfoundland Power Inc. ("Newfoundland Power") and Hydro Rural customers (i.e., through the Rural Deficit), is a compatible increase for the Island Industrial Customers since they are both based on a similar allocation of costs at the wholesale level, which increase at relatively the same rate.

Table 1 provides an illustrative example by increasing the Power Purchases – LIL Costs by 4.4%, or approximately $20.5 million in the 2027 Cost of Service Study, to arrive at a 3.0%[3] rate increase to Newfoundland Power's wholesale rate, equivalent to that which is required to target the 2.25% domestic increase on an annual basis. This increase in costs in the Cost of Service results in a corresponding rate increase for Island Industrial Customers of 3.3%. While these changes are not exactly equal, it is a compatible approach to increasing Island Industrial rates on an annual basis relative to Newfoundland Power while rates are being mitigated.

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[1] The Island Industrial revenue requirement is $42,815,548. Please refer to "2026 General Rate Application," Newfoundland and Labrador Hydro, May 27, 2026, vol. I, sch. F 1.2, p. 1 of 6.
[2] The Island Industrial revenue requirement is $45,661,771. Please refer to "2017 GRA Compliance Application," Newfoundland and Labrador Hydro, July 11, 2019, exh. 14, sch. 1.2, p. 1 of 6.
[3] "2026 Utility Rate Adjustments Effective July 1, 2026," Newfoundland and Labrador Hydro, April 24, 2026, sch. 1, app. A.

Table 1: Revenue Requirement Power Purchases – LIL Costs Increase of 4.4%

	2027 Cost of Service Revenue Requirement ($ Millions)		2027 Cost of Service Revenue Requirement After Cost Increase ($ Millions)		Increase (%)	
Rate Class	**Before Deficit**	**After Deficit**	**Before Deficit**	**After Deficit**	**Before Deficit**	**After Deficit**
Newfoundland Power	574,037,014	636,815,801	591,794,646	655,838,216	3.1	3.0
Island Industrial	42,815,548	42,815,548	44,212,607	44,212,607	3.3	3.3