Q. **Reference: Volume III, Exhibit 10 – Muskrat Falls PPA Sustaining Capital Deferral Account Definition**

According to the account definition, the amount charged to this account includes the sustaining capital payments and the interest during construction incurred by Hydro, calculated in accordance with Hydro's Capitalization Guidelines.

a) Does Hydro Regulated make payments to Hydro Non-Regulated for the Allowance for Funds Used During Construction ("AFUDC") or Interest During Construction ("IDC") in addition to the monthly sustaining capital costs?

b) Confirm that Hydro's AFUDC/IDC is not applied to the total monthly transfer, but only for the sustaining capital projects that meet Hydro's guidelines for the use of AFUDC /IDC. If not, please explain.

c) Explain how the use of AFUDC/IDC is determined for the non-regulated sustaining capital projects and communicated to Hydro Regulated on a monthly basis.

d) Confirm that the inclusion of this deferral account in rate base before the sustaining capital projects are in service, will result in Hydro receiving a return on rate base in addition to the AFUDC/IDC while the project is still in progress.

e) Confirm that the sustaining capital payments by Hydro Regulated are for costs incurred on assets that are not included in Hydro Regulated.

f) This deferral account has not been included in rate base in prior years. Provide Hydro's reasoning to support the inclusion of this deferral account in rate base for the 2027TY.

A. **a)** Newfoundland and Labrador Hydro's ("Hydro") regulated business segment does not make payments to its non-regulated business segment for the AFUDC[1] or IDC[2] in addition to the

[1] Allowance for Funds Used During Construction ("AFUDC").
[2] Interest During Construction ("IDC").

monthly sustaining capital costs. The sustaining capital is financed by Regulated Hydro rather than Non-Regulated Hydro and, as a result, the IDC is recorded in Regulated Hydro.

b) AFUDC or IDC is not applied to the total monthly sustaining capital payments under the Muskrat Falls Power Purchase Agreement ("PPA"). The sustaining capital is financed by Regulated Hydro and, as a result, Muskrat Falls and the Labrador Transmission Assets do not incur financing for the sustaining capital. The monthly AFUDC or IDC calculation is based only on the sustaining capital projects that would meet Hydro's Capitalization Guidelines for the capitalization of borrowing costs.

c) As part of the monthly Muskrat Falls PPA invoices sent to Hydro, there is a list of each of the Muskrat Falls and Labrador Transmission Assets sustaining capital projects and balance making up that month's sustaining capital payment. Finance staff confirm what projects meet the guidelines for the capitalization of borrowing costs. For further clarity, the calculation of IDC is prepared by Hydro Regulated for the Muskrat Falls PPA Sustaining Capital Deferral Account.

d) Hydro confirms that inclusion of the Muskrat Falls PPA Sustaining Capital Deferral Account balance in rate base will result in Hydro receiving a return on rate base in addition to the AFUDC/IDC while the project is still in progress. Timing differences between the in-service date of these assets and the timing of inclusion in rate base vary both ways. In the 2027 Test Year, there will be projects included in the Muskrat Falls PPA Sustaining Capital Deferral Account balance that are not currently in-service, very few of which are multi-year projects. However, between the 2027 Test Year and Hydro's next test year, there will be a number of years of sustaining capital projects that are in-service that are not included in the rate base until that new test year. These variances are a normal part of the regulatory process, and the impacts should be immaterial over the life of the deferral account.

e) Hydro confirms that the sustaining capital payments made by Hydro Regulated to Muskrat Falls under the Muskrat Falls PPA are for costs incurred on Muskrat Falls and Labrador Transmission Assets that are not included in Hydro Regulated.

f) This is Hydro's first general rate application since the deferral account was approved in Board of Commissioners of Public Utilities Order No. P.U. 33(2021). As a result, the 2027 Test Year is Hydro's first opportunity to submit the Muskrat Falls PPA Sustaining Capital Deferral Account for inclusion in the rate base. Please refer to Hydro's response to PUB-NLH-100 of this proceeding.