Q. **Reference: Volume I, Schedule D-II, page 6 of 7**

Provide supporting calculations and explanations for the debt guarantee fee amounts included and excluded in computing the 2027 Test Year revenue requirement.

A. Please refer to PUB-NLH-072, Attachment 1 for the calculation of the 2027 Debt Guarantee Fee, including the amounts included in the 2027 Test Year revenue requirement and the related interest cost of service exclusions.

The methodology used to calculate the disallowed amount reflects commitments established under Undertaking 139 of Newfoundland and Labrador Hydro's ("Hydro") 2013 Amended General Rate Application ("GRA"), provided as PUB-NLH-072, Attachment 2, and consistent with Board of Commissioners of Public Utilities Order No. P.U. 49(2016) and Order No. P.U. 16(2019) related to Hydro's 2013 Amended GRA, and the 2017 GRA, respectively. Specifically, the methodology assumes that:

- The Debt Guarantee Fee applicable to long-term debt is set within a range of 35 to 47 basis points, with the resulting savings shared equally (50/50) between customers and Hydro;
- The Debt Guarantee Fee applicable to short-term debt is based on an equal (50/50) sharing of the savings achieved; and
- Government of Newfoundland and Labrador ("Government") on-lending to Hydro[1] is excluded from the calculation.

[1] For recent debt issues, Government issues debt in the capital markets and on-lends the proceeds to Hydro. Debt Guarantee Fees associated with this are included in the calculation of the disallowed amount.

Newfoundland and Labrador Hydro
Debt Guarantee Fee and Cost of Service Exclusions
2027 Test Year Debt Guarantee Fee

Background

Newfoundland and Labrador Hydro (NLH) is to pay to the Government of Newfoundland and Labrador an annual fee for any of its obligations guaranteed or on-lent by the Province.
The fee is calculated by applying a guarantee fee rate to the balance of any guaranteed or on-lent obligations of NLH, net of related sinking funds, outstanding at December 31 of the immediately preceding year as reported in NLH's annual financial statements.
The guarantee fee rate is as follows:

Calculation

End of immediately preceding fiscal year: 31-Dec-26

Year Issued	Series	Interest Rate	Maturity Date	Years to Maturity	Long-term debt Par (000's)	Carrying value of Long-term debt Net of sinking fund (Previous Yr) (000's)	Guarantee Fee Rate	Guarantee Fee (000's)
1996	Y	8.400%	27-Feb-2026	(0.84)	300,000		0.50%	-
2001	AB	6.650%	27-Aug-2031	4.66	300,000	163,633	0.50%	818
2003	AD	5.700%	14-Jul-2033	6.54	125,000	73,586	0.50%	368
2014/2017	AF	3.600%	1-Dec-2045	18.93	500,000	484,318	0.50%	2,422
2017/2018	1A	3.700%	17-Oct-2048	21.81	600,000	633,198	0.50%	3,166
2021	2A	1.750%	2-Jun-2030	3.42	300,000	294,231	0.25%	736
New 2025	3A	4.600%	2055-10-17	28.81	300,000	292,503	0.50%	1,463
New 2026	4A	4.680%	2056-08-15	29.64	200,000	200,000	0.50%	1,000
						$ 2,141,469		9,972
				Promissory Notes		245,261	0.25%	613
				2027 Test Year Debt Guarantee Fee				**$ 10,585**
				Schedule D-IV: 2027 Test Year Debt Guarantee Fee				**$ 10,571**
								$ 14 Immaterial Difference

Recoverable Portion

Year Issued	Series	Interest Rate	Maturity Date	Years to Maturity	Long-term debt Par (000's)	Carrying value of Long-term debt Net of sinking fund (Previous Yr) (000's)	Guarantee Fee Rate	Guarantee Fee (000's)
1996	Y	8.400%	27-Feb-2026	(0.84)	300,000	-	0.205%	-
2001	AB	6.650%	27-Aug-2031	4.66	300,000	163,633	0.205%	335
2003	AD	5.700%	14-Jul-2033	6.54	125,000	73,586	0.205%	151
2014/2017	AF	3.600%	1-Dec-2045	18.93	500,000	484,318	0.205%	993
2017/2018	1A	3.700%	17-Oct-2048	21.81	600,000	633,198	0.00%	-
2021	2A	1.750%	2-Jun-2030	3.42	300,000	294,231	0.00%	-
New 2025	3A	4.600%	2055-10-17	28.81	300,000	292,503	0.00%	-
New 2026	4A	4.680%	2056-08-15	29.64	200,000	200,000	0.00%	
						$ 2,141,469		1,479
				Promissory Notes		245,261	0.125%	307
				2027 Test Year Debt Guarantee Fee (Recoverable Portion)				**$ 1,786**

Cost of Service Exclusion (2027 Test Yr Debt Guarantee Fee less Recoverable Portion)	**$ 8,799**
Schedule D-IV: Cost of Service Exclusion (2027 Test Yr Debt Guarantee Fee less Recoverable Portion)	**$ 8,792**
	$ 7 Immaterial Difference

Undertaking 139

(a) **Undertake to provide a calculation using the assumption that the Board accepted Grant Thornton's opinion...and that the debt guarantee fee for the long term should be between the 35 and 47 basis points with a 50/50 cost savings...calculate what that fee should be...**

(b) **Further to debt guarantee fee – Undertake to get one for the short term debt as well, the basis points assuming there is a 50/50 split of the savings.**

Please see Undertaking 139, Attachment 1, which shows that the net result of the above noted adjustments is a reduction of $2.6 million relative to the amount currently included in the 2015 Test Year interest expense.

Debt Guarantee Fee for 2015 Test Year
Based on Net Debt Outstanding as of December 31, 2014
With Debt Guarantee Fee Rates as Per Undertaking 139 Parts A and B

Guarantee Fee Rates Used in Calculation

Long-Term Debt
For long-term debt, used mid-point of 35 - 47 basis points (41 basis points) and adjusted for equal apportioning of benefits between the guarantor and beneficiary, yielding an effective rate of 20.5 basis points (41 basis points * 50%).

				[a]	[b]	[c]	[d] = [a] - [b] - [c]	[e]	[d] * [e]
Series	Year Issued	Maturity Date	Years to Maturity	Par Value Outstanding	Book Value of NLH Holdings	Fair Value of Sinking Funds	Net Debt Outstanding	Guarantee Fee Rate	Guarantee Fee
AE	2006	2016-10-13	1.8	224,607	-	-	224,607	0.125%	281
X	1992	2017-07-14	2.5	149,654	13,819	75,698	60,136	0.125%	75
Y	1996	2026-02-27	11.2	294,333	25,562	69,532	199,239	0.205%	408
AB	2001	2031-08-27	16.7	305,933	6,473	54,253	245,206	0.205%	503
AD	2003	2033-07-14	18.5	123,744	373	21,052	102,318	0.205%	210
AF	2014	2045-06-15	30.5	200,000	-	-	200,000	0.205%	410
				1,298,270	46,228	220,536	1,031,506		1,887

Result
The above noted adjustments result in a debt guarantee fee of $1,887,000, which represents a reduction of $2,560,000 relative to the amount currently included in the 2015 Test Year ($4,447,000)

Short Term Debt
For short-term debt, used 25 basis points and adjusted for equal apportioning of benefits between the guarantor and beneficiary, yielding an effective rate of 12.5 basis points.