Q. **Reference: Volume I, Section 2.3.4 Rural Deficit**

Rate increases for Rural Isolated System Customers have continued to be deferred from the 2007 General Rate Application. Provide Hydro's plan with respect to the deferred increases and any impact the continued deferral has on the rural subsidy, Hydro's earnings and the 2027 Test Year revenue requirement.

A. The rate increases for Rural Isolated System customers have been deferred through a series of Orders in Council since the 2007 General Rate Application ("GRA"). Newfoundland and Labrador Hydro ("Hydro") has had discussions with the Government of Newfoundland and Labrador ("Government") regarding the continued deferral of these rate increases and will continue to engage with Government during the two-year extension provided in Order in Council OC2026-123.

The impact of these adjustments on the Cost of Service revenue for customers in each deficit system is summarized in Table 1. The revenue reflected in the Cost of Service assumes the rate increases were not deferred; therefore, not impacting the Rural Deficit allocated to Newfoundland Power Inc. and Rural Labrador Interconnected customers. The continuation of the deferral reduces Hydro's earnings by $778,794 since the revenue is not actually collected from customers.

Table 1: Deferred Diesel Subsidy Revenue Adjustment

	Revenue (With Deferral) ($)	Revenue (Without Deferral)[1] ($)	Deferral Impact ($)	Overall Impact (%)
Labrador Isolated	11,249,502	11,969,343	719,841	6.40
Island Isolated	1,658,996	1,717,949	58,953	3.55
Total	**12,908,498**	**13,687,292**	**778,794**	**6.03**

[1] "2026 General Rate Application," Newfoundland and Labrador Hydro, May 27, 2026, vol. I, sch. F 1.2, p. 1 of 6, col. 2.

Hydro's 2026 GRA assumes an extension of the same rate deferral consistent with Government practice over previous years.[2]

[2] "Customer Rates Effective July 1, 2026," Newfoundland and Labrador Hydro, May 25, 2026, Legal Application, para. 11 and 12.