Doane Grant Thornton

Board of Commissioners of Public Utilities

Newfoundland and Labrador Hydro – 2024 Annual Review

Report date: November 6, 2026

Table of contents

Executive summary		2
1.	Accounting system and code of accounts	9
2.	Return on rate base and other metrics	12
3.	Revenue from rates	18
4.	Power purchased	28
5.	Operations and administration expenses	37
6.	Labour costs	58
7.	Non-regulated activity	79
8.	Deferrals	90
9.	Key performance indicators	103
Appendix A - Glossary of terms		119

Executive summary

Purpose

Doane Grant Thornton LLP ("we", "us", "our", or "Doane Grant Thornton") has been engaged by the Newfoundland and Labrador Board of Commissioners of Public Utilities (the "Board" or "PUB"). The purpose of our engagement was to present our observations, findings, and recommendations with respect to our 2024 annual financial review of Newfoundland and Labrador Hydro (the "Company", "Hydro", "NLH").

Scope of work

Our review was carried out in accordance with the following Terms of Reference:

1) Review Hydro's accounting system and code of accounts to ensure that it can provide information sufficient to meet the reporting requirements of the Board.
2) Review the calculations of return on rate base, return on equity, embedded cost of debt, weighted average cost of capital ("WACC"), capital structure and interest coverage ratio to ensure they are in compliance with Board orders. Doane Grant Thornton has previously been engaged to review the 2024 average rate base in a separate engagement, therefore it is not necessary to include as part of this review.
3) Conduct an analysis of revenue from rates, including GWhs. Compare the 2024 Actual results to the 2019 Test Year ("TY"), the 2023 Actuals and the 2024 Plan, and follow up on significant variances.
4) Conduct an analysis of power purchase expense, including GWhs. Compare the 2024 Actual results to the 2019 Test Year, the 2023 Actuals and the 2024 Plan, and follow up on significant variances.
5) Conduct a review of operations and administration expenses, fuels, power purchased, depreciation and interest for 2024. Include an analytical review reporting on trends, analytical review of annual variances and other financial analysis based on information provided by Hydro. The examination of the foregoing will include, but is not limited to, the following:
    a) salaries and benefits
    b) system equipment maintenance
    c) insurance (including director's liability)
    d) transportation
    e) building rental and maintenance
    f) professional services
    g) vegetation management
    h) training

i) travel
j) software expenditures
k) miscellaneous
l) capitalized expenses
m) intercompany charges
n) membership fees
o) fuels
p) power purchased
q) depreciation
r) interest
s) office supplies and expenses
t) bad debts

6) Conduct an analysis of labour costs, including executive compensation, full- time equivalents ("FTEs") and short -term incentives for 2024. In conducting this review, please present comparisons to the 2019 Test Year, the 2023 Actuals and the 2024 Plan, and follow up on significant variances.
7) Review Hydro's 2024 non-regulated activity and assess the appropriateness of adjustments in the calculation of regulated earnings.
8) Conduct a review of the charges (credits) to and amortization of Hydro's deferral accounts and assess their compliance with Board Orders, including the following:
   a) Holyrood Thermal Generating Station ("Holyrood TGS") Accelerated Depreciation Deferral Account
   b) Muskrat Falls Power Purchase Agreement ("MF PPA", "Muskrat Falls PPA", or "PPA") Sustaining Capital Deferral Account
   c) Power Purchase Expense Recognition Account
   d) Muskrat Falls Export Revenue Recognition Deferral Account
   e) Business Systems Transformation Program (approved for recovery)
   f) Electrification Cost Deferral Account
   g) Supply Cost Variance Deferral Account ("SCVDA")
   h) Conservation and Demand Management ("CDM") Account, including the incorporation of costs relating to the Labrador Interconnected System ("LIC")
9) Review Hydro's annual report on Key Performance Indicators ("KPI") and any other information on initiatives and efforts targeting productivity or efficiency improvements.

Our scope of work is as set out throughout this report. The procedures undertaken in the course of our review do not constitute an audit of the Company's financial information and consequently, we do not express an audit opinion on the financial information provided by the Company. Our opinions on other matters are outlined throughout this report.

We acknowledge that our report will be communicated to the parties to the matter and may become a public document accessible through the Board's website. We have given the Board our consent to use our report for this purpose. Our report is not to be reproduced or used for any purpose other than that outlined above without prior written permission in each specific instance. Doane Grant Thornton LLP recognizes no responsibility to any third party who may rely on this report or other material provided to the Board.

Unless stated otherwise in this report, Doane Grant Thornton LLP has relied on information provided by the Company, the Board's website and third-party sources in preparing this report, whom Doane Grant Thornton LLP believes is reliable. We are not guarantors of the information upon which we have relied in preparing the report and, except as stated, we have not audited or otherwise attempted to verify any of the underlying information or data contained in this report. We have made efforts to ensure a conservative, realistic and transparent approach, however, some of the analysis depends on the input from third parties whose opinions may influence the conclusions. All analysis, information and recommendations contained herein are based on the information available to Doane Grant Thornton LLP as of this report's date.

Summary of findings, observations, and conclusions

The following represents a summary of our key findings and recommendations based on the procedures outlined throughout the report:

Figure 1 – Summary of findings, observations, and conclusions

#	Report section	Findings, observations, and conclusions
1.	**Accounting system and code of accounts**	We have reviewed Hydro's accounting system and code of accounts for 2024. We confirm that the accounts added were required to enhance the Company's ability to provide sufficient information to meet the reporting requirements of the Board.
2.	**Return on rate base and other metrics**	We have completed our procedures in the review of Hydro's 2024 calculations of return on rate base, return on equity, embedded cost of debt, weighted average cost of capital, capital structure, and interest coverage ratio to ensure they are in compliance with Board orders. We have not noted any discrepancies in the calculations or compliance.
3.	**Revenue from rates**	We have completed our procedures on Hydro's revenue from rates, including GWh, for 2024 Actual results to the 2019 Test Year, the 2023 Actuals and the 2024 Plan. On a total basis, revenue from rates experienced a decrease from $676,870,000 in 2023 to $673,456,000

#	Report section	Findings, observations, and conclusions
		in 2024. Revenue in GWh increased from 8,649,000 GWh in 2023 to 8,872,000 in 2024.
4.	**Power purchased**	We have completed our analysis of Hydro's power purchase expense (including GWhs) and compared the 2024 Actual results to the 2019 Test Year, the 2023 Actuals and the 2024 Plan. Our analysis identified notable trends and Budget variances, and we made subsequent inquiries with Hydro for further clarification. We found that 2024 Actual power purchases from 'Secondary and other' sources were significantly lower than 2024 Budget. This is a result of increased planned and unplanned Labrador-Island Link ("LIL") outages in its early operation. Additionally, we noted that 2024 Actual power purchases from 'Non-Utility Generator' ("NUG") sources were notably lower than 2024 Budget. This discrepancy was caused by entering two purchase agreements with Corner Brook Pulp and Paper ("CBPP") in 2024 and recording the energy and associated costs in Non-regulated Hydro, resulting in lower costs than budgeted. We did not identify any issues in our overall analysis.
5.	**Operations and administration expenses**	We have completed our procedures in the review of Hydro's operations and administration expenses. We compared 2024 Actual results to prior years, the 2019 Test Year and the 2024 Plan. Our analysis identified notable trends and Budget variances, and we made subsequent inquiries with Hydro for further clarification, including their budgeting approach and methodology. Overall operations and administration expenses under the scope of our review experienced minimal growth in 2024. In 2024, Actual expenditures were 1% higher than 2023 Actual results. Based on our discussions with Hydro, the primary categories contributing to this slight increase are building rental and maintenance, and professional services. Actual results for overall operations, maintenance, and administration ("OM&A or "O&M") expenses exceeded the 2024 Budget by 3%. When we compared Budget to Actual costs, we noted that majority of categories' Actual expenses fell within their Budgets. These categories include but are not limited to membership fees, vegetation management, and training. However, there are several cost categories where Actual expenditures have exceeded Budget. These categories include but are not limited to transportation, and building rental and

#	Report section	Findings, observations, and conclusions
		maintenance. We have received explanations from Hydro on the trends identified and are satisfied with their explanations.
6.	**Labour costs**	We have completed our procedures in the review of Hydro's labour costs. Our review included comparing 2023 and 2024 Actual results to the 2019 Test Year and the 2024 Plan. Our analysis included trending on total salaries and fringe benefits, executive compensation, salary expense by FTE, and capitalized salaries and overtime ("OT"). We identified significant year-over-year trends and made subsequent inquiries with Hydro for further clarification. Our key findings include the following: • Over the period of our review, total Actual results in 2024 for labour costs increased by 4% and 8% from 2024 Budget and 2023 Actuals, respectively. • Average net FTE employees by division have increased from 804 in 2023 to 821 2024. We also noted that average salary per net FTE increased by 7.9% in 2024, This is a result of salary costs increasing by 9%, which Hydro explained is a result of wage increases, front-line leader differential adjustments, and progress within salary scales and classifications. Overall, we have not noted any issues in our analysis and are satisfied with Hydro's explanations provided through our inquiry process.
7.	**Non-regulated activity**	We have completed our procedures in the review of Hydro's non-regulated activity which included understanding Hydro's non-regulated activity, analyzing year-over-year trends of the non-regulated statement of earnings, and reviewing the regulatory adjustments for 2024. In our analysis of the non-regulated statement of earnings, we found that operating costs decreased significantly in 2024. Based on our discussions with Hydro, we understand that the decrease in operating costs is primarily due to a decrease in bad debt expense. Additionally, we noted a large increase to other expenses which according to Hydro, related to a Relationship Framework Agreement ("RFA") that was executed in October 2024 between NL Hydro and the NunatuKavut Community Council ("NCC"), focused on renewable energy projects. During our review, nothing came to our attention to

#	Report section	Findings, observations, and conclusions
		suggest the adjustments in the calculation of regulated earnings were not appropriate.
8.	**Deferrals**	We have completed our procedures in the review of Hydro's 2024 charges (credits) to and amortization of the deferral accounts and note the following: • We acknowledge that Hydro's regulatory assets/liabilities include significant regulated deferral balances. In 2024, the balance of the regulatory assets/liabilities totaled $1.44 billion. We understand that Hydro has plans to address these deferrals. These plans were not specifically part of this review. However, we encourage the Board to continue monitoring deferrals in future filings. • Based upon our analysis, we noted that recovery of Holyrood TGS accelerated depreciation, Phase II hearing costs, Muskrat Falls Power Purchase Agreement sustaining capital, the reliability and resource adequacy balance, and a portion of the business systems transformation program have not yet been approved by the Board. These deferral accounts have been appropriately excluded from rate base. • We also note that power purchase expense recognition deferral represents a timing difference in expense recognition and is appropriately excluded from rate base. • Finally, we note that the Muskrat Falls PPA Monetization represents a timing difference in revenue recognition and is appropriately excluded from rate base.
9.	**Key performance Indicators**	We have reviewed the KPI results and note the following findings: • Hydro did not meet all of their safety targets in 2024. They met their Total Recordable Injury Frequency ("TRIF") target ratio, but did not meet their Lost Time Injury Frequency ("LTIF") target ratio. • Hydro did not meet both of their environment and conservation targets in 2024. While they met the achievement of environmental management system ("EMS") targets, they did

#	Report section	Findings, observations, and conclusions
		not meet annual energy savings from conservation and demand management programs target. • Hydro did not meet all applicable reliability KPIs in 2024. According to Hydro, this was caused by extended unit outages and may be attributed to the early operation of the Labrador Island Link. • Hydro did not meet their operating KPI targets in 2024. According to Hydro, various spill events resulted in lost energy across the Bay d'Espoir System and therefore, a slight decrease in the Bay d'Espoir KPI. • We understand that Hydro does not have set targets for their financial KPIs and instead compares these metrics to peer group data in line with Board direction in Order No. P.U. 8 (2007). We note that Hydro is outperforming their peer group in these metrics, however, Hydro does not believe that the selected peer group is an appropriate comparator on all metrics. We have reviewed the explanations provided by Hydro for the changes and variations experienced in 2024 and find them to be consistent with our observations and findings noted in conducting our annual financial review. There were no internal inconsistencies identified in Hydro's report.

1. Accounting system and code of accounts

Scope

Review Hydro's accounting system and code of accounts for any changes since 2023 to ensure that it can provide sufficient information to meet the reporting requirements of the Board.

Procedures

Our review of the accounting system and code of accounts included the following specific procedures:

- Inquired as to the extent of changes (if any) to the code of accounts since 2023 and assess the impact on the Board's reporting requirements.
- For any additions or deletions from the approved chart of accounts, understood the rationale for the change.

Analysis

Section 58 of the *Public Utilities Act* states that the Board may prescribe the form of all books, accounts, papers, and records to be kept by Hydro and that Hydro shall comply with all such directions of the Board.

The objective of our review of Hydro's accounting system and code of accounts was to ensure that it can provide sufficient information to meet the reporting requirements of the Board. We have observed that the Company has a well-structured, comprehensive system of accounts and organization/reporting structure in place. The system allows for adequate flexibility to allow the Company to meet its own, as well as the Board's, reporting requirements.

Our review noted the creation of 15 additional accounts to the code of accounts in 2024. New accounts were added in relation to the following categories:

Newfoundland and Labrador System Operator Compliance

In 2024, two new balance sheet accounts related to transmission applications for Newfoundland and Labrador System Operator ("NLSO") compliance were added. These accounts included the following:

- One account for NLSO prepaid deposits; and,
- One account for NLSO customer payables.

The Upper Churchill Redress Agreement

In 2024, two new accounts were created related to the Innu Nation Upper Churchill Redress Agreement ("UCRA"). Specifically, these accounts relate to the First Block Energy Charge

Rebate ("FBEC") to be applied to the Sheshatshiu Customer Accounts. These accounts were created to capture the remaining balance of the FBEC at the end of the year after all rebates had been issued for the year. The balance remaining is owed to the Innu Nation and is factored into future years' UCRA payments and FBEC calculations. These accounts included the following:

- Two balance sheet accounts set up for UCRA excess.

Island Interconnected System and Labrador Interconnected System

In 2024, seven new income statement accounts related to the Island Interconnected System ("IIC") and Labrador Interconnected System were added. All of which are consistent with Board Order P.U.34 (2023). These accounts include the following:

- One account for non-firm deferral for IIC;
- One account for non-firm deferral for LIC;
- One account for non-firm revenue for IIC;
- One account for non-firm revenue for LIC;
- One account for regulatory adjustment for deferred revenue;
- One account for basic customer charge for 5.1L; and,
- One account for deferral for basic customer charge.

Short-Term Bank Loan

In 2024, two new accounts for a short-term bank loan were added. These accounts included the following:

- One new balance sheet account for the short-term bank loan; and,
- One new income statement account for the interest expense associated with the short-term bank loan.

Other

In addition, in 2024 the following two new accounts were created:

- One income statement account for Corner Brook Pulp & Paper power purchase agreement; and,
- One income statement account for cost recoveries relating to non-regulatory executive administration fees.

Conclusion

We have reviewed Hydro's accounting system and code of accounts for 2024. We confirm that the accounts added were required to enhance the Company's ability to provide sufficient information to meet the reporting requirements of the Board.

2. Return on rate base and other metrics

Scope

Review Hydro's 2024 calculations of return on rate base, return on equity, embedded cost of debt, weighted average cost of capital, capital structure and interest coverage ratio to ensure they are in compliance with Board orders.

Procedures

Our review of return on rate base included the following specific procedures:

- Agreed all carry-forward data to supporting documentation, including audited financial statements and internal accounting records where applicable.
- Agreed component data (dividends, regulated earnings, etc.) to supporting documentation.
- Recalculated return on rate base for 2024.
- Recalculated average common equity for 2024.
- Recalculated return on common equity for 2024.
- Recalculated embedded cost of debt for 2024.
- Recalculated the weighted average cost of capital for 2024.
- Recalculated the interest coverage ratio for 2024.
- Recalculated the capital structure for 2024 and compared to Hydro's target of 80:20.
- Reviewed the above for compliance with relevant Board Orders.

Analysis

Return on rate base

The Company's calculation of return on average rate base is included on Return 12 of the annual report to the Board. The return on average rate base for 2024 as filed was 4.54% (2023 – 5.02%).

Details with respect to Hydro's calculation of return on average rate base as filed on Return 12 for 2024, with 2023 as a comparative, are as follows:

Figure 2 – Rate of return on average rate base

(000s)	2024	2023
Corporate net income - Return 1	$ 41,844	$ 70,280
Deduct:		
Unregulated earnings	21,351	38,295
Regulated net income	20,493	31,985
Add:		
Cost of service exclusions	7,228	7,129
Regulated net interest - Return 16	80,365	77,802
Regulated return	108,086	116,916
Average rate base at year end - Return 3	2,379,043	2,329,352
Rate of return on average rate base	**4.54%**	**5.02%**

The regulated net income component of the return on rate base excludes all of Hydro's non-regulated earnings and expenses. In Order No. P.U. 30(2019), the Board approved an allowed rate of return on rate base of 5.43% with a range of return of 40 basis points (± 20 basis points) for 2019 rate setting.

Both the 2023 and 2024 rates are below the approved range. Hydro explained that their test year was set in 2019 and they were within the range of return for three years and fell below the range of return starting in 2023. Typically, a utility is expected to file a General Rate Application every 3–5 years and not filing within that time period can lead to falling below the approved range of return on rate base. According to Hydro, their GRA filing was delayed as it was dependent on the full commissioning of the Muskrat Falls Project, which occurred when the Labrador-Island Link was commissioned in April 2023, and the finalization of the Government of Newfoundland and Labrador's Rate Mitigation plan, which occurred in 2024. During this period, and given the length of time between GRA filings, Hydro's return on rate base was eroded predominantly due to growth in Hydro's capital assets and increases in Hydro's operating costs. Hydro filed a GRA on May 27, 2026 with a 2027 Test Year. As part of this process, Hydro's approved range of return on rate base would be re-set.

Return on equity

The Company's calculation of regulated average equity and rate of return on regulated average equity for 2024 is included on Return 13 of the annual report to the Board.

Details with respect to Hydro's calculation of return on regulated average equity as filed in Return 13 is as follows:

Figure 3 – Average equity and return on equity

(000s)	2024	2023
Shareholder's equity, beginning of year	$ 644,873	$605,760
Shareholder's equity, end of year	672,593	644,873
Average equity	658,733	625,317
Regulated earnings	20,493	31,985
Cost of service exclusions	7,228	7,129
Regulated earnings	27,721	39,114
Return on equity	**4.21%**	**6.26%**

The "regulated" shareholder's equity of Hydro excludes the portion of equity attributable to non-regulated operations. Details with respect to Hydro's calculation of regulated shareholder's equity is filed in Return 13.

Cost of debt

The Company's calculation of cost of debt for 2024 is included on Return 15 of the 2024 annual report to the Board. Cost of debt for 2024 has been calculated at 4.75%, compared to 4.52% in 2023. Details with respect to Hydro's calculation of cost of is as follows:

Figure 4 – Cost of debt

(000s)	2024	2023	Average
Long-term debt	$2,008,430	$2,023,540	$2,015,985
Promissory notes [1]	590,000	230,000	410,000
Sinking funds	(211,246)	(205,865)	(208,556)
Total debt - Return 14	2,387,184	2,047,675	2,217,430
Non-regulated debt pool	(180)	13,490	6,655
Total regulated debt - Return 14	2,387,004	2,061,165	2,224,085
Current year interest expense - Return 16			105,732
Cost of debt			**4.75%**

Note 1: Hydro has a $300.0 million provincially funded guaranteed promissory note program and a $500.0 million committed credit facility to fulfil its short-term borrowings. As at December 31, 2024, there were four promissory notes outstanding for a total of $300.0 million with a maturity date of January 2, 2025, bearing interest rates ranging from 3.31% to 3.36%. Upon maturity, the promissory notes were reissued. As at December 31, 2024, Hydro maintained a $500.0 million committed revolving term credit facility maturing on July 31, 2025. As at December 31, 2024, there was an advance on the credit facility in the amount of $290.0 million with a maturity date of January 2, 2025, bearing interest at a rate of 4.09% (2023- $nil). In combination with the $300 million provincially guaranteed promissory note program, this resulted in total short-term borrowings of $590.0 million as at December 31, 2024 (2023- $230.0 million).

Weighted average cost of capital

The Company's inputs used in the calculation of weighted average cost of capital for 2024 are included on Returns 13, 14, and 15 of the 2024 annual report to the Board.

Weighted average cost of capital for 2024 has been calculated at 5.40%, compared to 5.25% and 5.43% in 2023 and 2019 TY, respectively.

Details with respect to Hydro's calculation of WACC is as follows:

Figure 5 – Weighted average cost of capital

		2024	2023	2019 TY
Capital structure [1]				
Debt - Return 14		75.2%	73.3%	76.7%
Average debt	A	74.2%	73.3%	76.8%
Equity - Return 14		21.2%	22.9%	19.6%
Average equity	B	22.1%	22.9%	19.5%
Cost of debt - Return 15	C	4.75%	4.52%	4.91%
Target cost of equity	D	8.50%	8.50%	8.50%
Weighted average return on debt	E =A x C	3.53%	3.31%	3.77%
Weighted average return on equity	F = B x D	1.88%	1.94%	1.66%
Weighted average cost of capital	**G = E + F**	**5.40%**	**5.25%**	**5.43%**

Note 1: The WACC calculation above excludes the employee future benefits and funded asset retirement obligation components of Hydro's capital structure. WACC is a targeted measure that focuses only on the sources of capital that require a return from investors or lenders. As such, the WACC calculation above appropriately excludes the other components of Hydro's capital structure.

Per Order No. P.U.16(2019), the Board approved the automatic adjustment mechanism for Hydro's target return on equity to reflect any changes to Newfoundland Power's approved target return on equity for rate setting. Per Order No. P.U.3(2022), the Board recommended a rate of return on common equity of 8.50% for rate setting purposes. Therefore, the target cost of equity of 8.50% has been used in the calculation of the WACC.

Interest coverage

In 2013, Hydro changed the calculation of its 2013 interest coverage to the Standard & Poor's ("S&P") earnings before interest, taxes, depreciation, and amortization ("EBITDA") interest coverage methodology. The S&P methodology calculates interest coverage as EBITDA divided by interest. The EBITDA calculation is considered a proxy for cash earnings by S&P.

S&P's definition of interest includes the gross amount of interest, including capitalized interest but excluding interest income. It also includes interest on employee future benefits as well as accretion.

Interest coverage for 2024 under the S&P methodology has been calculated at 1.54 times (2023 – 1.82 times).

Capital structure

Details with respect to the capital structure as filed on Return 14 of the 2024 annual report to the Board are as follows:

Figure 6 – Capital structure per Annual Returns

(000s)	2024	%	2023	%
Debt[1]	$ 2,389,000	75.2%	$2,061,000	73.3%
Employee benefits	95,000	3.0%	92,000	3.3%
Asset retirement obligation	18,000	0.6%	15,000	0.5%
Equity	673,000	21.2%	645,000	22.9%
	$ 3,175,000		**$2,813,000**	

Note 1: The total debt before adjustment in the table above ($2,389,000,000) does not match the total regulated debt on Hydro's 2024 Annual Return in Return 15 ($2,387,004,000). According to Hydro, the nature of this change is classification of regulated and non-regulated transactions, which impacts total regulated debt. The difference in total regulated debt between the amount above and Return 15 as filed in the 2024 Annual Return is due to a classification change of transactions between regulated and non-regulated subsequent to the completion of the 2024 Annual Return. This was identified when the Financial Update of the Quarterly Regulatory Report for the Quarter Ended December 31, 2024 was being filed, which was subsequent to the completion of the 2024 Annual Return.

As noted in the above table, the 2024 ratio was approximately 75.2% (2023 – 73.3%) debt (excluding employee benefits and asset retirement obligation) and 21.2% (2023– 22.9%) equity.

Prior to 2009, Hydro's debt to equity ratio had been trending towards the 80:20 target ratio with 2008 showing a ratio of 81.4:18.6. In 2009, Nalcor Energy ("Nalcor") provided a $100 million equity injection of contributed capital resulting in a significant reduction in leverage to a ratio of 72.0:28.0. Currently, the Company's target corporate capital structure is comprised of 75% debt and 25% common equity for regulated operations.

In order to maintain this target ratio, the Company implemented the following dividend policy:

"*Corporation annually on or before March 31 of each year, pay a dividend on its common shares if the percentage of debt to debt plus equity in the capital structure of the corporation on a regulated basis at the end of the immediately preceding fiscal year was less than 75% and that the amount of the dividend in that case will be equal to the amount that would be necessary to bring the percentage of debt to debt plus equity up to 75% at December 31st of the immediately preceding year, as if the dividend in question had been on that date*."

According to Hydro, the corporate regulated capital structure used in the calculation of the regulated dividend is based on an S&P rating agency methodology, which differs from the

calculation of the capital structure as reported in Return 14. The S&P calculation of debt within the capital structure includes accrued interest, asset retirement obligations and post-retirement benefit obligations.

Details with respect to the S&P method to calculate capital structure is as follows:

Figure 7 – Capital structure per S&P's methodology

(000s)	2024	2023
Promissory notes	$ 592,000	$ 243,500
Long-term debt, including current portion	2,008,400	2,023,500
Sinking funds	(211,200)	(205,900)
Total debt before adjustment	2,389,200	2,061,100
Adjustments		
Accrued interest	25,400	25,400
Asset retirement obligations	28,600	26,700
Post retirement benefit obligations	84,800	78,500
Total adjusted debt	**2,528,000**	**2,191,700**
Contributed capital	100,000	100,000
Accumulated other comprehensive income	10,000	13,600
Retained earnings	500,400	479,900
Shareholder's equity before adjustment	610,400	593,500
Adjustments		
Post retirement benefit obligations	-	-
Total adjusted equity	**610,400**	**593,500**
Total adjusted capital	3,138,400	2,785,200

The debt to total capital ratio was 78.7% at December 31, 2023. The debt to total capital ratio remained relatively consistent as of December 31, 2024 at 80.6%. In compliance with Hydro's dividend policy, no dividends were paid on common shares in 2024, as the percentage of debt to debt plus equity in the capital structure of the corporation on a regulated basis was greater than 75% at the end of these fiscal years.

Conclusion and recommendation

We have completed our procedures in the review of Hydro's 2024 calculations of return on rate base, return on equity, embedded cost of debt, weighted average cost of capital, capital structure, and interest coverage ratio to ensure they are in compliance with Board orders. We have not noted any discrepancies in the calculations or compliance.

3. Revenue from rates

Scope

Conduct an analysis of revenue from rates, including GWhs. Compare the 2024 Actual results to 2023 Actuals, the 2019 Test Year, and the 2024 Plan and follow up on significant variances.

Procedures

Our review of revenue from rates included the following specific procedures:

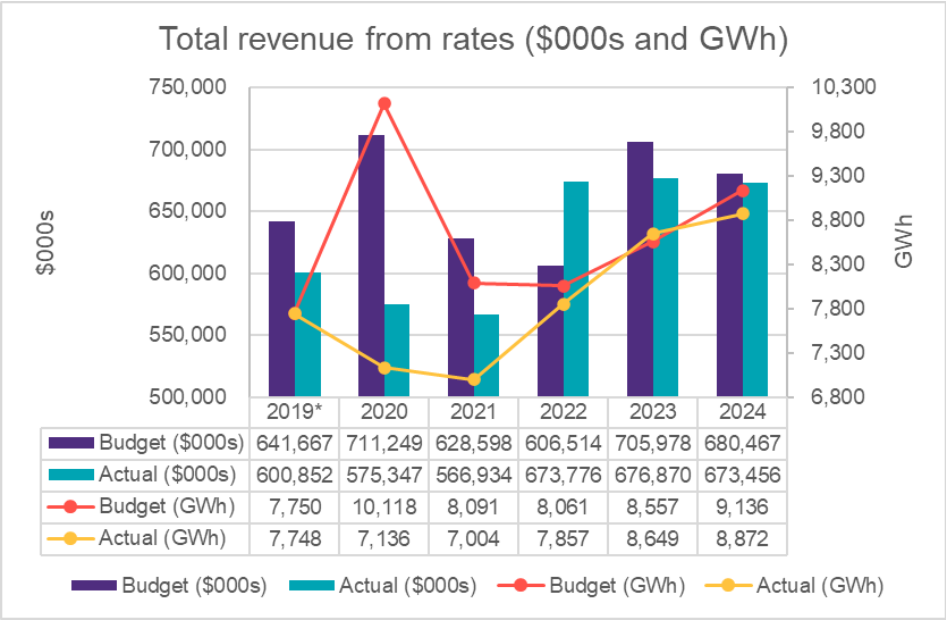
- Compiled revenue from rates in both Canadian Dollars ("$CAD") and GWh for 2024 Actual results, 2019 Test Year, and 2024 Budget.
- Completed a 5-year trend analysis on both Budget and Actual energy sales at the customer class level.
- Identified significant variances and inquired with Hydro to understand the nature of the variance.
- Obtained an understanding of the trends in revenue from rates in both $CAD and GWh for 2019 Test Year, 2024 Budget, and 2024 Actuals in the following categories:
  - Newfoundland Power
  - Hydro Rural
  - Industrial customers
  - Exports and others, including:
    - Muskrat Falls Power Purchase Agreement Monetization
    - Hydraulic Optimization (Ponding/Spill Avoidance)
    - Incremental Recapture Exports
    - Emergency Energy – Newfoundland and Labrador System Operator

Our observations and findings on the above have been detailed in the following section.

Analysis

As part of our trend analysis, we observed changes in Budget and Actual revenue from rates in both $CAD and GWh. The chart below illustrates the total revenue from rates in both $CAD and GWh for 2019 Test Year, 2020-2024 Budget, and 2019-2024 Actuals.

Figure 8 – Total revenue from rates



	2019*	2020	2021	2022	2023	2024
Budget ($000s)	641,667	711,249	628,598	606,514	705,978	680,467
Actual ($000s)	600,852	575,347	566,934	673,776	676,870	673,456
Budget (GWh)	7,750	10,118	8,091	8,061	8,557	9,136
Actual (GWh)	7,748	7,136	7,004	7,857	8,649	8,872

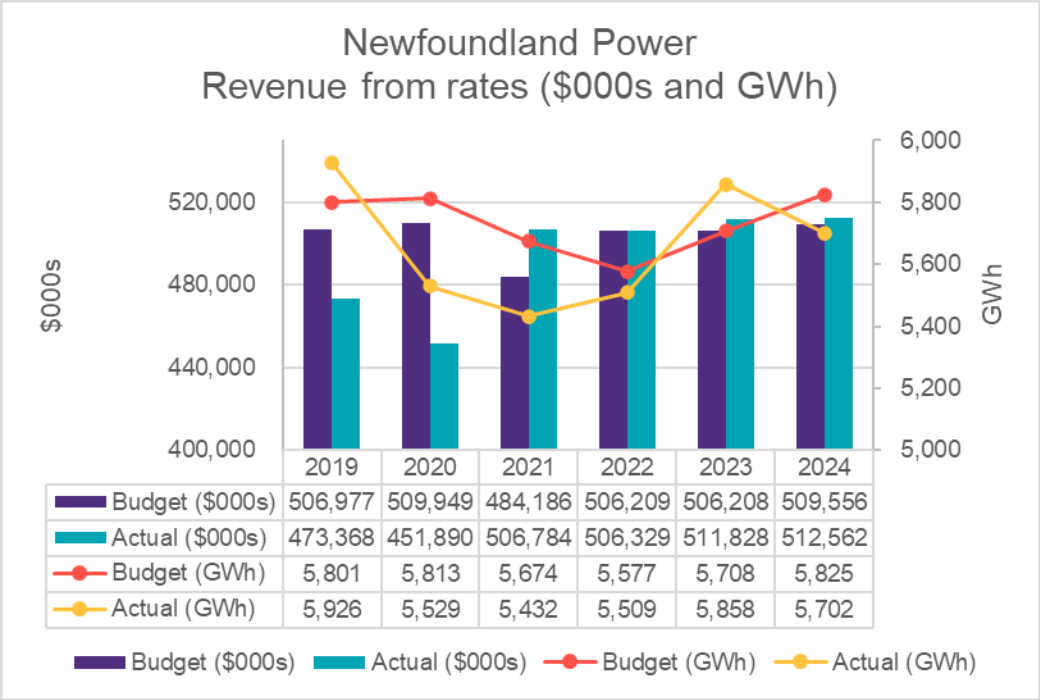
**2019 Budget, as depicted in the various charts and tables throughout our report, refers to 2019 Test Year.*

Our analysis of revenue from rates by customer class, including Newfoundland Power, Hydro Rural, Industrial Customers, and Exports and other categories has been outlined in the following sections.

Newfoundland Power

The following chart details the revenue from rates in both ($000s) and GWh from Newfoundland Power for 2019 Test Year, 2020-2024 Budget, and 2019-2024 Actuals.

Figure 9 – Revenue from rates – Newfoundland Power



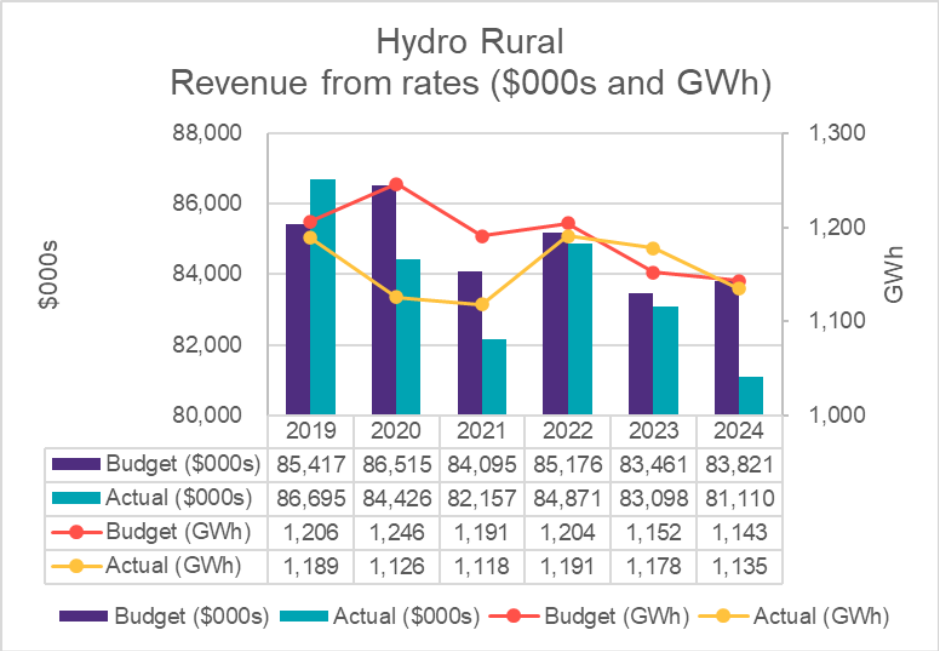
	2019	2020	2021	2022	2023	2024
Budget ($000s)	506,977	509,949	484,186	506,209	506,208	509,556
Actual ($000s)	473,368	451,890	506,784	506,329	511,828	512,562
Budget (GWh)	5,801	5,813	5,674	5,577	5,708	5,825
Actual (GWh)	5,926	5,529	5,432	5,509	5,858	5,702

From 2023-2024, revenue from rates from Newfoundland Power fluctuated from $511,828,000 in 2023 to $512,562,000 in 2024. Sales in GWh decreased from 5,858 GWh in 2023 to 5,702 GWh in 2024. Based on the chart above, we have not noted any significant variances.

Hydro Rural

The following chart details the revenue from rates in both ($000s) and GWh from Hydro Rural for 2019 Test Year, 2020-2024 Budget, and 2019-2024 Actuals.

Figure 10 – Revenue from rates – Hydro Rural

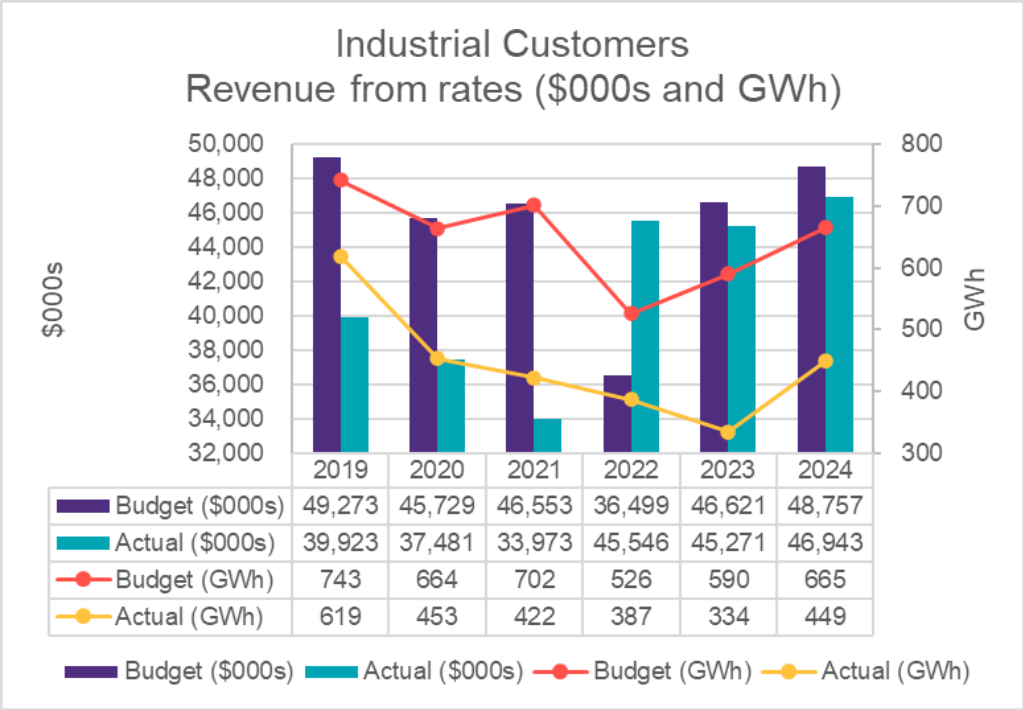


Based on the chart above, between 2023-2024 revenue from rates from Hydro Rural Customers remained relatively stable, experiencing only a slight decrease from $83,098,000 in 2023 to $81,110,000 in 2024. Energy sales in GWh also experienced minor variances, decreasing from 1,178 GWh in 2023 to 1,135 GWh in 2024. Hydro noted that 2024 Actual revenue from rates from Hydro Rural Customers excludes $1,198,000 in Non-Firm Labrador and $138,000 Non-Firm Industrial Revenue which were deferred in the SCVDA. Hydro also explained that Actual energy sales in GWh includes non-firm energy sales that have been deferred. We did not identify any significant variances in our analysis.

Industrial

The following chart details the revenue from rates in both ($000s) and GWh from Industrial customers for 2019 Test Year, 2020-2024 Budget, and 2019-2024 Actuals.

Figure 11 – Revenue from rates – Industrial Customers



Revenue from rates from industrial customers increased from $45,271,000 in 2023 to $46,943,000 in 2024. Energy sales in GWh increased from 334 GWh in 2023 to 449 GWh in 2024. Hydro noted in 2024, that Actual energy sales in GWh includes non-firm energy sales that have been deferred. Based on the chart above, we investigated the following significant variances:

- **2024 Actual energy sales (GWh) for industrial customers increased by 34% compared to 2023 Actuals.** According to Hydro, overall consumption for 2024 was 448.8 GWh, which is 114.5 GWh above 2023 of 334.3 GWh. The largest contributors to this variance are Braya Renewable Fuels (“Braya”) (82.8 GWh), and Vale Newfoundland and Labrador Limited (“Vale”) (19.8 GWh). Combined, Braya and Vale account for 102.6 GWh of the variance. Other industrial customers account for the remaining 11.9 GWh. Braya ramped-up operations in 2024, beginning around March, when operations increased substantially. This led to consumption rising sharply to 113.9 GWh. In 2023, Vale underwent a major shutdown that lasted approximately 2.5 months, from early May to the end of July. This prolonged outage reduced overall electricity consumption for the year. By contrast, in 2024 the shutdown period was shorter, lasting about 1.5 months,

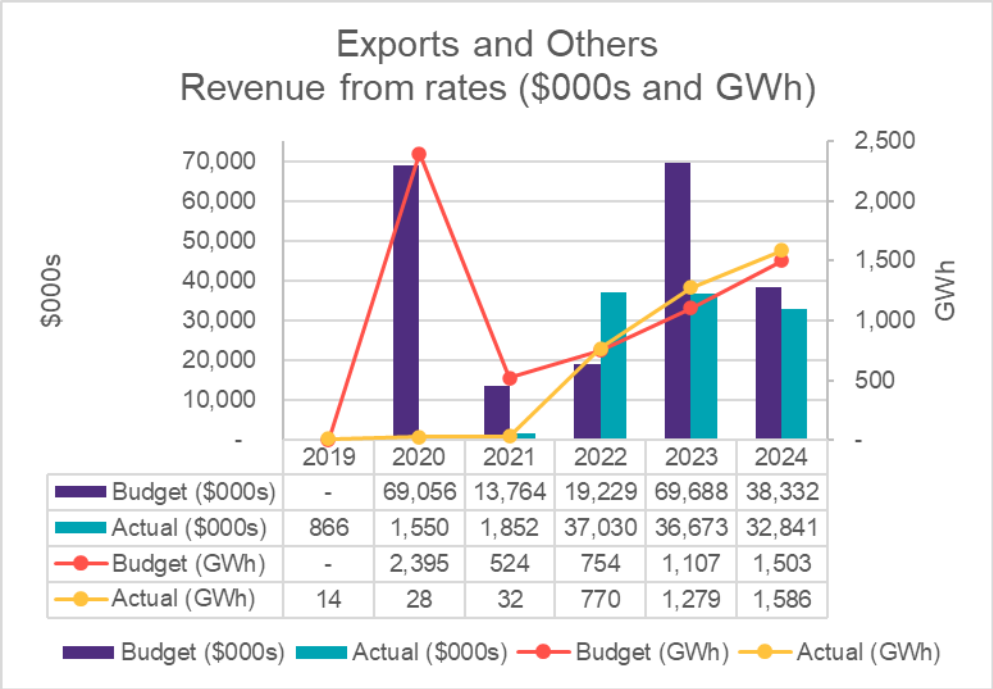
with a full shutdown in April followed by a partial shutdown during the first half of May. As a result, Vale had higher electricity consumption compared to 2023.

- **2024 Actual energy sales (GWh) for industrial customers decreased by 32% compared to 2024 Budget.** According to Hydro, overall consumption for 2024 was 448.8 GWh, which is 215.7 GWh below the Budget of 664.5 GWh. The overall shortfall is largely explained by two factors; delayed ramp-up, and operational disruptions combined with under-usage relative to plan. The largest contributors to this variance are Vale (96.9 GWh), Braya (74.0 GWh), and Marathon Gold Corporation ("Marathon") (46.0 GWh). Combined, Vale, Braya and Marathon account for 216.8 GWh of the shortfall. Other industrial customers account for the remaining offsetting 1.1 GWh. Vale contributed a 96.9 GWh variance. Although it remained the largest single load, Actual consumption was consistently below Budget, particularly during April and May where an unbudgeted shutdown (full in April and partial in May) significantly reduced usage. Even outside of this period, monthly consumption generally trailed planned levels. Vale also had a partial shutdown in August, which further reduced usage. Braya accounted for 74.0 GWh of the variance. While Budget assumed consistent monthly consumption (~15–17 GWh), Actual usage only ramped up from March onwards and remained below plan for most of the year. This reflects a slower-than-expected operational ramp-up. Marathon also accounted for 46.0 GWh of the variance. The Budget anticipated an increasing load throughout the year, increasing from 2.7 GWh in January to 7.8 GWh by December, but Actual consumption remained minimal, only reaching 0.5 GWh per month by year-end. Marathon was budgeted to commence operations in Q4 2022, however Actual consumption was delayed to the end of Q1 2024. This reflects a slower-than-expected operational ramp-up.

Exports and other

The table below details revenue for exports and other in both ($000s) and GWH for 2019 Test Year, Budget 2020-2024, and Actual 2019-2024.

Figure 12 – Revenue from rates – Exports and other



The table below details the revenue by source for exports and other in both ($000s) and GWh for 2019 Test Year, Budget 2023-2024, and Actual 2023-2024.

Figure 13 – Revenue from rates – Exports and other by source

(000s)	2019TY	2023B	2023A	2024B	2024A	2024A vs 2019 TY ($)	2024B vs 2023B ($)	2024B vs 2023B (%)	2024A vs 2024B ($)	2024A vs 2024B (%)	2024A vs 2023A ($)	2024A vs 2023A (%)
MF PPA Monetization[1]	$ -	$ 35,010	$ 25,407	$ 27,363	$ 13,279	$ 13,279	$ (7,647)	-22%	$ (14,084)	-51%	$ (12,128)	-48%
Hydraulic Optimization (Ponding/Spill Avoidance)	-	-	-	-	166	166	$ -		166		166	
Incremental Recapture Exports[2]	-	34,678	10,909	10,969	18,610	18,610	$ (23,709)	-68%	7,641	70%	7,701	71%
Emergency Energy - NLSO	-	-	356	-	786	786	$ -		786		429	120%
Total revenue ($)	**$ -**	**$ 69,688**	**$ 36,673**	**$ 38,332**	**$ 32,841**	**$ 32,841**	**$ (31,356)**	**-45%**	**$ (5,491)**	**-14%**	**$ (3,832)**	**-10%**
(GWh)												
MF PPA Monetization[3]	-	430	760	1,153	1,017	1,017	723	168%	(136)	-12%	257	34%
Hydraulic Optimization (Ponding/Spill Avoidance)	-		-	-	5	5	-		5		5	
Incremental Recapture Exports	-	677	518	350	561	561	(327)	-48%	211	60%	43	8%
Emergency Energy - NLSO	-		1	-	3	3	-		3		2	251%
Total budget revenue (GWh)	**-**	**1,107**	**1,279**	**1,503**	**1,586**	**1,586**	**396**	**36%**	**83**	**6%**	**307**	**24%**

Note 1: The amounts listed in the table above are the monetization in the spring of the year (typically March) when export sales are finalized. As illustrated in the table below, in 2024, Hydro eliminated the 2023 balance of the regulatory receivable in the amount of $13.28 million upon actual monetization of the 2023 undelivered Schedule II energy and recorded a regulatory receivable for the estimated monetization of 2024 undelivered Schedule II energy of $73.77 million (2023 - $13.28 million).

Figure 14 – MF PPA monetization balance

Estimate	2019	2020	2021	2022	2023	2024
$CAD - Balance in Figure 62	-	-	-	25,757	13,279	73,765
GWh	-	-	-	760	1,017	2,410

Note 2: Incremental Recapture Exports Revenue relates to the sale of incremental recapture to Nalcor Energy Marketing Corporation ("Energy Marketing" or "NEM"). Incremental Recapture energy is created through Hydro's use of Muskrat Falls energy to serve Labrador customers and it is important to note that this revenue is largely offset by a power purchase of energy from Muskrat Falls. The purpose of these transactions is to optimize the available energy for export.

Note 3: Not included in Exports in the Quarterly Report. MF PPA Monetization is recorded within export revenue as it is settled at a market-based rate, however, it is a financial settlement under the MF PPA and not a physical export for Hydro.

Based on the table above, we identified the following significant variances:

- **Total revenue ($) and GWh from "exports and other" was $nil and 0 GWh in 2019 Test Year**. According to Hydro, in 2019, no exports were included in the Test Year because the Muskrat Falls Hydroelectric Generating Station ("MF Plant") and the Labrador-Island Link were not yet confirmed to be operational at the time the Test Year was prepared.

- **Total Actual revenue (GWh) in 2024 from "exports and other" increased 24% from 2023 Actuals.** According to Hydro, total GWh of 1,586 in 2024 Actuals is 307 GWh or 24% higher than 2023 Actual. The primary driver of this increase was 257 GWh associated with the Muskrat Falls PPA monetization, as detailed further in our observations below.

- **Total Actual revenue ($) in 2024 from "exports and others" was 14% lower than 2024 Budget.** According to Hydro, the variance was primarily due to a decrease of $14.1 million related to the Muskrat Falls PPA monetization partially offset by an increase of $7.6 million of incremental recapture exports, as detailed further in our observations below.

- **Total Budgeted revenue ($) in 2024 from "exports and others" was 45% lower than 2023 Budget.** According to Hydro, the decrease was primarily attributable to a $23.7 million reduction in the budgeted sale of incremental recapture energy to Energy Marketing. This decrease reflects the combined impact of lower budgeted volumes and lower budgeted export sales price, with $17.3 million of the decrease associated with a reduction in volumes and $6.4 million of the decrease resulting from a decline in budgeted average sales prices. The volume of energy available to use in Labrador is based on the annual production plan, which forecasts the usage of each of Hydro's available generation sources throughout the year and reflects the effective management and dispatch of generation resources. The decrease in budgeted export price in 2024 is related to the export market pricing assumptions used in Budget 2023 versus Budget 2024. Also contributing to the decrease in the 2024 Budget compared to the 2023 Budget is a $7.6 million decrease in budgeted MF PPA monetization revenue. The decrease was due to lower budgeted export prices due to variations in export market price assumptions partially offset by higher export volumes budgeted based on the annual production plan as noted above.

- **In 2024, Actual revenue from "MF PPA Monetization" in $CAD and GWh decreased by 48% and increased by 34% respectively, compared to 2023 Actuals.** According to Hydro, Muskrat Falls PPA monetization for the year ended December 31, 2024, was $12.1 million lower than the same period in 2023. Monetization recognized in a given year is based on prior year export sales volumes and prices. The primary driver of the decrease in 2024 monetization revenue compared to 2023 was lower export market prices in 2023 relative to 2022, resulting in a $20.7 million reduction. This unfavourable price impact was partially offset by higher monetized energy volumes in 2024, as a result of increased availability of the Labrador-Island Link.

- **In 2024, Actual revenue from "MF PPA Monetization" in $CAD and GWh decreased by 51% and 12% respectively, compared to 2024 Budget.** According to Hydro, Muskrat Falls PPA monetization for the year ended December 31, 2024, was $14.1 million lower than Budget. Monetization recognized in a given year is based on prior year export sales volumes and realized prices. The primary driver of the variance was lower export electricity prices in 2023, resulting in a $10.90 million decrease compared to Budget. Actual electricity prices in 2023 were below the five-year average used in 2024 Budget for the final five months of the year. Hydro clarified that 2024 Budget would have used Actual 2023 export pricing and volumes up to the end of July 2023 and forecast pricing and volumes for the remaining 5 months of 2023. In addition, lower Actual export sales volumes for the final five months of 2023, contributed a further $3.2 million to the variance.

- **In 2024, Actual "Incremental Recapture Exports" revenue in $CAD and GWh increased by 70% and 60%, respectively, compared to 2024 Budget.** According to Hydro, incremental recapture exports for the year ended December 31, 2024, was $7.60 million higher than Budget mainly due to an increase in volume of export sales (350 GWh Budget compared to 561 GWh Actual for an impact of $6.6 million), due to additional Muskrat Falls energy available and able to be used in Labrador versus what had been budgeted. This allowed for additional recapture available for export. Also

contributing to the increase in Actual from Budget, is an increase in export sales price of $1.0 million ($31.36/GWh Budget compared to $33.16/GWh Actual), as Actual prices in the markets were better than the prices used in Budget.

- **Actual "Incremental Recapture Exports" revenue in $CAD increased by 71% in 2024 compared to 2023 Actual results.** According to Hydro, this increase is mainly due to an increase in the net export sales prices ($33.16/GWh in 2024 compared to $21.04/GWh in 2023, for an impact of $6.6 million). Hydro explained that the price Hydro regulated received for incremental recapture exports is the monthly average sales price received for recapture exports in the market, net of transmission costs and marketing fees. The increase in market prices were driven by rising natural gas prices in the Northeastern United States, and reduced Canadian hydro energy supply to U.S. markets. Also contributing to the increase, was a $0.9 million increase due to higher volume of 43 GWh (561 GWh in 2024 compared to 518 GWh in 2023), and due to additional Muskrat Falls energy available and able to be used in Labrador in 2024. This resulted in additional recapture available for export.

- **Actual "Emergency Energy – NLSO" revenue in $CAD and GWh increased by 120% and 251%, respectively, in 2024 as compared to 2023 Actual results.** According to Hydro, for the year ended December 31, 2024, Emergency Energy – NLSO revenue increased by $429,000 and 2 GWh compared to the same period in the prior year. The NLSO provides emergency energy to Nova Scotia Power Inc. ("NSPI") per the Amended and Restated Interconnection Operators Agreement, effective July 31, 2014. Emergency energy is provided to NSPI when sudden and unforeseen outages of generating units, transmission lines, or other equipment occur, or to meet other unforeseen circumstances in their transmission system. The increase in emergency energy sales to NSPI in 2024 was due to NSPI requesting more emergency energy due to events on their system than compared to 2023. Hydro has no control over the timing or volume of energy supplied to NSPI. If NSPI requests emergency energy, Hydro is obligated to provide it when they are able to.

Conclusion and recommendation

We have completed our procedures on Hydro's revenue from rates, including GWh, for 2024 Actual results to the 2019 Test Year, the 2023 Actuals and the 2024 Plan. On a total basis, revenue from rates experienced a decrease from $676,870,000 in 2023 to $673,456,000 in 2024. Energy sales in GWh increased from 8,649,000 GWh in 2023 to 8,872,000 in 2024.

4. Power purchased

Scope

Conduct an analysis of power purchase expense, including GWhs. Compare the 2024 Actual results to the 2019 Test Year, the 2023 Actuals and the 2024 Plan, and follow up on significant variances.

Procedures

Our review of power purchased included the following specific procedures:

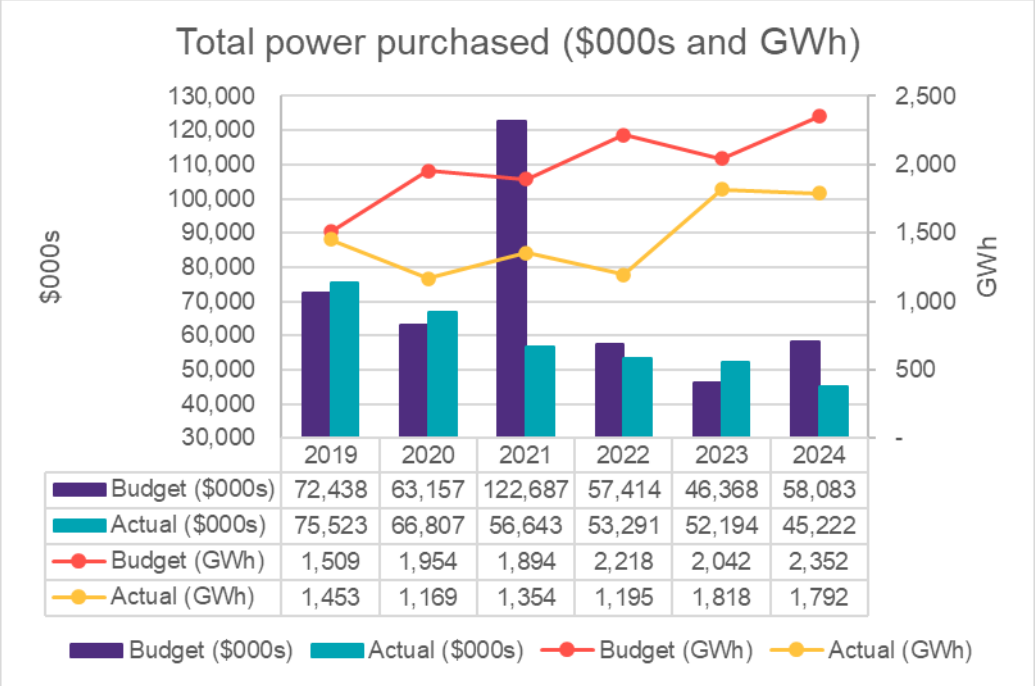
- Compiled power purchased in both $CAD and GWh for 2019 Test Year, 2024 Budget, and 2023-2024 Actuals.
- Conducted a trend analysis on both Budget and Actual power purchase expense in both $CAD and GWh.
- Identified significant variances and inquired with Hydro to understand the nature of the variance.

Analysis

Total power purchased

The following chart illustrates the total power purchased in both $CAD and GWh for 2019 Test Year, 2020-2024 Budget, and 2019-2024 Actuals.

Figure 15 – Total power purchased



A breakdown of total power purchased by category is detailed in the figures below.

Figure 16 – Power purchased by account ($CAD)

(000s)	2019TY	2019A	2020B	2020A	2021B	2021A	2022B	2022A	2023B	2023A	2024B	2024A
Rattle Brook	$ 1,263	$ 1,244	$ 1,247	$ 1,166	$ 1,259	$ 1,283	$ 1,282	$ 1,361	$ 916	$ 1,575	$ 1,399	$ 1,319
CBPP Co-generation	12,534	10,429	11,452	9,543	10,914	9,488	10,914	8,738	37	7,264	$ 10,932	$ 1,867
St. Lawrence Wind	7,567	6,810	7,206	7,714	7,228	7,382	7,328	7,257	7,397	7,482	$ 7,535	$ 6,602
Fermeuse Wind	6,514	7,056	7,422	6,161	7,438	6,715	7,533	6,837	7,724	5,860	$ 7,884	$ 6,928
New World Dairies	-	405	459	297	458	388	59	426	-	240	$ 65	$ 7
Subtotal NUGs	27,878	25,944	27,786	24,881	27,297	25,256	27,116	24,619	16,074	22,421	27,815	16,723
CBPP Secondary	-	1,605	-	2,119	-	343	-	-	-	-	-	-
CBPP Capacity Assistance	-	1,323	-	-	-	-	-	-	-	-	-	-
Hydro Request for Newfoundland Power Standby	-	-	-	-	-	-	-	-	-	-	-	-
Exploits[1]	30,270	27,987	30,210	28,034	30,276	28,518	30,278	28,671	30,266	29,773	30,268	28,419
Labrador Island Link[2]	797	557	744	-	64,471	231	20	-	28	-	-	-
Maritime Link Imports	13,493	18,107	4,417	11,773	643	2,295	-	1	-	-	-	80
Subtotal Secondary and Other	44,560	49,579	35,371	41,926	95,390	31,387	30,298	28,672	30,294	29,773	30,268	28,499
Subtotal Power Purchases Island Interconnected System (per figure above)	**$ 72,438**	**$ 75,523**	**$ 63,157**	**$ 66,807**	**$ 122,687**	**$ 56,643**	**$ 57,414**	**$ 53,291**	**$ 46,368**	**$ 52,194**	**$ 58,083**	**$ 45,222**
Total Other Power Purchases[3]	9,224	8,015	9,977	7,882	9,305	8,884	9,197	11,424	8,419	9,448	9,233	14,122
Total Regulated Power Purchase Expense	**$ 81,662**	**$ 83,538**	**$ 73,134**	**$ 74,689**	**$ 131,992**	**$ 65,527**	**$ 66,611**	**$ 64,715**	**$ 54,787**	**$ 61,642**	**$ 67,316**	**$ 59,344**

Note 1: Exploits includes Star Lake, Grand Falls, and Bishop's Falls generation that is owned by the Province.

Note 2: Labrador Island Link Imports includes expenses related to the Lower Churchill assets net of deferrals. These assets supply energy to Hydro for customer use, to fulfill commitments under the Nova Scotia Block ("NS Block"), and provide surplus energy for export market sales.

Note 3: Other Power Purchases includes costs for isolated systems, wheeling costs, costs for exports that are deferred in the SCVDA, Transmission Funding Agreement ("TFA") payments that are deferred in the SCVDA or the Power Purchase Expense Recognition Deferral, ponding purchases which are deferred in the Hydraulic Resources Optimization Deferral, capacity assistance charges, and power purchases for customers in Labrador.

Figure 17 – Power purchased by account (GWh)

(GWh)	2019TY	2019A	2020B	2020A	2021B	2021A	2022B	2022A	2023B	2023A	2024B	2024A
Rattle Brook	15	14	15	13	15	14	14	15	10	17	14	14
CBPP Co-generation	67	55	61	50	58	50	58	46	0	51	57	22
St. Lawrence Wind	105	94	100	98	99	101	99	98	99	100	100	87
Fermeuse Wind	84	88	97	78	96	85	96	86	96	73	96	85
New World Dairies	-	3	3	2	3	3	3	3	-	2	3	0
Subtotal NUGs	271	254	274	242	271	254	270	249	206	242	270	208
CBPP Secondary	-	41	-	46	-	25	-	41	-	33	-	132
CBPP Capacity Assistance	-	15	-	-	-	1	-	-	-	-	-	1
Hydro Request for Newfoundland Power Standby	-	-	-	-	-	-	-	-	-	-	-	-
Exploits	757	700	755	701	757	713	757	717	757	745	757	710
Labrador Island Link	341	198	879	(11)	857	350	1,191	187	1,079	797	1,325	740
Maritime Link Imports	141	245	46	192	10	12	-	2	-	-	-	2
Subtotal Secondary and Other	1,238	1,199	1,680	928	1,624	1,100	1,947	946	1,836	1,575	2,082	1,584
Total	**1,509**	**1,453**	**1,954**	**1,169**	**1,894**	**1,354**	**2,218**	**1,195**	**2,042**	**1,818**	**2,352**	**1,792**

Please note that contract costs paid by Hydro to the Muskrat Falls project entities reflect full plant cost recovery, while energy reported in GWh in the above table reflects the deliveries needed for Hydro's customers on the Island Interconnected system only. As such, calculating these costs on a per-GWh basis would not yield an accurate comparison.

During the course of our review, we conducted a trend analysis on Hydro's power purchased expense. Our findings on identified significant variances are detailed throughout the remainder of this report section.

Outliers identified in $CAD and GWh reporting

In completing our analysis, we identified outliers in the $CAD and GWh reporting data provided by Hydro. Our observations and explanations provided by Hydro are detailed below.

Figure 18 – Power purchases – Outliers in reporting

	2019TY	2023A	2024B	2024A	Notes
New World Dairies ($000)	$ -	$ 240	$ 65	*$ 7*	*1*
New World Dairies (GWh)	-	2	3	*0*	*1*
CBPP Secondary ($000)	$ -	$ -	-	-	*2*
CBPP Secondary (GWh)	-	33	-	*132*	*2*
CBPP Capacity Assistance ($000)	$ 2,993	$ 2,898	$ 1,995	$ 7,067	*3*
CBPP Capacity Assistance (GWh)	-	-	-	*1*	*3*
Labrador Island Link ($000)	$ 797	$ -	$ -	$ -	*4*
Labrador Island Link (GWh)	341	797	*1,325*	*740*	*4*

Note 1: In 2024, New World Dairies had $7,000 in power purchases reported but 0 GWh. According to Hydro, New World Dairies 2024 Actual results had a total of 97,600 kWh or 0.0976 GWh which rounds to 0.

Note 2: Power purchases from CBPP Secondary were reported as $nil in 2024, however, 132 GWh were recorded. According to Hydro, CBPP Secondary's total of 132 GWh includes 128 GWh of energy that was delivered under the Government of Newfoundland and Labrador's directed power purchase agreement with CBPP. The costs associated were included in Non-Regulated Hydro. There were no costs associated with the remaining energy.

Note 3: Power purchases from CBPP for Capacity Assistance were reported as 1 GWh in 2024. According to Hydro, this was a result of inadvertent energy allocations and should have been reported as 0 GWh. Capacity assistance charges are discussed in the following section of our report.

Note 4: In 2024, power purchases from the Labrador Island Link were reported as 1,325 GWh and 740 GWH in 2024B and 2024A respectively, however, no corresponding dollar values were reported. According to Hydro, LIL costs relate to purchases from Muskrat Falls that are deferred in the either the Supply Cost Variance Deferral Account, the Power Purchase Expense Recognition deferral or the Sustaining Capital deferral.

Capacity assistance

Certain power purchase costs, such as capacity assistance charges, are not tied to the delivery of energy and therefore do not have associated GWh. These charges represent payments for capacity availability, rather than consumption. The following capacity assistance costs were reported with "Total other Power Purchases" in Figure 16.

Figure 19 – Power purchases – Capacity assistance

(000s)	2019TY	2023A	2024B	2024A
Capacity Assistance CBPP	$ 2,993	$ 2,898	$ 1,995	$ 7,067
Capacity Assistance Vale	381	-	-	190
Total	**$ 3,373**	**$ 2,898**	**$ 1,995**	**$ 7,257**

- **2024 Actual capacity assistance was 150% higher than 2023 Actuals.** Hydro explained that the variance from prior year of $4.4M was primarily due to Capacity Assistance – CBPP Actual $7.07 million compared to prior year of $2.90 million with a variance of $4.20 million as a result of higher volume of capacity assistance purchased in 2024 and higher prices in accordance with the new capacity assistance term sheet dated November 16, 2023. The remaining variance relates to Capacity Assistance – Vale, which was not used in 2023.

- **2024 Actual capacity assistance was 264% higher than 2024 Budget.** The variance from Budget is primarily due to Capacity Assistance - CBPP Budget $2.00 million compared to Actuals of $7.07 million with a variance of $5.07 million. The Budget for Capacity Assistance - CBPP included costs from January through April 2024 at $498,700 per month. Actual was $600,000 per month from January to October and $533,000 per month in November and December, resulting in higher volume and price than budgeted in accordance with a new capacity assistance term sheet dated November 16, 2023, that replaced an expiring agreement. The terms of this agreement were approved in Board Order No. P.U. 32 (2023). The remaining variance pertains to Capacity Assistance – Vale in the amount of $190,400 (Actual) which was not budgeted in 2024.

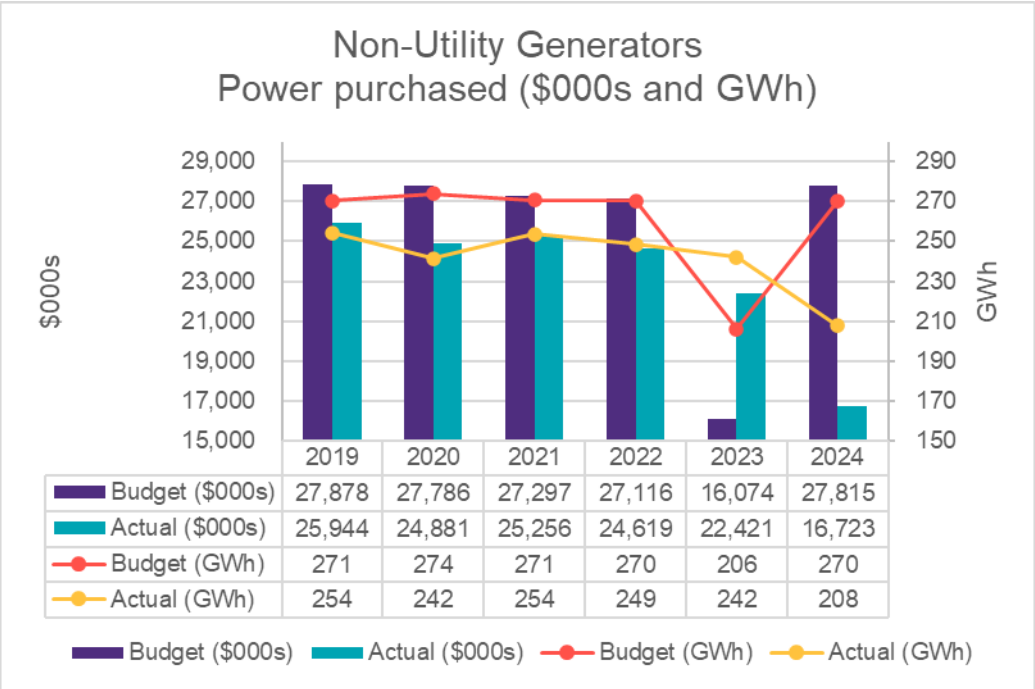
Budgeting methodology

According to Hydro, their Budget for the generation necessary for the Island Interconnected System is based upon an annual production plan. This plan forecasts the usage of each of Hydro's available generation sources throughout the year and reflects the effective management and dispatch of generation resources. This plan is then used for Budgetary purposes, including the Budget for purchased power requirements. Power purchases from 'Non-Utility-Generators' and 'Secondary and other' are budgeted based on commercial and operational requirements and are a key component of the operation of the Island Interconnected System that is balanced with the load requirements and optimization of generation sources.

Non-Utility Generators

The chart below illustrates the NUGs power purchased in both $CAD and GWh for 2019 Test Year, 2020-2024 Budget, and 2019-2024 Actuals.

Figure 20 – NUGs power purchased



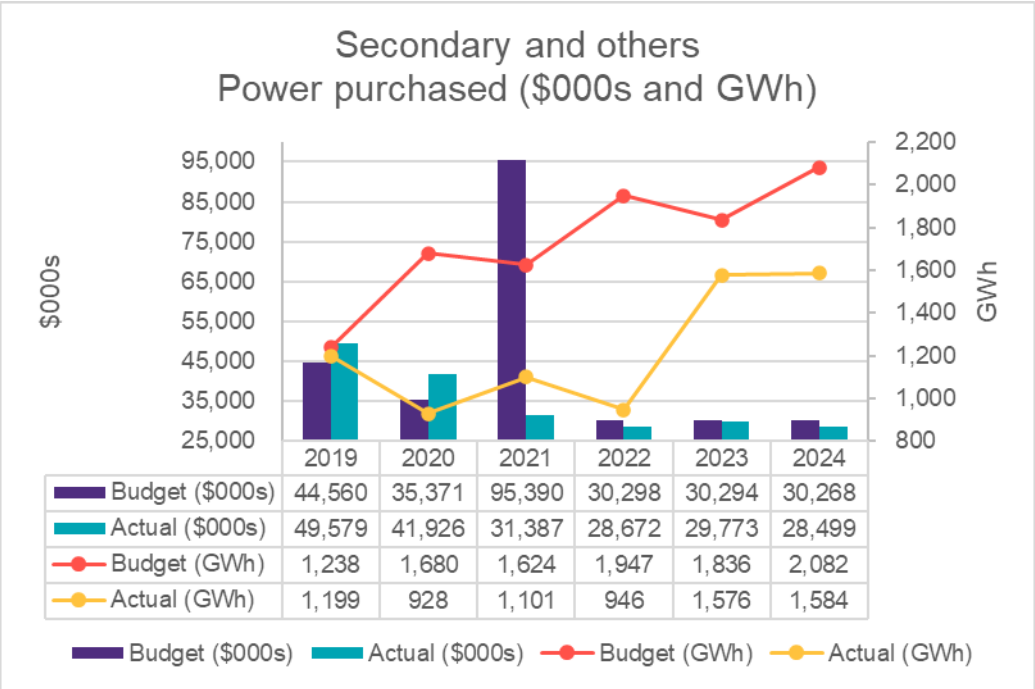
Based on the chart above, we identified the following variance:

- **2024 Actual NUG power purchased is notably lower than 2024 Budget (in both $CAD and GWh) which was largely driven by the higher Budget for CBPP Co-generation.** According to Hydro, in 2024, the Government of Newfoundland and Labrador directed Hydro to enter into two new power purchase agreements with CBPP as per Orders in Council OC2024-013 dated January 22, 2024 and OC2024-165 dated October 17, 2024. The energy and associated costs were recorded in Non-regulated Hydro resulting in lower costs and energy than budgeted in Regulated Hydro. The Budget assumed 57.2 GWh of power purchases from CBPP in Regulated Hydro for 2024, whereas there was 22.1 GWh recorded in Actuals. This resulted in a volume variance of $6.70 million and a price variance of $2.40 million, for a total variance of $9.10 million. Although the new agreements began in 2024, they were not reflected in the regulated Budget.

Secondary and others

The chart below illustrates the secondary and others power purchased in both $CAD and GWh for 2019 Test Year, 2020-2024 Budget, and 2019-2024 Actuals.

Figure 21 – Secondary and others power purchased



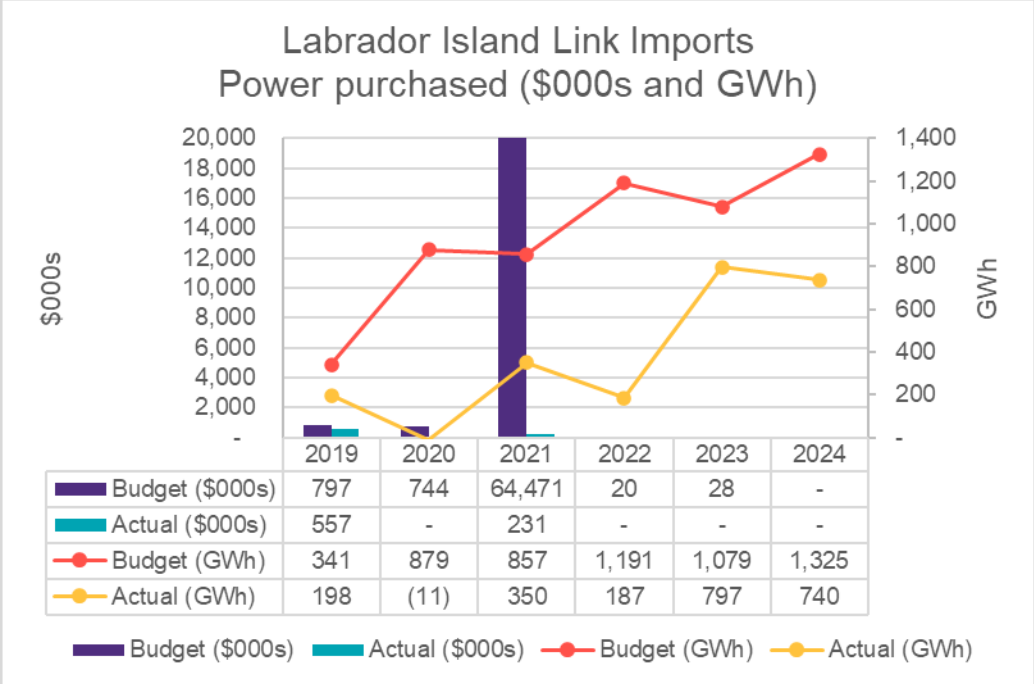
Based on the chart above, we identified the following variance:

- **2024 Actual purchases results (in GWh) were notably lower than 2024 annual Budget.** The largest variance pertains to Labrador-Island Link, which was budgeted to be 1,325 GWh, which is 585 GWh higher than the 740 GWh purchased. LIL imports are discussed further in the following subsection of our report.

Labrador Island Link Imports

The chart below illustrates the Labrador Island Link Imports in both $CAD and GWh for 2019 Test Year, 2020-2024 Budget, and 2019-2024 Actuals.

Figure 22 – Labrador Island Link Imports power purchased



Based on the chart above, we identified the following variance:

- **2024 power purchases (GWh) from Labrador Island Link imports were budgeted to increase.** Hydro explained that their power purchase Budget for the Island Interconnected System is budgeted annually based on the production planning process, which balances operational requirements, load demand and optimal use of generation sources. Accordingly, there can be fluctuations between Budget years based on requirements. According to Hydro, there are two main reasons why the GWh for the LIL imports were budgeted to increase in 2024.
    - The largest impact was a forecasted 182 GWh increase in the 2024 island load, relative to the 2023 load forecast. This increase in demand was budgeted to be supplied from additional energy over the LIL.
    - Secondly, the volume of budgeted Holyrood generation was lower in 2024 compared to 2023 by 80 GWh, due to higher energy deliveries budgeted over the LIL.
- **2024 Actual purchases (in GWh) were notably lower than Budget.** Hydro explained that this was due primarily to an increased number of planned and unplanned LIL outages during the early years of operation. For example, planned outages were required to replace tower hardware, such as turnbuckles, that had been identified as being subject to failure. According to Hydro, these outages are consistent with the increased maintenance and reliability challenges often experienced during the initial

years following the commissioning of a major asset. While issues identified during early operations can temporarily affect reliability, reliability is expected to improve as these issues are addressed. Lower volumes over the LIL were also attributable to Actual energy requirements being 351 GWh below Budget in 2024, primarily due to a delayed industrial customer ramp-up.

Conclusion and recommendation

We have completed our analysis of Hydro's power purchase expense (including GWhs) and compared the 2024 Actual results to the 2019 Test Year, the 2023 Actuals and the 2024 Plan. Our analysis identified notable trends and Budget variances, and we made subsequent inquiries with Hydro for further clarification. We found that 2024 Actual power purchases from 'Secondary and other' sources were significantly lower than 2024 Budget. This is a result of increased planned and unplanned LIL outages in its early operation. Additionally, we noted that 2024 Actual power purchases from 'NUG' sources were notably lower than 2024 Budget. This discrepancy was caused by entering two purchase agreements with CBPP in 2024 and recording the energy and associated costs in Non-regulated Hydro, resulting in lower costs than budgeted. We did not identify any issues in our overall analysis.

5. Operations and administration expenses

Scope

Conduct a review of operations and administration expenses, fuels, power purchased, depreciation and interest for 2024 in relation to sales of power and energy. Include an analytical review reporting on trends, including comparison with the 2019 Test Year and the 2024 Plan, and follow up on significant variances. The examination of the foregoing will include, but is not limited to, the following:

a) salaries and benefits
b) system equipment maintenance
c) insurance (including director's liability)
d) transportation
e) building rental and maintenance
f) professional services
g) vegetation management
h) training
i) travel
j) software expenditures
k) miscellaneous
l) capitalized expenses
m) intercompany charges
n) membership fees
o) fuels
p) power purchased
q) depreciation
r) interest
s) office supplies and expenses
t) bad debts

Procedures

Our review of operations and administration expenses included the following specific procedures:

- Summarized expenses by category including 2024 Actuals, 2019 Test Year, and 2024 Budget. In compiling our data, we reconciled expense amounts to Hydro's quarterly reports and annual returns and verified cost category totals with Hydro. We note that while the terms of reference noted in the scope above include power purchases and salaries and benefits, our findings on these categories can be found in **Section 4** and **Section 6**, respectively.

- Performed a 6-year trend analysis on the costs considering both year-over-year trends in Actual costs as well as annual Budgets vs Actual results. For cost categories with significant variances, we completed the following procedures:

    - Reviewed Hydro's 2024 Annual Return 9a to obtain explanations provided by Hydro for notable variances.

    - Requested and reviewed additional detailed explanations from Hydro.

    - Requested and reviewed Hydro's budgeting methodologies.

    - Assessed the reasonableness of Hydro's explanations provided.

Analysis

The following table outlines the total expenses under the scope of our review for 2019-2024 Actuals, 2019 Test Year, and 2020-2024 Budgets.

Figure 23 – Total expenses under scope

(000s)	2019	2020	2021	2022	2023	2024
Budget	**536,896**	**422,213**	**410,380**	**333,807**	**550,170**	**544,790**
Annual change ($)		(114,683)	(11,833)	(76,573)	216,363	(5,380)
Annual change in budget (%)		-21%	-3%	-19%	65%	-1%
Actual	**534,521**	**461,425**	**472,174**	**544,932**	**560,507**	**563,645**
Annual change ($)		(73,097)	10,749	72,758	15,575	3,138
Annual change in actual (%)		-14%	2%	15%	3%	1%
Budget vs. actual ($)	**2,374**	**(39,211)**	**(61,793)**	**(211,124)**	**(10,337)**	**(18,855)**
Budget vs. actual (%)	**0%**	**-9%**	**-15%**	**-63%**	**-2%**	**-3%**

A breakdown of the total costs by key cost category for 2019 Test Year, 2023 Actual, 2024 Budget, and 2024 Actual is detailed in the figure below.

Figure 24 – Total costs by category

(000s)	2019TY	2023A	2024B	2024A
O&M costs under scope of review				
Salaries and benefits [1]	$ 111,576	$ 114,031	$ 118,064	$ 122,931
System equipment maintenance	26,796	30,060	23,397	24,623
Insurance including director's liability insurance	3,425	4,973	5,207	4,885
Transportation [2]	3,361	4,019	3,755	4,231
Building rental and maintenance	1,100	1,053	1,075	1,290
Professional services	7,620	7,820	8,656	8,996
Training	716	453	500	271
Travel	2,759	2,836	2,191	2,355
Software expenditures	1,205	2,222	2,229	2,415
Miscellaneous	5,152	4,765	5,054	4,774
Membership fees	399	431	582	438
Office supplies and expenses	2,121	1,794	1,880	1,776
Bad debts	118	2,137	85	23
Capital labour and overtime [1]	(26,072)	(30,812)	(33,778)	(34,442)
Capital fleet [2]	(2,087)	(1,573)	(1,864)	(1,864)
Total O&M costs under scope of review	138,189	144,209	137,033	142,702
Vegetation management [3]	2,962	3,102	3,162	2,796
Non O&M costs under scope of review				
Fuels	219,857	245,088	232,560	244,682
Depreciaton	85,429	88,067	89,917	90,208
Interest	93,421	83,143	85,280	86,053
Total Non O&M costs under scope of review	398,707	416,298	407,757	420,943
Total costs under scope of review	**$ 536,896**	**$ 560,507**	**$ 544,790**	**$ 563,645**

Note 1: Salaries and benefits are inclusive of capitalized salaries and overtime.

Note 2: Transportation is inclusive of capital fleet.

Note 3: Vegetation management costs are included in multiple cost categories. In our 2022-2023 Annual Review, we presented vegetation management costs for 2023A totaling $3.064 million. Throughout the course of our 2024 Annual Review, Hydro provided a revised 2023A total of $3.102 million. This adjustment consists primarily of additional internal equipment and travel costs within Transmission and Rural Operations ("TRO") of approximately $25,000 and $12,000, respectively.

During the course of our review, we verified the totals per cost category with Hydro and conducted a trend analysis. Our findings on significant variances by cost category are detailed throughout this section of our report. Where relevant, we have identified the particular divisions or departments that were key drivers for the identified variances. Specifically, we understand that Hydro's OM&A costs are incurred by the following divisions and departments.

Figure 25 – Divisions and departments

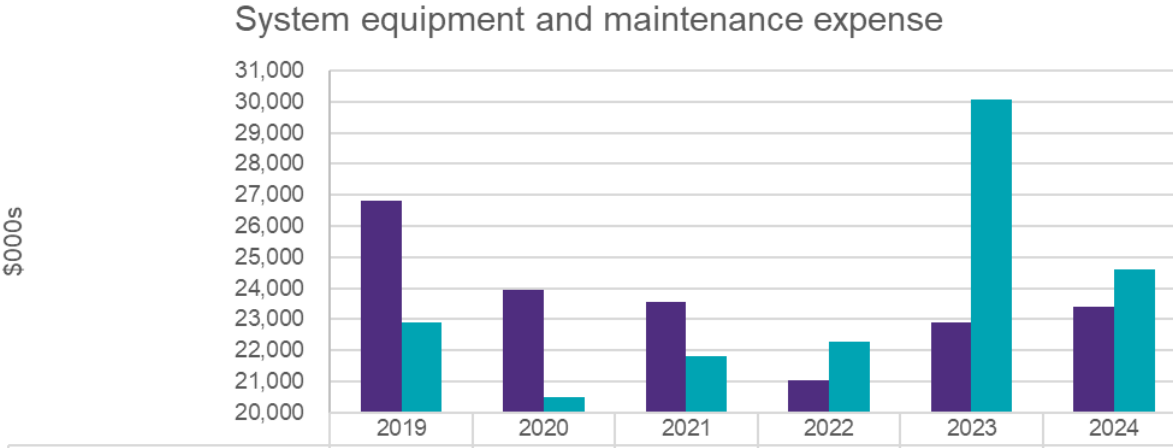
Division	Departments
Executive leadership	• Executive • General Counsel
Finance	• Finance & Treasury • Supply Chain • Finance (other) • Internal Audit
Engineering & Technology	• Engineering Services • Operations Technology • Major Projects
Transmission Operations	• TRO Central • TRO Northern • TRO Labrador • Transmission & Distribution Services • NL System Operator
Production Operations	• Thermal Plant Operations • Hydro Production • Gas Turbines ("GT") & Diesel
Corporate Services	• Strategic Communications, Culture & Brand • Commercial • Utility Performance • Transmission & Resource Planning • Customer Service • Energy Efficiency • Regulatory Affairs • Human Resources • Environmental • Safety & Health • Corporate Strategy, Risk & Sustainability

Note 1: Please note that this organizational structure differs from Hydro's recently submitted 2026 General Rate Application.

System equipment maintenance

The following chart details the trends for system equipment and maintenance expenses including 2019-2024 Actuals, 2019 Test Year, and 2020-2024 Budget.

Figure 26 – System equipment maintenance



	2019	2020	2021	2022	2023	2024
Budget ($000s)	26,796	23,935	23,565	21,055	22,920	23,397
Actual ($000s)	22,883	20,491	21,819	22,299	30,060	24,623
Annual change in budget (%)		-11%	-2%	-11%	9%	2%
Annual change in actual (%)		-10%	6%	2%	35%	-18%
Budget vs. actual ($)	3,913	3,444	1,746	(1,244)	(7,140)	(1,226)
Budget vs. actual (%)	15%	14%	7%	-6%	-31%	-5%

The budgeting methodology used by Hydro for system equipment maintenance in the 2024 Budget remained consistent with the approach used in the preparation of the 2023 Budget. Hydro uses a zero-based budget approach where expenditures were based on operating requirement expectations and budgeted on a detailed level. Each department assessed their operating requirements for the upcoming year and budgeted the associated costs.

Based on the chart above, system equipment and maintenance decreased by 18% (approximately $5.44 million) from 2023A to 2024A. According to Hydro, this variance is largely driven by the Transmission and Distribution Services, and Thermal Plant Operations departments.

- System equipment and maintenance within the Transmission and Distribution Services department decreased by $3.90 million from 2023A to 2024A. According to Hydro, this decrease was the result of the following:
    - Decrease in contract labour relating to the removal and decommissioning of the transmission line between Churchill Falls and Happy Valley-Goose Bay, L1301 ($3.50 million). The majority of this removal project was completed in 2023. In 2023 and 2024, nothing was budgeted for these removal costs in Operations and Maintenance, however, they do appear in the Actuals for contract labour. As this is a removal cost project, the costs associated with this are offset in cost recoveries and deferred as part of Hydro's removal deferral provision with no overall impact on total operating costs. As such, the amount presented above is the gross cost of the removal project included in system equipment and

maintenance and cost recoveries. For International Financial Reporting Standards ("IFRS") external financial statement purposes, the removal costs are then recorded in "Other Expense" and offset in "Regulatory Adjustment".

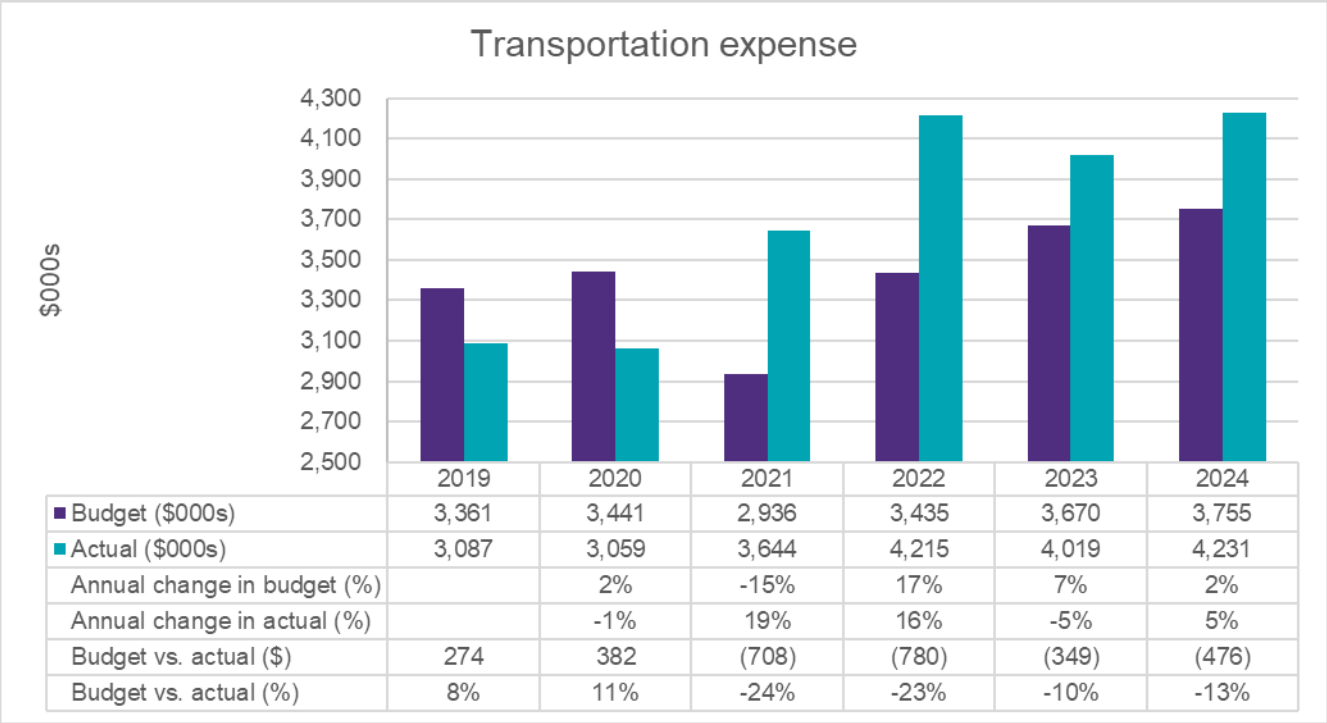
- There was also a decrease in materials in Labrador in 2024 of approximately $400,000. This was primarily driven by the increase in 2023 expenses due to the generator fire in Charlottetown, including transformer rental expenses, as well as a condenser #1 switchgear failure in the Wabush terminal. There were also increases in Isolated Generation system equipment maintenance costs in 2023, which did not occur in 2024.

- System equipment and maintenance within Thermal Plant Operations department decreased by $1.60 million from 2023A to 2024A.
  - Hydro noted that there was a reduction in contract labour in 2024 compared to 2023 related to Boiler Maintenance. In 2023, the contract for Boiler Maintenance was new and the contractor did not begin their work scopes until mid-June. The work had to be completed in time for unit start-ups in the fall, requiring a compressed work schedule and higher overtime costs. In 2024, the contractor started their work scopes mid-May, therefore not requiring the compressed work schedule and same level of overtime. In addition, in 2024, there were savings in contract labor due to a new contract for Tanker Vessel support with lower costs than the previous contract.
  - Hydro also stated that there was additional work scopes completed in 2023 in comparison to 2024. Specifically, in 2023 there was maintenance completed on two Stacks in the Boiler Stack Inspection Operating Project in comparison to one stack in 2024. In addition, 2023 costs included dredging of Indian Pond, which was a non-recurring operating project.

Transportation

The following chart details the trends for transportation expense including 2019-2024 Actuals, 2019 Test Year, and 2020-2024 Budgets:

Figure 27 – Transportation expense



	2019	2020	2021	2022	2023	2024
Budget ($000s)	3,361	3,441	2,936	3,435	3,670	3,755
Actual ($000s)	3,087	3,059	3,644	4,215	4,019	4,231
Annual change in budget (%)		2%	-15%	17%	7%	2%
Annual change in actual (%)		-1%	19%	16%	-5%	5%
Budget vs. actual ($)	274	382	(708)	(780)	(349)	(476)
Budget vs. actual (%)	8%	11%	-24%	-23%	-10%	-13%

Transportation expenses consist mainly of vehicle and aircraft fuel and aircraft service cost. The budgeting methodology used for these cost categories in the 2024 Budget submission remained consistent with the approach used in the preparation of Budget 2023. Vehicle fuel is budgeted based on a three-year historical average volume valued at the projected price of fuel through forecast indices and aircraft fuel is budgeted based on three-year historical averages of costs. Aircraft costs are budgeted in accordance with contractual rates, flying hours set out in the contract and anticipated usag

Based on the chart above, Actual transportation expense in 2024 was 13% (approximately $476,000) higher than Budget. This variance was largely driven by the Transmission Operations division, as detailed below:

- 2024 Actual aircraft expenses were $315,000 greater than Budget. This was the result of a price variance of $449,000 in aircraft expenses. The prior contract expired in 2023 and the new contract, which was awarded based on the public tendering process, included significant price increases resulting from several factors including new pilot hours of service, a national pilot shortage, and inflation. This price variance was partially offset by reduced aircraft usage of $134,000, due to approximately 337 fewer flying hours within

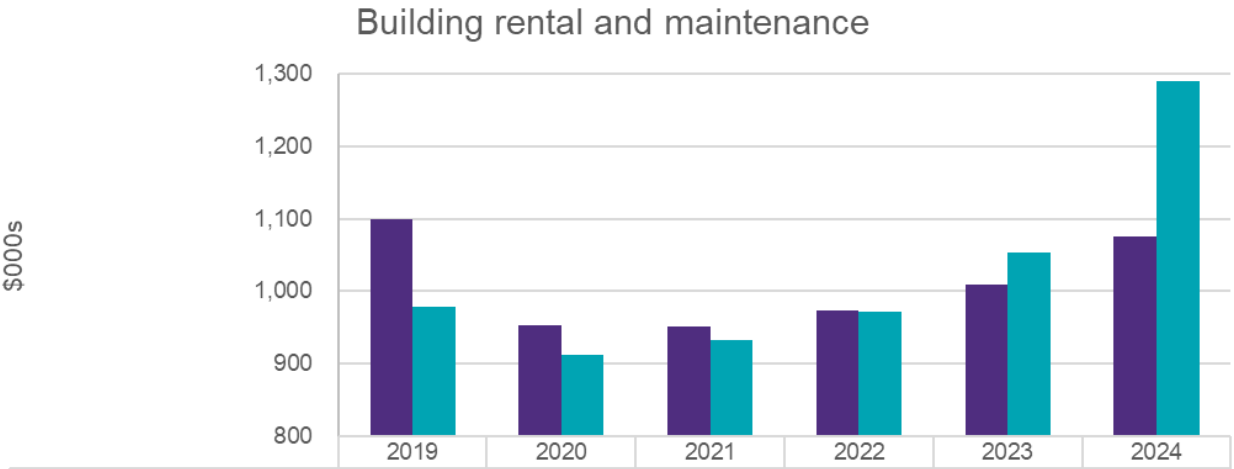
Newfoundland and Labrador Hydro's regulated business segment. This was achieved through closer monitoring of flight requests to identify opportunities to combine work where practical, quarterly helicopter cost reviews to improve visibility, and to monitor usage and higher capitalized costs and recoveries from non-regulated business units ("BU").

- Vehicle fuel costs were also over Budget in 2024 by $69,000 primarily due to higher usage, resulting in an unfavorable volume variance. This was partially offset by a favorable price variance with Actual pricing averaging $1.78/per litre, compared to a budgeted rate of $1.83 per litre.

Building rental and maintenance

The following chart details the trends for building rental and maintenance including 2019-2024 Actuals, 2019 Test Year, and 2020-2024 Budgets.

Figure 28 – Building rental and maintenance



	2019	2020	2021	2022	2023	2024
Budget ($000s)	1,100	952	951	973	1,008	1,075
Actual ($000s)	979	911	932	972	1,053	1,290
Annual change in budget (%)		-13%	0%	2%	4%	7%
Annual change in actual (%)		-7%	2%	4%	8%	23%
Budget vs. actual ($)	121	41	19	1	(45)	(215)
Budget vs. actual (%)	11%	4%	2%	0%	-4%	-20%

The building rental and maintenance category contains the cost types for building rentals and safety supplies. Hydro historically used a zero-based budget approach for all costs under this category. The 2023 and 2024 Budget submissions were budgeted on a detailed line-item basis based on operational requirements. Each department assessed their requirements for the upcoming year and budgeted the associated costs.

Based on the chart above, building rental and maintenance increased by 23% (approximately $237,000) from 2023A to 2024A. According to Hydro, this variance was largely driven by the Transmission Operations division, and the Production Operation division's Thermal Plant Operations department.

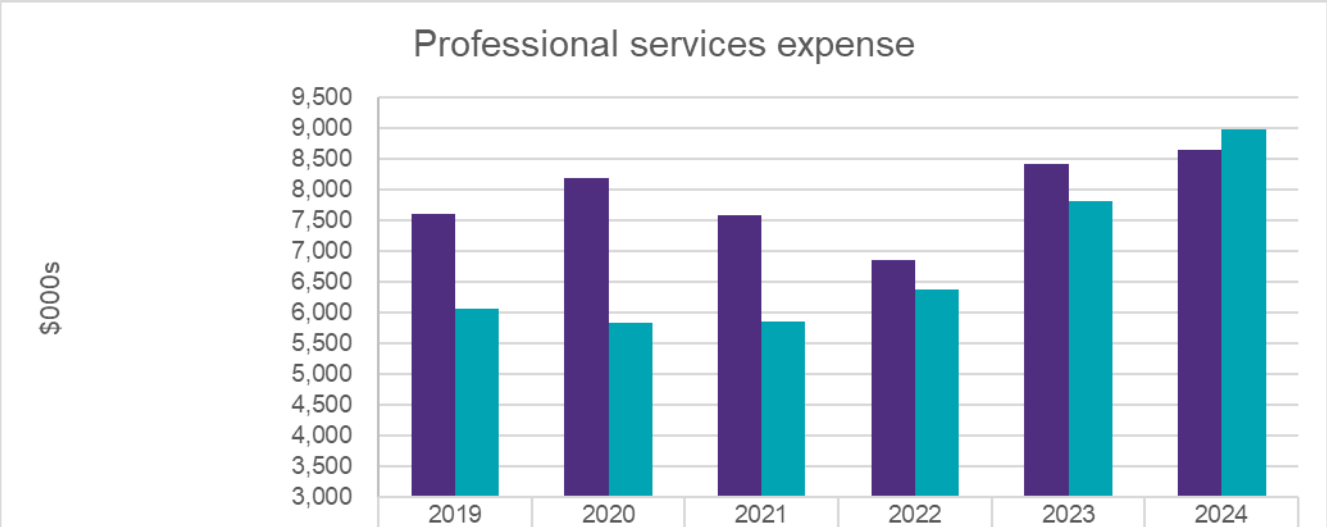
- According to Hydro, safety supplies costs in the Transmission Operations division experienced an increase as a result of a new contract for safety supplies that offered improved arc rated rain gear. In 2024, there was also an increase in building rentals in Labrador due to a house lease in Cartwright. Labrador has historically had issues with availability of accommodations in remote communities. Since the inception of this lease, there is a corresponding decrease in travel as no hotels are required for accommodations going forward.

- Additionally, Hydro explained that 2024 Actuals for building rental and maintenance in the Thermal Plant Operations department are $0.1 million higher than 2023 Actuals due to safety supply costs. The increase was primarily driven by cost escalation included in the new contract.

Professional services

The following chart details the trends for professional services including 2019-2024 Actuals, 2019 Test Year, and 2020-2024 Budgets.

Figure 29 – Professional services



	2019	2020	2021	2022	2023	2024
Budget ($000s)	7,620	8,196	7,595	6,852	8,420	8,656
Actual ($000s)	6,062	5,836	5,865	6,389	7,820	8,996
Annual change in actual (%)		-4%	0%	9%	22%	15%
Budget vs. actual ($)	1,558	2,360	1,730	463	600	(340)
Budget vs. actual (%)	20%	29%	23%	7%	7%	-4%

Professional Services in the 2024 Budget submission remained consistent with the approach used in the preparation of Budget 2023. Hydro used a zero-based budget approach where expenditures were based on planned work requirements and budgeted on a detailed basis. Each department assessed their requirements for the upcoming year and budgeted the associated costs.

Based on the chart above, professional services expense increased by 15% (approximately $1.18 million) from 2023A to 2024A. According to Hydro, this variance was largely driven by the following departments: Regulatory Affairs, Energy Efficiency, Engineering Services, and Thermal Plant Operations. This increase was also offset by a reduction in the Utility Performance, and Transmission and Resource Planning departments.

Combined, the Utility Performance and Transmission and Resource Planning departments experienced a $0.60 million decrease in professional fees from 2023 to 2024. This is due to the completion of supporting study work in 2023 in preparation for filing the Resource Reliability Adequacy ("RRA") study in 2024 and savings in asset management as more work was completed in 2024 using internal resources. In addition, there was a 2023 external system impact study in 2023 that was non-recurring in 2024. This study increased professional services in the Utility Performance and Resource Planning department in 2023, but it was off set by a cost recovery and did not result in an impact to total operating costs.

Based on the chart above, we identified the following significant variance:

- Professional services expense increased by $0.6 million in the Regulatory Affairs department in 2024. Hydro broke down this increase, by explaining that:
    - $0.5 million pertained to higher Board costs. This was related to the RRA proceeding, following the filing of an updated RRA study in July 2024.
    - $0.1 million related to higher legal costs, which was driven by external legal support for Newfoundland Power Inc's General Rate Application proceeding.
- Professional services expense increased by $0.2 million in the Energy Efficiency department. This was related to an increase in consulting for Energy Efficiency. More specifically, relating to a Conservation and Demand Management potential study, a Commercial Building study, and a Demand Side Management and Electrification jurisdictional scan; all of which were completed in 2024. This $0.2 million was partially offset by a $0.1 million decrease in consulting for the Regulatory Affairs department. This decrease was a result of the mix of files ongoing in 2024 versus 2023 and a Depreciation Methodology study, which was largely completed in 2023 in preparation for Hydro's next GRA.
- Professional service costs experienced a $0.3M increase in the Engineering Services department from 2023 to 2024. Hydro explained that increased workload and accountabilities caused a $147K increase in Capital Planning support, along with $121K in legal fees related to major projects, commercial activities, and updates to procurement templates. In addition, a Level 1 Condition Assessment was completed in 2024 ($95K),

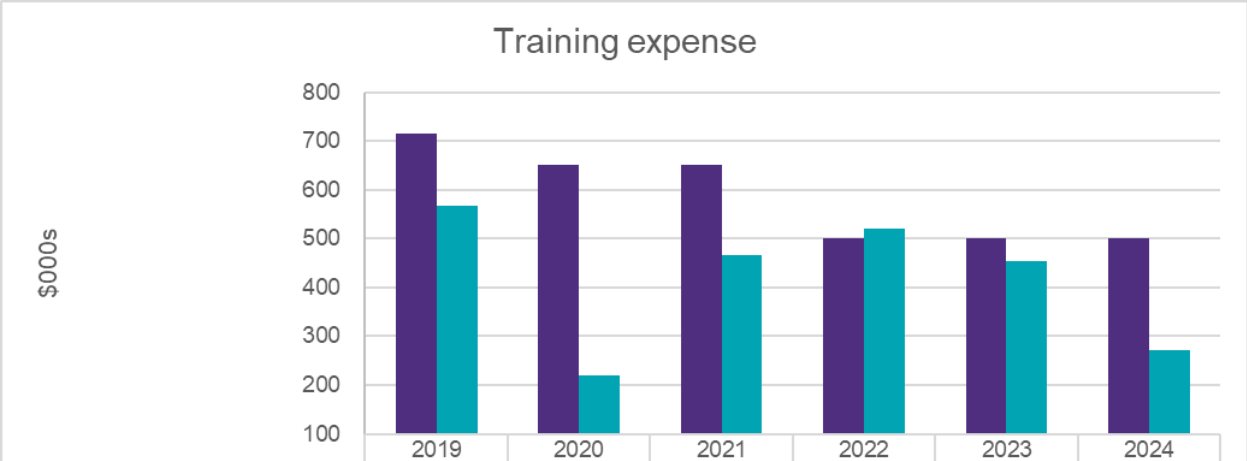
along with Transformer Oil Analyst costs ($11K). These increases were partially offset by additional consulting costs incurred in 2023 related to Dam Safety Support (-$28K), and strategic and administrative work related to the Network Additions Policy (-$17K).

- Hydro also stated that professional services, specifically consultant costs, were $250,000 higher in the Thermal Plant Operations department in 2024 than in 2023. The additional consulting costs were required for Long-Term Asset Planning to support the life extension of the Holyrood plant to March 2030. Some life-extension related work had been deferred from 2023 to 2024, such as studying the plant heating solution. Additional work scopes were also performed in 2024 due to the plant life extension, including an inspection of the Wastewater Treatment Plant, a roof audit, a jetty inspection, a cranes and hoist inspection, and an electric asset assessment.

Training

The following chart details the trends for training including 2019-2024 Actuals, 2019 Test Year, and 2020-2024 Budgets.

Figure 30 – Training expense



	2019	2020	2021	2022	2023	2024
Budget ($000s)	716	650	650	500	501	500
Actual ($000s)	567	219	467	521	453	271
Annual change in budget (%)		-9%	0%	-23%	0%	0%
Annual change in actual (%)		-61%	113%	12%	-13%	-40%
Budget vs. actual ($)	149	431	183	(21)	48	229
Budget vs. actual (%)	21%	66%	28%	-4%	10%	46%

Hydro's budgeting methodology for training expenses in the 2024 Budget submission remained consistent with the approach used in the preparation of the 2023 Budget. Hydro uses a zero-based budget approach for its training expense. The Budget is centrally managed and focused on ensuring mandatory safety and legislative training and operational requirements are met.

Hydro explained that while the Budget is housed within the People and Culture department, training activities are delivered across the organization and benefit employees in multiple departments. In 2023 and 2024, some training expenditures have been recorded outside of the People and Culture department in error.

Hydro also explained that, in 2024, it identified accruals in the 2022 and 2023 actual results that required reversal. The 2023 training expenditures included approximately $104,000 of accruals; excluding these accruals, the expenditures would have been approximately $349,000. In 2024, Hydro recorded an accrual reversal of approximately $220,000, reducing reported training expenditures from $491,000 to $271,000. The table below presents training costs recorded within the People and Culture department and other business units, together with the related accrual adjustments, to facilitate comparison on a consistent basis excluding those adjustments.

Figure 31 – Training variance breakdown

($000s)	2023A	2024B	2024A	Variances			
				2024A vs 2024B ($)	2024A vs 2024B (%)	2024A vs 2023A ($)	2024A vs 2023A (%)
Training - People and Culture Department	401	500	266	(234)	-47%	(135)	-34%
Training - Other business units	52	-	5	5		(47)	-90%
Total training expense	453	500	271	(229)	-46%	(182)	-40%
Accrual adjustment	(104)	-	220	220		324	
Adjusted training expense	**349**	**500**	**491**	**(9)**	**-2%**	**142**	**41%**

Based on the above table, we identified the following significant variances:

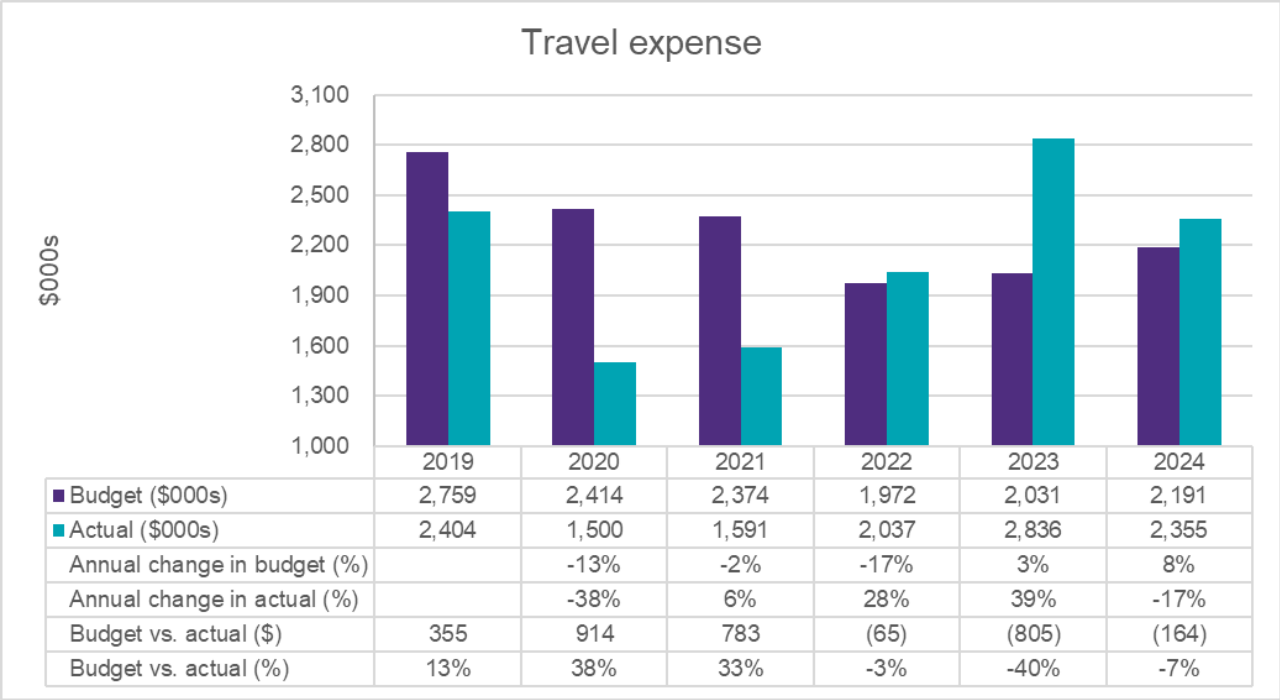
- **2024 Actual training costs were 46% lower than Budget.** According to Hydro, the variance between 2024 Actual training expenditure and Budget was primarily due to a correction of outstanding accruals from 2022 and 2023 that were reversed in 2024. As shown in the table above, the adjusted training expense in 2024 was 2% lower than Budget.

- **Actual training costs were 40% lower in 2024 than 2023 Actual results.** As shown in the table above, the adjusted training expense in 2024 is 41% higher than 2023 Actuals. According to Hydro, these variances are also the result of the accrual adjustment.

Travel

The following chart details the trends for travel including 2019-2024 Actuals, 2019 Test Year, and 2020-2024 Budgets.

Figure 32 – Travel expense



	2019	2020	2021	2022	2023	2024
Budget ($000s)	2,759	2,414	2,374	1,972	2,031	2,191
Actual ($000s)	2,404	1,500	1,591	2,037	2,836	2,355
Annual change in budget (%)		-13%	-2%	-17%	3%	8%
Annual change in actual (%)		-38%	6%	28%	39%	-17%
Budget vs. actual ($)	355	914	783	(65)	(805)	(164)
Budget vs. actual (%)	13%	38%	33%	-3%	-40%	-7%

Hydro's budgeting methodology for travel expenses in the 2024 Budget submission remained consistent with the approach used in the preparation of Budget 2023. Hydro historically used a zero-based budget approach for its travel expense. Travel expenses were budgeted on a detailed line-item basis with department managers providing travel estimates for the year based on work requirements.

As noted in the chart above, travel expense decreased by 17% (approximately $481,000) from 2023A to 2024A. According to Hydro, this variance was primarily driven by the Transmission Operations division, specifically:

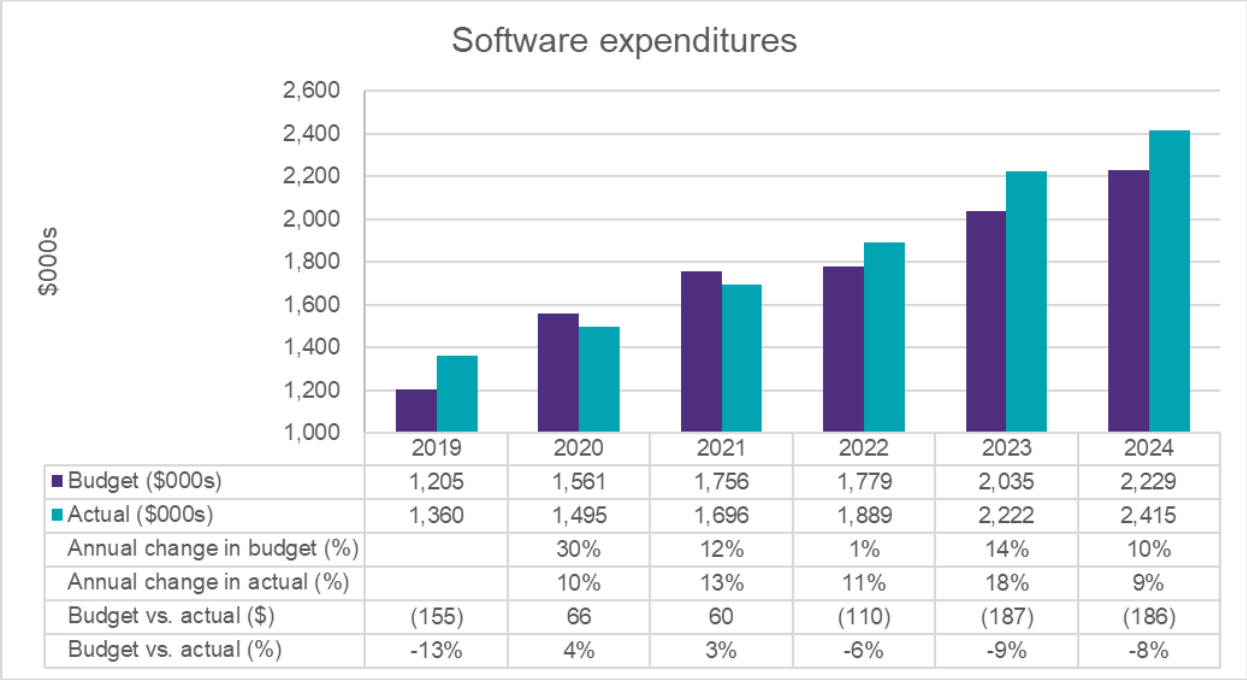
- Travel expenses were lower in 2024 in comparison to 2023 by $0.55 million within the Transmission and Operations division. In 2023, there were higher vacancies in this division and as such employees based in different communities had to travel to areas of the Island to support regular maintenance activities. Labrador travel expenses are also lower in 2024 due to acquiring a housing lease in Cartwright. These costs are expensed in building rentals in 2024, whereas in 2023, accommodations in Cartwright were expensed in travel. Other contributing factors to this year over year decrease include the

additional activities that were required in 2023 to support the inspection and removal of a transmission line in Labrador, and the reduction in trouble calls in Labrador in 2024.

Software expenditures

The following chart details the trends for software expense including 2019-2024 Actuals, 2019 Test Year, and 2020-2024 Budgets.

Figure 33 – Software expenditures



	2019	2020	2021	2022	2023	2024
Budget ($000s)	1,205	1,561	1,756	1,779	2,035	2,229
Actual ($000s)	1,360	1,495	1,696	1,889	2,222	2,415
Annual change in budget (%)		30%	12%	1%	14%	10%
Annual change in actual (%)		10%	13%	11%	18%	9%
Budget vs. actual ($)	(155)	66	60	(110)	(187)	(186)
Budget vs. actual (%)	-13%	4%	3%	-6%	-9%	-8%

Hydro's budgeting methodology for software expenditures in the 2024 Budget submission remained consistent with the approach used in the preparation of Budget 2023. Hydro uses a zero-based budget approach for its software expense. The Information Technology software Budget is prepared by analyzing business requirements with software information housed in an inventory application that is leveraged to analyze, trend and forecast future cost for each piece of software. The Budget proposals are based on historical data and updated to include an anticipated escalation percentage, which varies by vendor and software. Software requirements are assessed annually through an architecture review, in consultation with stakeholders. Any newly identified software requirements are added, and any software planned for decommissioning is removed.

Based on the chart above we identified the following significant variances:

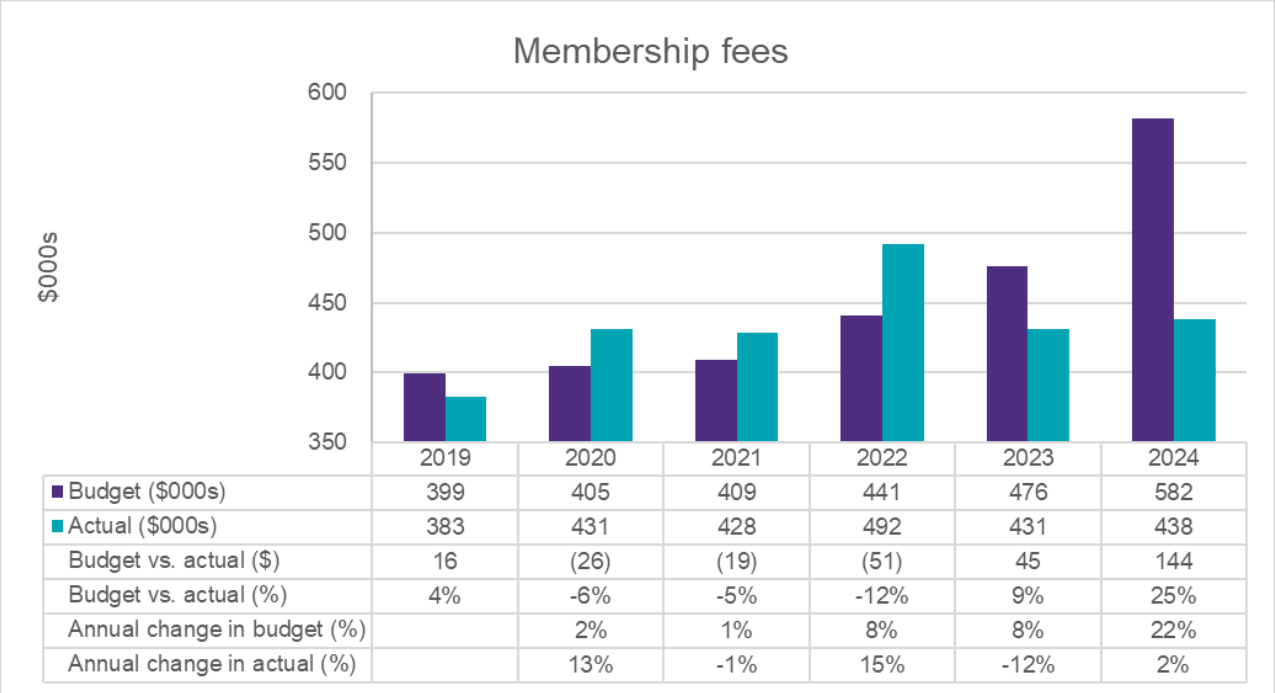
- **2024 budgeted software expenditures were 10% higher than 2023 Budget.** According to Hydro, this is due to variations in company software requirements and escalation of software costs.

- **2024 Actual software expenditures increased by 9% from 2023 Actuals.** According to Hydro, this variance was driven by the Engineering & Technology division. This division experienced a $236,000 increase in software expenditures driven by the expansion of software to enhance cyber security, protect the organization and its critical infrastructure, and to ensure asset reliability. Inflationary pressures also contributed to this increase.

Membership fees

The following chart details the trends for membership fees including 2019-2024 Actuals, 2019 Test Year, and 2020-2024 Budgets.

Figure 34 – Membership fees



	2019	2020	2021	2022	2023	2024
Budget ($000s)	399	405	409	441	476	582
Actual ($000s)	383	431	428	492	431	438
Budget vs. actual ($)	16	(26)	(19)	(51)	45	144
Budget vs. actual (%)	4%	-6%	-5%	-12%	9%	25%
Annual change in budget (%)		2%	1%	8%	8%	22%
Annual change in actual (%)		13%	-1%	15%	-12%	2%

Hydro uses a zero-based budget approach for their membership fees expense. Their budgeting methodology for membership fees is based on planned requirements and is budgeted on a detailed basis. Each department will assess its requirements relating to membership fees associated with professional designations, relevant industry associations or other required memberships for the upcoming year and will Budget the expected associated costs.

Based on the chart above we identified the following significant variance:

- **Budgeted membership fees expense was 22% higher in 2024 than 2023 Budget.** According to Hydro, the increase in the Budget from 2023 to 2024 was primarily due to the Utility Performance department's budgeting of the Centre for Energy Advancement

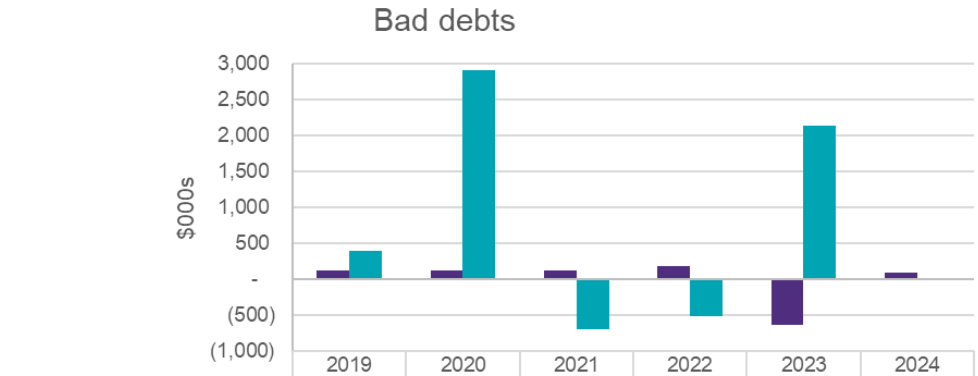
Technological Innovation ("CEATI") memberships ($100K). In 2023, CEATI membership was not budgeted, and in the 2024 Budget, there were two memberships budgeted.

- **Actual membership fees results in 2024 were 25% lower than Budget.** According to Hydro, Engineering Services and Utility Performance departments were the key drivers of this variance. Specifically:
    - There was a $63,000 decrease in Engineering Services memberships and dues between the 2024 Budget and 2024 Actuals. This is primarily due to the review of the CEATI memberships in 2024. During this process, Hydro reduced their total memberships and also revised the allocation of memberships across lines of business. This resulted in net savings for regulated Hydro. This reduction was budgeted in 2025 and beyond.
    - There was a $63,000 decrease in the Utility Performance departments memberships and dues between 2024 Budget and 2024 Actuals. This was primarily because two of the CEATI memberships were budgeted in Asset Management, but only one was incurred in Actuals.

Bad debts

The following chart details the 6-year trends for bad debts expense including 2019-2024 Actuals, 2019 Test Year, and 2020-2024 Budgets.

Figure 35 – Bad debts



	2019	2020	2021	2022	2023	2024
Budget ($000s)	118	118	118	177	(636)	85
Actual ($000s)	391	2,908	(703)	(511)	2,137	23
Annual change in budget (%)		0%	0%	50%	-459%	-113%
Annual change in actual (%)		644%	-124%	-27%	-518%	-99%
Budget vs. actual ($)	(273)	(2,790)	821	688	(2,773)	62
Budget vs. actual (%)	-231%	-2364%	696%	389%	436%	73%

Consistent with 2023, in 2024 Hydro employed a zero-based budgeting approach for bad debts expenses, relying on historical trends to estimate the amount of uncollectible accounts under normal operating conditions. According to Hydro, this estimate remains relatively consistent year over year unless there are known or anticipated changes that could significantly impact customer payment behavior. In such cases, adjustments are made to reflect the expected deviation from typical collectability patterns.

Based on the chart above, we identified the following significant variance:

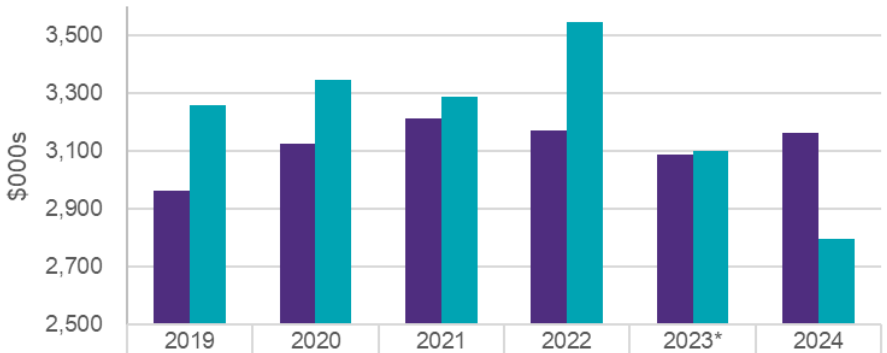
- **2024 Actual bad debts expense was 99% lower than 2023 Actuals.** According to Hydro, this decrease is the result of elevated bad debt expense in 2023 due to issues with a single General Service Customer.

- **2024 Actual bad debts expense was 73% lower than 2024 Budget.** According to Hydro, the decrease from 2024 Budget to 2024 Actuals of $62,000 is primarily due to variations in allowances for balances greater than 90 days.

Vegetation management

The following chart details the trends for vegetation management including 2019-2024 Actuals, 2019 Test Year, and 2020-2024 Budgets.

Figure 36 – Vegetation management



	2019	2020	2021	2022	2023*	2024
Budget ($000s)	2,962	3,126	3,215	3,172	3,090	3,162
Actual ($000s)	3,260	3,345	3,288	3,546	3,102	2,796
Annual change in budget (%)		6%	3%	-1%	-3%	2%
Annual change in actual (%)		3%	-2%	8%	-13%	-10%
Budget vs. actual ($)	(298)	(219)	(72)	(374)	(12)	366
Budget vs. actual (%)	-10%	-7%	-2%	-12%	0%	12%

In our 2022-2023 Annual Review, we presented vegetation management costs for 2023A totaling $3.064 million. Throughout the course of our 2024 Annual Review, Hydro provided a revised 2023A total of $3.102 million. This adjustment consists primarily of additional internal equipment and travel costs within Transmission and Rural Operations of approximately $25,000 and $13,000, respectively.

There were no changes to the budgeting methodology used for vegetation management in 2024. Vegetation management expenses are budgeted using a zero-based approach, with costs estimated on a detailed line-item basis aligned with detailed work plans.

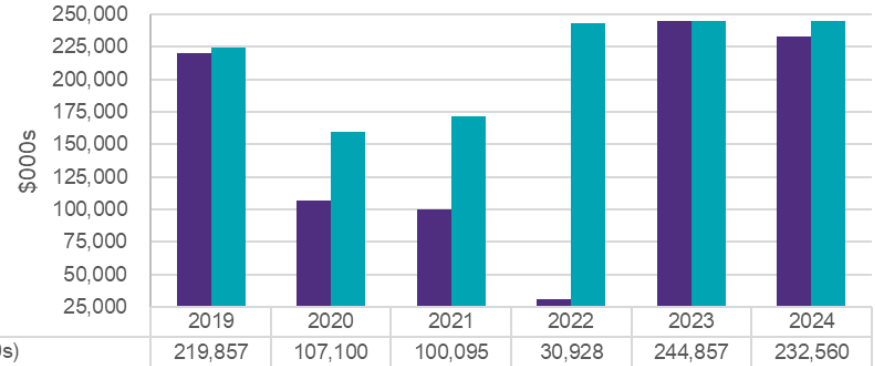
Based on the chart above, we identified the following significant variance:

- **2024 Actual vegetation management was 12% lower than Budget.** According to Hydro, the variance between the 2024 Actuals and Budget is primarily attributable to variations in maintenance activity related to the capitalization of widening of the right of way corridors that run through Gros Morne National Park.

Fuels

The following chart details the year-over-year trends for fuels expense including 2019-2024 Actuals, 2019 Test Year, and 2020-2024 Budgets.

Figure 37 – Fuels expense



	2019	2020	2021	2022	2023	2024
Budget ($000s)	219,857	107,100	100,095	30,928	244,857	232,560
Actual ($000s)	223,929	159,932	171,857	242,958	245,088	244,682
Annual change in budget (%)		-51%	-7%	-69%	692%	-5%
Annual change in actual (%)		-29%	7%	41%	1%	0%
Budget vs. actual ($)	(4,072)	(52,832)	(71,762)	(212,030)	(231)	(12,122)
Budget vs. actual (%)	-2%	-49%	-72%	-686%	0%	-5%

Budgeting methodology

Hydro did not make any changes to the fuels budgeting methodology in 2024. The fuel Budget for the Island Interconnected System is based upon an annual production plan which forecasts the usage of each of Hydro's available generation sources throughout the year, and according to Hydro, reflects the effective management and dispatch of generation resources. This plan is then used for Budgetary purposes, including the Budget for fuel volume requirements. The fuel forecast for the isolated and rural areas is based on a customer load forecast prepared by Hydro and fuel prices in both cases are based on monthly data provided by Platts.

In addition, the fuel Budget also included budgeted supply deferral amounts. Prior to November 1, 2021, these amounts primarily consisted of the Rate Stabilization Plan ("RSP"), the Revised Energy Supply Cost Variance Deferral Account ("ESCVA"), the Holyrood Conversion Rate Deferral Account ("HCRDA"), and the Isolated Systems Supply Cost Variance Deferral Account (collectively "Energy Supply Deferrals"). The ESCVA captured variances in supply costs from specified Island Interconnected System generation sources, while the HCRDA captured fuel and other supply-cost variances associated with Holyrood generation and certain off-island purchases. Effective November 1, 2021, the Board approved the Supply Cost Variance Deferral Account ("SCVDA"), which consolidated the primary Island Interconnected System supply cost deferral mechanisms, including fuel, supply, export, and load-related variances associated with the Muskrat Falls transition. The Isolated Systems Supply Cost Variance Deferral Account continued as a separate deferral account. The Budget for the supply deferrals is derived from the variances between the budgeted supply costs in comparison to the Test Year supply balances. However, according to Hydro, all of the supply deferral activity in 'Fuel' does not directly relate to fuel, and as a result, it is not a one-to-one comparison.

It should also be noted that with regards to the SCVDA, the details of the deferral were not finalized in each Budget year, resulting in the grouping within the Other Expense line item on the income statement. Commencing in 2023, the SCVDA was budgeted in a manner consistent with the actual presentation.

Restated fuels expense

The Actual and Budget fuel expenses shown in the chart above differ from those in Hydro's Statement of Income located in their Quarterly Reports. The following table outlines the fuel costs and fuel-related deferrals for each year.

Figure 38 – Restated fuel expense

Fuels	2019	2020	2021	2022	2023	2024
Budget						
No 6 fuel	194,324	150,108	66,803	13,566	87,851	66,952
Gas turbine fuel	6,874	1,427	3,807	1,153	7,742	12,296
Diesel	18,297	20,253	12,958	16,157	26,286	23,426
Other	362	223	63	52	145	76
Sub total	219,857	172,011	83,631	30,928	122,024	102,750
RSP/Supply Deferrals/SCVDA		(64,911)	16,463	-	122,833	129,810
Fuels per quarterly reporting	219,857	107,100	100,095	30,928	244,857	232,560
Less portion of deferral not related to fuel		(9,232)	74,594		(26,620)	(15,543)
Add fuel related deferral in Other Expense		122,600	49,348	187,330		
Budget ($000s)	**219,857**	**220,468**	**224,037**	**218,258**	**218,237**	**217,017**
Annual change ($)		*611*	*3,569*	*(5,779)*	*(21)*	*(1,220)*
Annual change in budget (%)		*0%*	*2%*	*-3%*	*0%*	*-1%*
Actual						
No 6 fuel	196,106	142,440	97,761	162,962	149,415	140,281
Gas turbine fuel	4,378	2,479	9,138	1,507	8,765	6,553
Diesel	16,575	12,603	13,115	24,102	28,987	22,785
Other	728	349	495	98	951	689
Sub total	217,787	157,871	120,508	188,668	188,118	170,308
RSP/Supply Deferrals/SCVDA	6,142	2,060	51,349	54,291	56,970	74,374
Fuels per quarterly reporting	223,929	159,932	171,857	242,958	245,088	244,682
Less portion of deferral not related to fuel	(9,385)	63,186	51,022	(20,084)	(18,766)	(25,679)
Add fuel related deferral in Other Expense						
Actual ($000s)	**214,544**	**223,118**	**222,879**	**222,874**	**226,322**	**219,003**
Annual change ($)		*8,574*	*(239)*	*(5)*	*3,448*	*(7,319)*
Annual change in actual (%)		*4%*	*0%*	*0%*	*2%*	*-3%*
Budget vs. actual ($)	**5,313**	**(2,650)**	**1,158**	**(4,616)**	**(8,085)**	**(1,986)**
Budget vs. actual (%)	**2%**	**-1%**	**1%**	**-2%**	**-4%**	**-1%**

As noted in the chart above, when comparing annual trends after the exclusion of non-fuel related expenses and addition of fuel related deferrals for 2023 and 2024, both annual year-over-year changes and Budget vs. Actual results are consistent.

Conclusion and recommendations

We have completed our procedures in the review of Hydro's operations and administration expenses. We compared 2024 Actual results to prior years, the 2019 Test Year and the 2024 Plan. Our analysis identified notable trends and Budget variances, and we made subsequent inquiries with Hydro for further clarification, including their budgeting approach and methodology.

Overall operations and administration expenses under the scope of our review experienced minimal growth in 2024. In 2024, Actual expenditures were 1% higher than

2023 Actual results. Based on our discussions with Hydro, the primary categories contributing to this slight increase are building rental and maintenance, and professional services.

Actual results for overall OM&A expenses exceeded the 2024 Budget by 3%. When we compared Budget to Actual costs, we noted that majority of categories' Actual expenses fell within their Budgets. These categories include but are not limited to membership fees, vegetation management, and training. However, there are several cost categories where Actual expenditures have exceeded Budget. These categories include but are not limited to transportation, and building rental and maintenance. We have received explanations from Hydro on the trends identified and are satisfied with their explanations.

6. Labour costs

Scope

Conduct an analysis of labour costs, including executive compensation, FTEs and short-term incentives ("STI"). In conducting this review, present comparisons with the 2019 Test Year, the 2023 Actuals and the 2024 Plan, and follow up on significant variances

Procedures

Our review of labour costs included the following specific procedures:

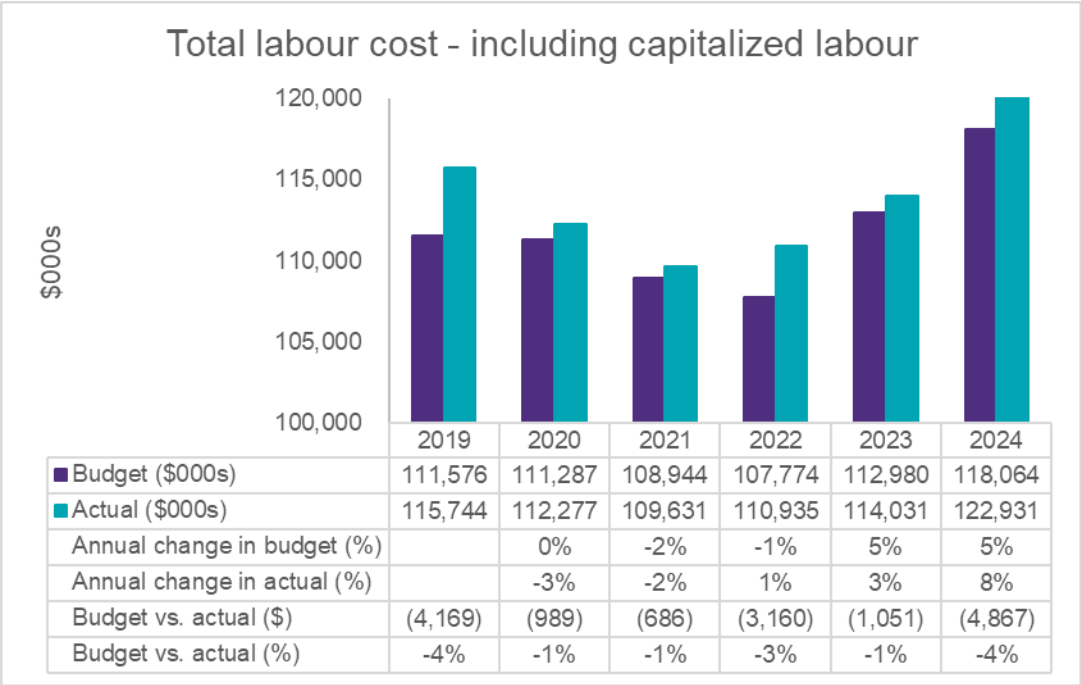
- Obtained schedules of salaries and benefits by category (gross).
- Identified significant variances from prior year for further investigation.
- Identified significant variances from the 2019 Test Year up to the 2024 Plan and Actual.
- Assessed the reasonableness and consistency of Hydro variance explanations.
- Summarized executive compensation and analysed variances.
- Obtained schedules of staff complement and filled positions (FTE's) and analysed salary expense by FTE.
- Obtained a summary of STI expenses and identified significant variances for further investigation.

Analysis

Analysis of gross payroll costs

The following chart outlines the total salaries and fringe benefits under the scope of our review for 2019-2024 Actuals, 2019 Test Year, and 2020-2024 Budgets.

1 ***Figure 39 – Salaries and fringe benefits***



	2019	2020	2021	2022	2023	2024
Budget ($000s)	111,576	111,287	108,944	107,774	112,980	118,064
Actual ($000s)	115,744	112,277	109,631	110,935	114,031	122,931
Annual change in budget (%)		0%	-2%	-1%	5%	5%
Annual change in actual (%)		-3%	-2%	1%	3%	8%
Budget vs. actual ($)	(4,169)	(989)	(686)	(3,160)	(1,051)	(4,867)
Budget vs. actual (%)	-4%	-1%	-1%	-3%	-1%	-4%

2

3 A breakdown of the total salaries and benefits costs by key category for 2019 Test Year, 2023-
4 2024 Actual, and 2024 Budget is detailed in the figure below.

5 ***Figure 40 – Total salaries and fringe benefits***

(000s)	2019TY	2023A	2024B	2024A
Salaries	$ 77,366	$ 75,064	$ 77,902	$ 82,042
Other salary costs	856	3,331	4,172	1,631
Net labour recharge	(842)	302	187	989
Subtotal	77,380	78,697	82,261	84,662
Allowances	1,903	2,669	2,354	2,512
Directors fees	65	81	86	86
Overtime	9,888	13,560	11,790	13,783
Employee future benefits	6,705	3,236	3,652	4,695
Fringe benefits	12,597	12,395	14,405	13,535
Group insurance	2,875	3,215	3,330	3,465
Labrador travel benefit	164	178	186	193
Subtotal	34,196	35,334	35,803	38,269
Total salaries and benefits	$ 111,576	$ 114,031	$ 118,064	$ 122,931
Capital salaries	(21,086)	(24,702)	(28,278)	(27,830)
Capital overtime	(4,986)	(6,110)	(5,500)	(6,612)
Salaries and benefits included in operating expenses	**$ 85,504**	**$ 83,219**	**$ 84,286**	**$ 88,489**

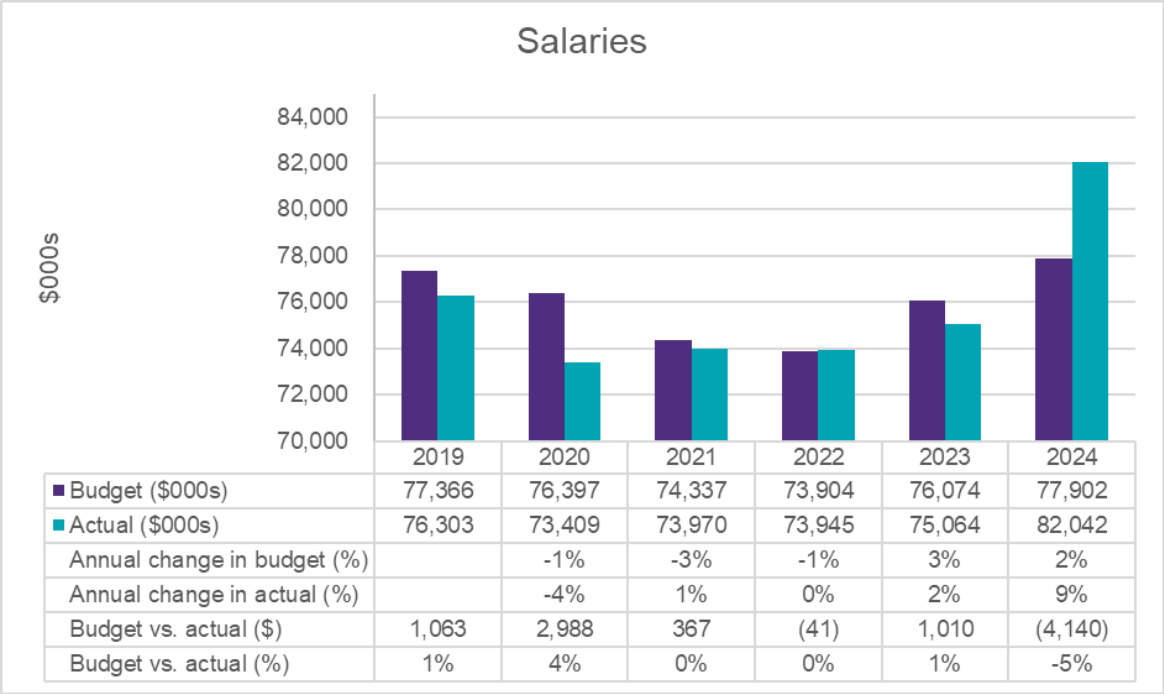
6

During the course of our review, we verified the totals per category with Hydro and conducted a trend analysis. Our findings on significant variances by category are detailed throughout this section of our report.

Salaries

The following chart details the trends for salaries including 2019-2024 Actuals, 2019 Test Year, and 2020-2024 Budgets.

Figure 41 – Salaries



	2019	2020	2021	2022	2023	2024
Budget ($000s)	77,366	76,397	74,337	73,904	76,074	77,902
Actual ($000s)	76,303	73,409	73,970	73,945	75,064	82,042
Annual change in budget (%)		-1%	-3%	-1%	3%	2%
Annual change in actual (%)		-4%	1%	0%	2%	9%
Budget vs. actual ($)	1,063	2,988	367	(41)	1,010	(4,140)
Budget vs. actual (%)	1%	4%	0%	0%	1%	-5%

Based on the chart above we identified the following significant variances:

- **2024 Actual results for salaries were 9% higher than 2023 Actuals.** According to Hydro, the 9% increase ($7 million) increase can be attributed to four categories:
    - **$1.8 million increase caused by FTEs.** Hydro explained that there was a net FTE increase of 17 FTEs (or approximately 2.11% FTE increase). The primary driver of FTE growth was electrification and system growth, with particular focus on major capital investment.
    - **$3.8 million increase due to wage increases that include cost of living and utility market adjustments.** According to Hydro, in 2024, union employees received a 2% cost of living increase in addition to a 2% utility market wage adjustment for a total of 4% effective April 1. Non-union employees were

approved for a 4% cost of living increase in July 2024, retroactive to January 1, 2024.

- **$0.8 million increase as a result of front-line leader differential adjustments.** Hydro explained that due to the cost-of-living wage increases, the front-line leader differential adjustment, which addresses salary compression between unionized employees and their supervisors, was implemented in January 2024, resulting in a change in salaries going forward.

- **$0.6 million of the increase is attributable to progression within salary scales and classifications.** According to Hydro, the remaining increase is a result of eligible union and non-union employees receiving progression within their salary scales and internal promotions.

The following chart details the trends for other salary costs including 2019-2024 Actuals, 2019 Test Year, and 2020-2024 Budgets.

Figure 42– Other salary costs



	2019	2020	2021	2022	2023	2024
Budget ($000s)	856	1,234	930	(96)	2,391	4,172
Actual ($000s)	2,039	5,247	(227)	1,683	3,331	1,631
Annual change in budget (%)		44%	-25%	-110%	-2601%	74%
Annual change in actual (%)		157%	-104%	-840%	98%	-51%
Budget vs. actual ($)	(1,183)	(4,014)	1,157	(1,778)	(940)	2,541
Budget vs. actual (%)	-138%	-325%	124%	1860%	-39%	61%

Hydro's 2024 budgeting methodology for other salary costs remained consistent with their 2023 approach. They use a zero-based budgeting approach, aligning the Budget with operational needs and workforce composition. According to Hydro, historically, this category included items like maternity leave payments, retention and Short-Term Incentives, and differential payments for frontline supervisors. However, starting in 2022, retention and Short-Term Incentive payments were no longer budgeted. Hydro noted the category also occasionally serves as a

holding account for anticipated salary increases that have not yet been finalized, which contributes to discrepancies between Budgeted and Actual figures. Hydro has also noted that in preparation of the 2025 Budget, they completed a review of this expense category and the Budget in 2025 continued to be zero based.

Based on the chart above we identified the following significant variances:

- **2024 Actual results for other salary costs were 61% lower than 2024 Budget.** According to Hydro, this variance was primarily due to the timing of signing of the collective agreement and classification of expenses. The 2024 Budget for other salary costs included the collective agreement salary increases. However, in 2024 when increases were processed, the increases were included in 'salary costs' and not 'other salary costs'.

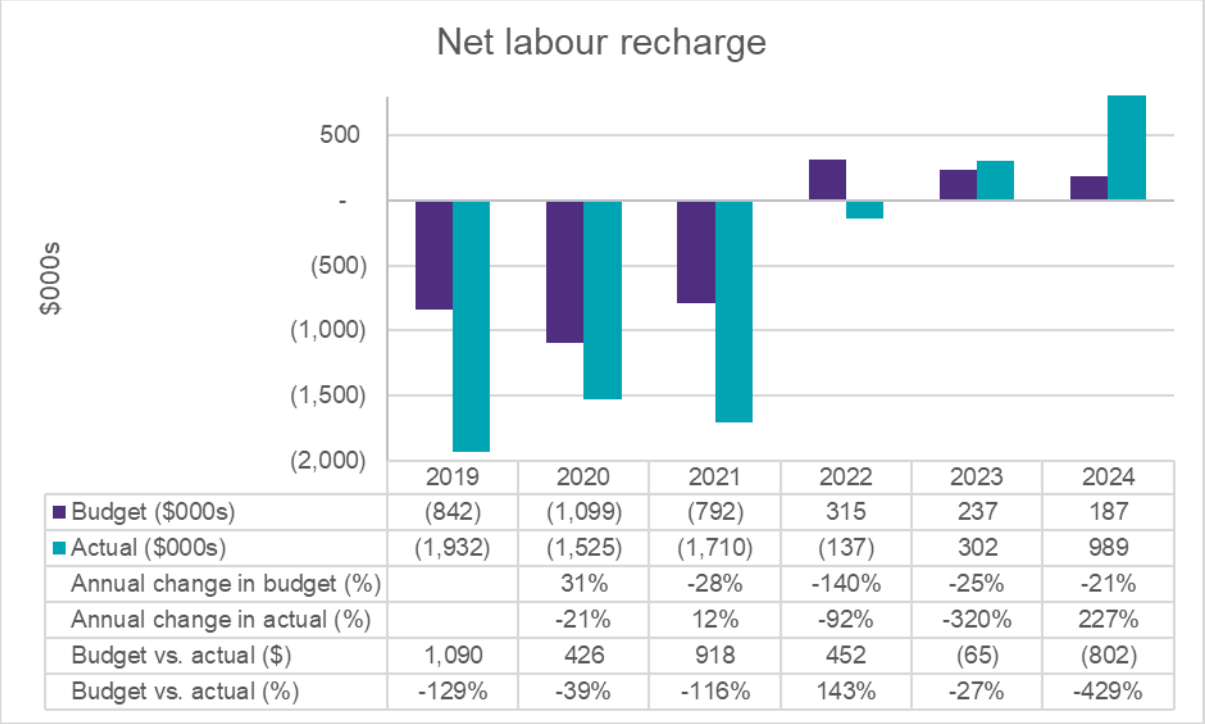
- **2024 Actual results for other salary costs were 51% lower than 2023 Actuals.** According to Hydro, the decrease from 2023 to 2024 was primarily due to the timing of the collective agreement being signed. It was signed in late 2023, meaning union members were due retroactive payments for salary increases for the period of April 2022 to December 2023. The amount recorded in 2023 related to this was $1.7 million.

- **2024 Budget for other salary costs was 74% higher than 2023 Budget.** Per Hydro, this increase was primarily due to the finalization of collective bargaining with the company's largest union, IBEW 1615, in November 2023. Due to the timing of the agreement and the sensitive nature of such information when in a bargaining period, the salary increases applicable to 2024 were budgeted in 'other salary costs' in budget 2024 versus 'salary costs'. The 2023 Budget did not include salary increases relating to collective bargaining.

Labour recharge

The following chart details the trends for labour recharges including 2019-2024 Actuals, 2019 Test Year, and 2020-2024 Budgets.

Figure 43 – Labour recharge



	2019	2020	2021	2022	2023	2024
Budget ($000s)	(842)	(1,099)	(792)	315	237	187
Actual ($000s)	(1,932)	(1,525)	(1,710)	(137)	302	989
Annual change in budget (%)		31%	-28%	-140%	-25%	-21%
Annual change in actual (%)		-21%	12%	-92%	-320%	227%
Budget vs. actual ($)	1,090	426	918	452	(65)	(802)
Budget vs. actual (%)	-129%	-39%	-116%	143%	-27%	-429%

Hydro used a zero-based budget approach for labour recharge in the 2024 Budget submission, which remained consistent with the preparation of 2023 Budget. The budgeting approach for 2023 and 2024 is based on a detailed Budget approach using an integrated data file. The integrated data file is populated using updated labour rates and the total hours charged from the previous year. Departments are then required to review the labour recharge data in and out of their applicable business units and adjust for their expected activity for the year. This can require collaboration between business unit managers to ensure there is alignment on the recharge from one department to another based on the expected support from each department.

According to Hydro, there was a change in the preparation of the integrated file from the 2023 to 2024 Budget, which is provided as the starting point for department managers for Budget review. In the 2023 Budget, the integrated file was populated using updated labour rates and the total budgeted hours charged from the previous year. In the 2024 Budget, instead of using prior year budgeted hours, it was decided that Actual hours charged in the previous year would be used as the starting point. As the 2024 Budget was prepared in 2023, this would mean that the 2022 Actual hours were used as the starting point. Hydro believed this would provide a more accurate depiction of the expected labour hours charged in and out of each department.

Based on the chart above we identified the following significant variances:

- **Labour recharge was recovery in 2019-2021 and expense in 2022-2024.** Hydro attributed the variance primarily to two changes arising from its organizational

restructuring: the introduction of a procurement administration fee and the transfer of several executives out of Regulated Hydro. The procurement administration fee reduced labour recharges out because procurement costs were allocated through the fee instead. Conversely, labour recharges increased because executive positions previously included in Regulated Hydro were transferred to another business unit in 2022. As a result, the related costs were charged to Regulated Hydro through labour recharges rather than recorded as salaries and benefits.

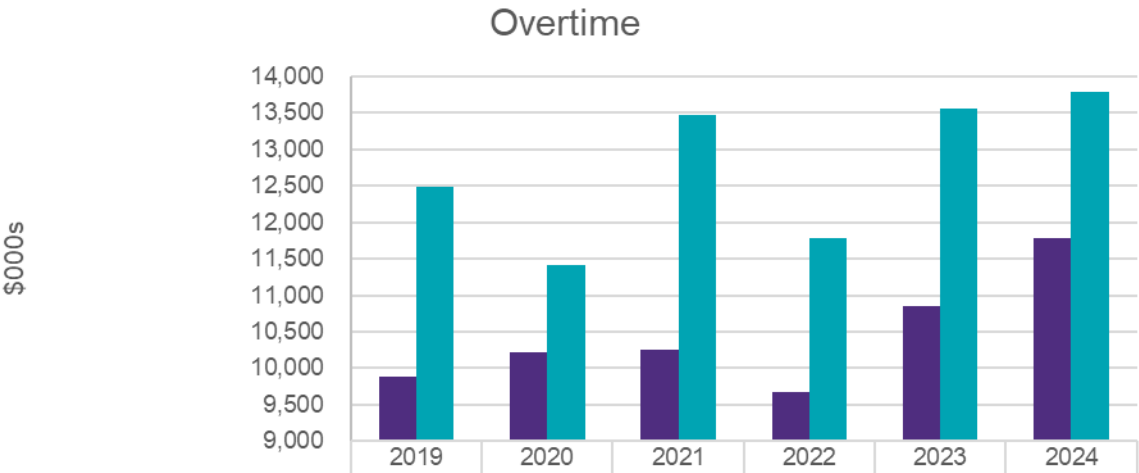
- **Labour recharge Budget decreased by 21% in 2024 compared to 2023 Budget.** According to Hydro, the net labour recharge Budget decreased from $237,000 in 2023 to $187,000 in the 2024 Budget, resulting in a net variance of approximately $50,000. This change is primarily due to fluctuations in budgeted work plans, which vary year over year. The budgeting process is based on estimates of work previously performed by the business unit. This work may be recurring annually or occur on a multi-year cycle (e.g., every 3, 5, or 10 years). While historical data provides a useful baseline for planning, it can also contribute to year over year variances. Additionally, the labour recharge review occurs at an early stage of the budgeting process, typically completed in the second quarter for work scheduled to begin in January of the following year. As a result, changes in scope, priorities, or conditions between budgeting and execution may further contribute to variances.

- **2024 Actual labour recharge was 429% higher than 2024 Budget and 227% higher than 2023 Actual results.** According to Hydro, net labour recharge expenses were $0.80 million higher than Budget in 2024, primarily due to variations in the work plans from Budget. Net labour recharge expenses were $0.70 million higher in 2024 Actuals in comparison to 2023 Actuals, primarily due to variations in work plans year over year. These variances reflect timing difference between when the Budget is established and when the work is executed.

Overtime

The following chart details the trends for overtime including 2019-2024 Actuals, 2019 Test Year, and 2020-2024 Budgets.

Figure 44 – Overtime



	2019	2020	2021	2022	2023	2024
Budget ($000s)	9,888	10,208	10,245	9,672	10,848	11,790
Actual ($000s)	12,491	11,413	13,470	11,783	13,560	13,783
Annual change in budget (%)		3%	0%	-6%	12%	9%
Annual change in actual (%)		-9%	18%	-13%	15%	2%
Budget vs. actual ($)	(2,603)	(1,205)	(3,225)	(2,111)	(2,712)	(1,993)
Budget vs. actual (%)	-26%	-12%	-31%	-22%	-25%	-17%

Hydro's budgeting methodology for overtime in 2024 was consistent with prior years. Hydro used a zero-based budgeting approach, informed by the minimal amount of overtime required to perform the work plan outlined for each year in an effort to minimize overtime costs throughout the organization.

Hydro also noted that in preparation of their 2025 budget for overtime, they switched from a zero-based approach to historical average. Specifically, Hydro based its 2025 Budget on a three-year historical average of expenditures incurred in 2022, 2023, and 2024, multiplied by a labour inflator to account for any possible salary increases for the Budget year in an effort to be more reflective of actual experience.

Based on the chart above we identified the following significant variance:

- **Actual overtime expense was 17% higher than Budgeted in 2024.** According to Hydro, Transmission and Distribution Services division, Thermal Productions department, and Hydro Productions department were the key cost drivers.
    - The Transmission and Distribution Services department increased by $0.70 million. This was primarily related to overtime of $0.50 million, incurred as a result of increases in Northern Transmission Operations and Rural Operations due to trouble calls, and vegetation and facilities maintenance. Additionally, Central TRO increased by $0.20 million due to several major capital projects,

including Wood Pole Line Management, Upgrade Distribution Feeders, Circuit Breakers, and Distribution Upgrades.

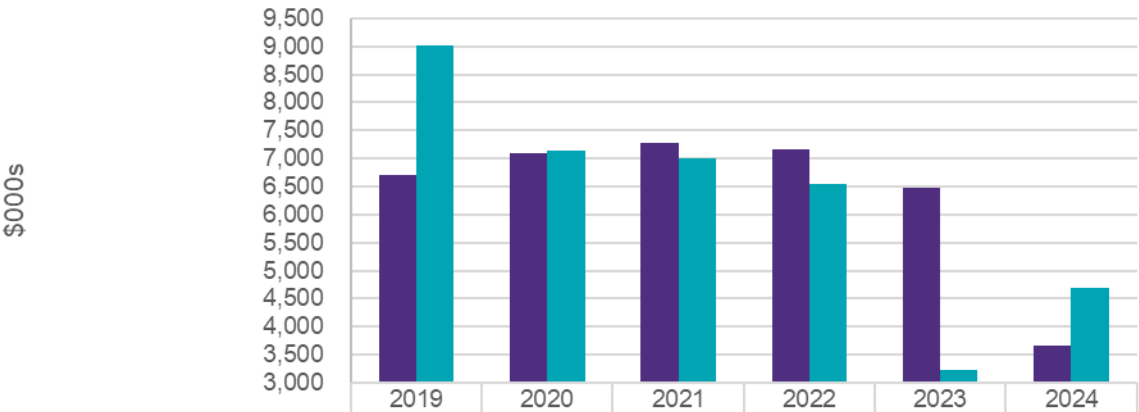
- The Thermal Production department exceeded their Budget by $0.75 million. This is made up of an increase in overtime to support capital work scopes of $0.50 million including Unit 2 Turbine Overhaul, Unit 1 Turbine Valves, Boiler Condition Assessment Miscellaneous Upgrades, and Tank 1 Clean and Repair. The remaining $0.25 million increase in overtime is a result of increased inclement weather coverage, tanker duty support, and sick leave coverage requirements.

- The Hydro Production department experienced an increase of $0.50 million. These costs were required to restore critical units back to service and related to water management activities aimed at preventing spill events.

Employee future benefits

The following chart details the 6-year trends for employee future benefits ("EFB") including 2019-2024 Actuals, 2019 Test Year, and 2020-2024 Budgets.

Figure 45 – Employee future benefits



	2019	2020	2021	2022	2023	2024
Budget ($000s)	6,705	7,087	7,277	7,170	6,475	3,652
Actual ($000s)	9,023	7,140	6,994	6,546	3,236	4,695
Annual change in budget (%)		6%	3%	-1%	-10%	-44%
Annual change in actual (%)		-21%	-2%	-6%	-51%	45%
Budget vs. actual ($)	(2,319)	(53)	283	624	3,239	(1,043)
Budget vs. actual (%)	-35%	-1%	4%	9%	50%	-29%

The budgeting methodology for employee future benefits in the 2024 Budget submission remained consistent with the approach used in the preparation of the 2023 Budget. Hydro Budgets employee future benefits using the actuarial EFB report provided by Hydro's actuary,

Telus Health. A key factor in the determination of EFB expense is the discount rate used in the calculation of the annual other post-employment benefits expense. The discount rates are driven by market-related interest rates, which are impacted by macroeconomic factors. The 2024 Budget used the December 31, 2022 discount rate of 5.2%. A higher discount rate generally reduces the EFB liability and has a lag effect, decreasing the EFB expense in the following year and vice versa.

Based on the chart above we identified the following significant variances:

- **2024 Budget employee future benefits decreased by approximately 44% compared to 2023 Budget.** According to Hydro, the reduction in EFB 2024 Budget was driven by the increased discount rate. The 2023 Budget was based upon the December 31, 2021 discount rate of 3.35%, while the 2024 Budget was based upon the discount rate at December 31, 2022 of 5.2%.

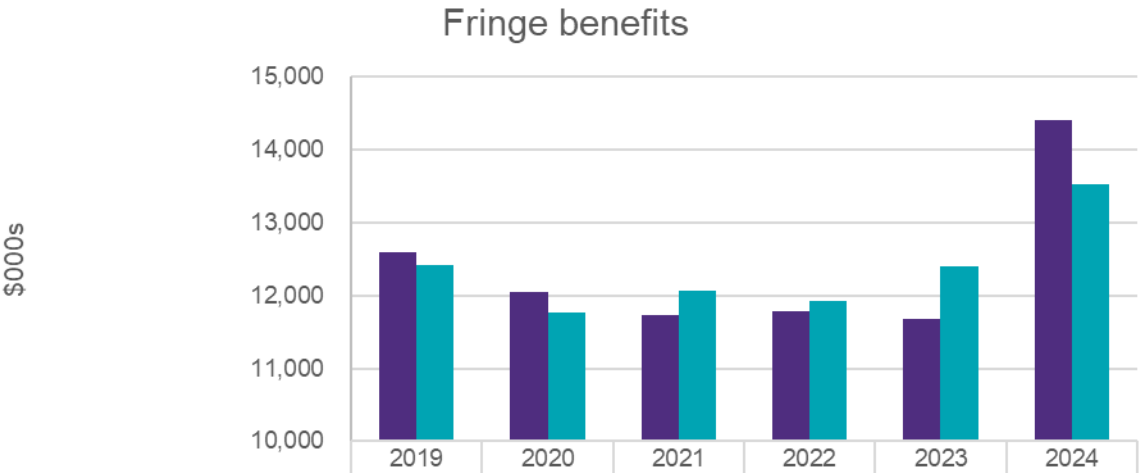
- **2024 Actual employee future benefits were approximately 29% higher than Budget.** According to Hydro, the discount rate materially impacts EFB expense. The 2024 Budget used the December 31, 2022 discount rate of 5.2%, while the 2024 Actuals used the December 31, 2023 discount rate of 4.65%. The reduction of the discount rate caused the 2024 Actuals to be higher than the 2024 Budget.

- **2024 Actual employee future benefits increased by 45% compared to 2023 Actuals.** According to Hydro, the discount rate used to calculate the Actual EFB expense at December 31, 2023 was the December 31, 2022 discount rate of 5.2%, while the discount rate used to calculate the Actual EFB expense at December 31, 2024 was the December 31, 2023 discount rate of 4.65%. The reduction of the discount rate caused the increase in Actual EFB expense.

Fringe benefits

The following chart details the trends for fringe benefits including 2019-2024 Actuals, 2019 Test Year, and 2020-2024 Budgets.

Figure 46 – Fringe benefits



	2019	2020	2021	2022	2023	2024
Budget ($000s)	12,597	12,041	11,727	11,784	11,683	14,405
Actual ($000s)	12,426	11,763	12,069	11,928	12,395	13,535
Annual change in budget (%)		-4%	-3%	0%	-1%	23%
Annual change in actual (%)		-5%	3%	-1%	4%	9%
Budget vs. actual ($)	171	277	(341)	(145)	(712)	870
Budget vs. actual (%)	1%	2%	-3%	-1%	-6%	6%

Hydro has historically used a zero-based budget approach for its fringe benefits. Fringe benefits primarily consist of employer contributions for Public Service Pension Plan ("PSPP"), Employment Insurance ("EI"), Canadian Pension Plan ("CPP"), and Workers Compensation Coverage ("WCC"). The contribution costs for each applicable item are based on an assigned percentage of overall salary costs. The calculated percentages are derived using Actual fringe costs as a percentage of salary costs from May to April of the prior year. The percentages are then applied to the budgeted salary costs for the current year to derive the budgeted fringe expense.

PSPP expenses were calculated as a percentage of regular salary costs, this was consistent across 2023 and 2024. In 2023, the CPP, EI and WCC were calculated based on a percentage of regular salary costs as well. There was a shift in methodology for the 2024 Budget to include overtime costs, allowances and other salary costs in the calculation for CPP, EI and WCC. Fringe costs had been historically higher than Budget from 2021 to 2023, and in an effort to align closer to Actuals, these cost types were added to the cost pool as they do also attract EI and CPP. In preparation for Budget 2025, it was decided that overtime costs would be excluded from the calculation of CPP, EI and WCC given the majority of employees would reach maximum contribution before year-end without accounting for overtime costs and including it in the calculation can overstate the Budget.

Based on the chart above we identified the following significant variance:

- **2024 fringe benefits were Budgeted to be approximately 23% higher than 2023 Budget.** Hydro explained that the increase is driven by the following:

    - The maximum pensionable earnings set by the Canada Revenue Agency ("CRA") for the CPP increased from 2023 to 2024. This resulted in an increased percentage of CPP contributions required from Hydro in 2024. The CRA also implemented a mandatory CPP enhancement beginning in January 2024, requiring an additional contribution from employees and employers. Both increases from CRA resulted in a higher CPP expense calculated for 2024 (approximately $0.70 million).

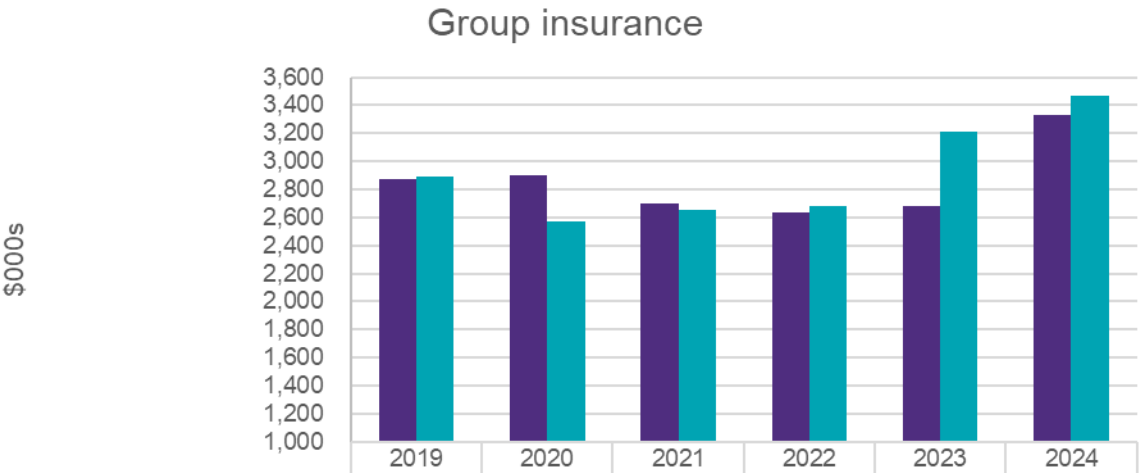
    - As a result of the fringe benefit costs exceeding Budget in 2021, 2022, and 2023, Hydro reassessed its approach to budgeting for fringe benefits. It was determined that prior Budgets had been calculated based on annual salary rather than total earnings. This methodology was considered reasonable, as most employees typically reach maximum contribution thresholds for CPP, EI, and WCC based on annual salary alone. However, recognizing the potential for employees to reach these thresholds through additional earnings, such as overtime and allowances, the 2024 Budget was adjusted to reflect total earnings rather than base salary when calculating the estimated Budget for CPP, EI and WCC. This change contributed to the increase in the fringe benefit Budget, representing an overall increase of $0.80 million. In a subsequent review, including an analysis of 2024 Actuals, it was determined that this approach overstated budgeted costs, as the majority of employees were already reaching maximum contribution limits regardless of the additional overtime worked. Accordingly, the 2025 budgeting approach has removed overtime costs from the calculation in an effort to better align with the maximum contribution limit for CPP and EI. Budgeted costs in future years will continue to reflect any salary adjustments that may be implemented, which could result in corresponding increases to both Budgeted and Actual figures.

    - Salary escalations for the 2024 Budget were a late addition to the Budget due to the timing of the conclusion of collective bargaining. The impact on total benefit costs (i.e., group insurance, fringe benefits, etc.) was estimated at 30% of salaries. Due to the timing of the change, the increase was allocated in totality to fringe benefits. In the absence of the time constraint, only a portion of this expense should have been allocated to fringe benefits (approximately $0.60 million) with the remainder to other benefits, such as group insurance (approximately $0.60 million). This presentation difference did not affect total operating costs.

Group insurance

The following chart details the trends for group insurance including 2019-2024 Actuals, 2019 Test Year, and 2020-2024 Budgets.

Figure 47 – Group insurance



	2019	2020	2021	2022	2023	2024
Budget ($000s)	2,875	2,901	2,702	2,638	2,679	3,330
Actual ($000s)	2,893	2,573	2,657	2,680	3,215	3,465
Annual change in budget (%)		1%	-7%	-2%	2%	24%
Annual change in actual (%)		-11%	3%	1%	20%	8%
Budget vs. actual ($)	(18)	328	45	(42)	(536)	(135)
Budget vs. actual (%)	-1%	11%	2%	-2%	-20%	-4%

There were no changes to Hydro's budgeting approach and methodology for the group insurance expense in 2024. As with prior years, Hydro's premium adjustments were based on a review of a combination of the benefit plan's claims experience (i.e., historical experience or usage of the plan) and anticipated inflation and usage for the upcoming year; this information was informed by the expertise of Hydro's benefit consultant, HUB. The group insurance program is comprised of group health, dental, basic life insurance, basic accidental death and dismemberment insurance, critical illness and Long-Term Disability. The Company covers 100% of health premiums, basic life and accidental death, and dismemberment insurance for active employees, while retiree premiums are shared equally between the Company and retirees. For dental insurance, premiums are cost-shared at a rate of 75% by the Company and 25% by employees and retirees.

Based on the chart above we identified the following significant variance:

- **2024 Budgeted group insurance was approximately 24% higher than 2023 Budget.** According to Hydro, the health plan, which covers prescription drugs, paramedical services, medical supplies and travel benefit, experienced higher usage over the past two years relative to the premiums collected. As a result, health premiums (including the travel benefit) were budgeted to increase by 20% from January to June 2024, followed by an additional 13.5% increase from July to December 2024. A significant factor driving these increases was the rising cost of prescription medications used to treat a range of conditions, including inflammatory diseases and diabetes. Dental plan costs are determined using the same methodology, balancing actual usage with expected inflation.

Additionally, the 2023 Newfoundland and Labrador Dental Fee Guide increased by 8.5%, reflecting provincially regulated adjustments set by the dental governing bodies. Dental premiums were budgeted to increase by approximately 10% throughout 2024. Life insurance premiums were also projected to increase by 10% for the period July to December 2024. This adjustment reflected a higher number of claims in 2023 and ensured that the plan continued to meet its contractual obligations.

Compensation matrix

The below matrix illustrates a scale for salary increases and bonuses based on performance ranging from 0 - 6.5% for non-union employees. The compensation matrix allows for pay adjustments above the revised job rate based on an employee's "rating of performance". Ratings of performance include Unacceptable, Improvement Required, Meets Expectations, Exceeds Expectations, and Exceptional.

Figure 48 – Merit compensation matrix (non-union employees)

	Salary Adjustment - Below 100% Job Rate	
Rating of Performance	**2024**	**2023**
Exceptional	6.5% (to the scale maximum)	6.5% (to the scale maximum)
Exceeds Expectations	5.5% (to the scale maximum)	5.5% (to the scale maximum)
Meets Expectations	Up to 4% (to the scale maximum)	Up to 4% (to the scale maximum)

There were no changes in the salary adjustments in 2024. As noted by the Company, all salary adjustment figures are calculated as a percentage of current base salary. All salary adjustments are subject to the maximum scale. Employees can proceed beyond 100% of scale through to 110% if they receive two consecutive years of exceeds and/or exceptional performance ratings. Under these circumstances, once an increase has been applied, the employee must then get an additional two years of exceeds and/or exceptional performance ratings before they are entitled to another increase. Employees that are hired in the fourth quarter are not eligible for any increase. Employees with a hire date prior to the fourth quarter will have their merit increase prorated based on their start date.

On May 14, 2021, Order in Councils OC2021-127 and OC2021-128 directed Nalcor Energy and Newfoundland and Labrador Hydro, respectively, to eliminate performance-based pay and incentive programs for non-union employees and prohibited compensation increases until further direction was provided by the Lieutenant-Governor in Council. Subsequently, OC-2021-270, issued on October 29, 2021, authorized Hydro to implement step progressions along established salary scales for non-union employees, effective October 1, 2021. In 2023, OC2023-201 approved a one-time 2.0% general economic increase for non-union employees effective January 1, 2023. Further compensation adjustments were authorized through OC2024-089, issued on June 28, 2024, which permitted Hydro to provide recognition bonuses and general economic increases to non-union employees through December 31, 2025, consistent

with settlements reached for unionized employees. We understand that in 2024, Hydro commissioned Southlea Group LP to complete a Total Compensation Program Review. The Board should refer to Exhibit 6 in Hydro's 2026 GRA for further details on this review.

Net Full-Time Equivalents

The following table details the average number of net full-time equivalents employees by division for 2019 to 2024. Net FTEs represent the workforce supporting Regulated Hydro operations. The calculation starts with Hydro employees, less vacancies, adds employee time provided to Regulated Hydro by Non-Regulated business units, and subtracts Regulated Hydro employee time spent supporting Non-Regulated business units. Administration fee charges are reflected separately through cost allocations and associated cost recoveries and are not reflected in the net FTE calculation.

Hydro's explanations for changes in 2024 noted in net FTE positions are also detailed below.

Figure 49 – Average net FTE employees by division

	2019 [1]	2020 [1]	2021	2022	2023	2024	Note
Executive Leadership	8	9	9	7	7	9	[2]
Finance	64	63	59	61	60	59	[3]
Engineering & Technology	129	134	137	132	141	148	[4]
Transmission Operations	304	284	279	283	281	279	[3]
Production Operations	207	190	193	190	192	193	[3]
Corporate Services	117	111	115	118	124	133	[4]
	829	**791**	**792**	**790**	**804**	**821**	

Note 1: Please note that the 2019 and 2020 FTEs were restated following the release of our 2021 Annual Financial Review of the Company. We have updated the above figures to reflect the Company's restated FTEs.

Note 2: Executive Leadership - According to Hydro, in 2024 a permanent Senior Legal Counsel position was added.

Note 3: Finance, Transmission Operations, and Production Operations – According to Hydro, in 2024 there were no major changes in FTEs. The variances in these divisions are due to transitional vacancy that occurs over the course of the year.

Note 4: Engineering, and Corporate Services – According to Hydro, the 2024 variances in these divisions are largely due to the increase of FTEs associated with supporting the Major Projects department.

Average salary costs per net FTE for 2019 to 2024 are included in the following table:

Figure 50 – Average salary costs per net FTE

	2019	2020	2021	2022	2023	2024
Salary costs, including temporary salaries (000s)	$ 76,303	$ 73,409	$ 73,970	$ 73,945	$ 75,064	$ 82,042
Net labour recharge (000s)	(1,932)	(1,525)	(1,710)	(137)	302	989
Total salary costs (000s)	74,371	71,884	72,260	73,808	75,366	83,031
Net FTE *(in units)*	830	791	792	790	804	821
Average salary per net FTE	$ 89,604	$ 90,877	$ 91,227	$ 93,459	$ 93,703	$ 101,113
% increase (decrease)		1.4%	0.4%	2.4%	0.3%	7.9%

The above analysis indicates that the Company experienced a 7.9% increase in average salary per net FTE for 2024. Per Hydro, this is driven by the increase in salary cost. As previously noted in our report, salary costs increased due to wage increases because of cost of living and utility market adjustments, front-line leader differential adjustments, and progression within salary scales and classifications.

Executive salaries

In 2021, Hydro announced a reorganization of its executive structure to reduce costs and focus on better serving its customers. Thus, a number of the regulated and non-regulated functions were combined with a focus on business function, rather than line of business under the prior structure. The restructure transferred executive positions supporting shared services departments to Non-Regulated Hydro, meaning executive salaries are first charged to Non-Regulated Hydro, and are then transferred to Regulated Hydro using the established intercompany guidelines. Charges to Regulated Hydro are calculated based on actual hours at the incumbent hourly rate multiplied by the bill rate (1.68) to reflect the total cost of the executive.

According to Hydro, Executive Salaries Charged to Regulated Hydro during 2024 were as follows:

Figure 51 – Regulated executive salaries charged to Regulated Hydro

	2024	2023
President & CEO	$ 407,000	$ 394,000
VP Churchill and Muskrat Falls	15,000	7,000
VP Chief Legal Officer and Corporate Secretary	115,000	92,000
VP People and Corporate Affairs[1]	311,000	251,000
VP Chief Financial Officer	113,000	127,000
Grand Total	$ 961,000	$ 871,000

Note 1: According to Hydro, executive salaries charged to Regulated Hydro are charged at the bill rate of 1.68. As such, in some instances salaries charged to regulated Hydro may exceed total salaries and benefits costs of the executive.

According to Hydro, Executive Salaries Charged out of Regulated Hydro during 2024 were as follows:

Figure 52 – Executive salaries charged out of Regulated Hydro

	2024	2023
VP Hydro Engineering & NLSO	$ -	$ -
VP Regulatory Affairs & Stakeholder Relations[1]	53,000	59,000
VP Hydro Operations[2]	-	7,000
Grand Total	$ 53,000	$ 66,000

Note 1: The only position with charges out of Regulated Hydro was the VP, Regulatory and Stakeholder Relations, which represented approximately 0.14 full-time equivalent, or approximately $52,874 as their portfolio includes Stakeholder Relations which spans company wide.

Note 2: The only year-over-year change in 2024 relates to the VP Hydro Operations position. In 2023, this position charged approximately 0.02 FTE (38 hours) to Exploits Generation (Non-Regulated Operations). In 2024, there were no charges out of Regulated Hydro associated with this position.

The tables below outline the executive salaries by position, including the annual salary, salary earned, performance contract, gross salary, and benefits for 2024.

Figure 53 – Executive salaries by position - 2024

Position	Annual salary	Salary earned	Salary continuance	Retiring allowance	Retroactive earnings	Vacation pay	Gross salary	Benefits	Total	Notes
President and CEO	395,000	395,000	-	-	-	-	395,000	56,327	451,327	
VP, Churchill & Muskrat Falls	291,700	291,700	-	-	-	-	291,700	44,077	335,777	[1]
VP, Chief Financial Officer	289,400	289,400	-	-	-	-	289,400	43,840	333,240	[2]
VP, Chief Legal Officer & Corporate Secretary	254,000	254,000	-	-	-	-	254,000	39,449	293,449	
VP, Hydro Engineering & NLSO	245,300	245,300	-	-	-	-	245,300	38,337	283,637	[3]
VP, People & Corporate Affairs	239,800	239,800	-	-	-	-	239,800	37,644	277,444	
VP, Hydro Operations	239,800	239,800	-	-	-	-	239,800	37,644	277,444	[3]
VP Transmission Interconnections & Business Development	250,700	250,700	-	-	-	-	250,700	39,032	289,732	[4]
VP, Regulatory & Stakeholder Relations	225,200	225,200	-	-	-	-	225,200	35,417	260,617	
VP, Power Development	-	-	285,077	127,399	-	-	412,476	40,237	452,713	[1]
VP, Finance, Churchill Falls & Muskrat Falls	-	-	67,231	-	-	-	67,231	12,204	79,435	[2]
Total	**$ 2,430,900**	**$ 2,430,900**	**$ 352,308**	**$ 127,399**	**$ -**	**$ -**	**$2,910,607**	**$ 424,208**	**$ 3,334,815**	

Note 1: Vice President, Power Development was permanently eliminated and responsibilities associated with the role were reassigned to the Vice President, Churchill Falls & Muskrat Falls.

Note 2: Vice President, Finance, Churchill Falls & Muskrat Falls was permanently eliminated. Responsibilities associated with the role were transferred to the VP, Chief Financial Officer.

Note 3: Following the departure of the Vice President, Transmission & Distribution and NLSO in 2023, the position was reviewed and the portfolios were redistributed. The Vice President, Hydro Operations assumed responsibility for the Transmission & Distribution portfolio, while the NLSO portfolio was transferred to the Vice President, Engineering & NLSO.

Note 4: In 2024, this was a newly added role. This role was created as part of the 2023 executive reorganization. The current incumbent previously held the Vice President, Transmission & Town Services position, which was permanently eliminated in 2024; therefore, there was no change in FTE, and both positions were classified as non-regulated. Responsibilities for the Town Services portfolio were transferred to the Director, Production & Site Services (Churchill Falls), while responsibility for the Transmission portfolio were transferred to the VP, Transmission Interconnections & Business Development.

Capitalized salaries

Capitalized salaries include the salaries and benefits of the Company's employees whose time is charged directly to capital projects. The gross payroll costs for 2023-2024 Actuals, 2019 Test Year, and 2024 Budget were allocated to operations and capital as follows:

Figure 54 – Gross payroll costs allocated to operations and capital

(000s)	2019TY	2023A	2024B	2024A
Payroll charged to operating	$ 85,504	$ 83,219	$ 84,286	$ 88,490
Payroll charged to capital	26,072	30,812	33,778	34,442
Total payroll	**$ 111,576**	**$ 114,031**	**$ 118,064**	**$ 122,932**

Payroll charged to capital consists of both capital salaries and overtime as detailed below:

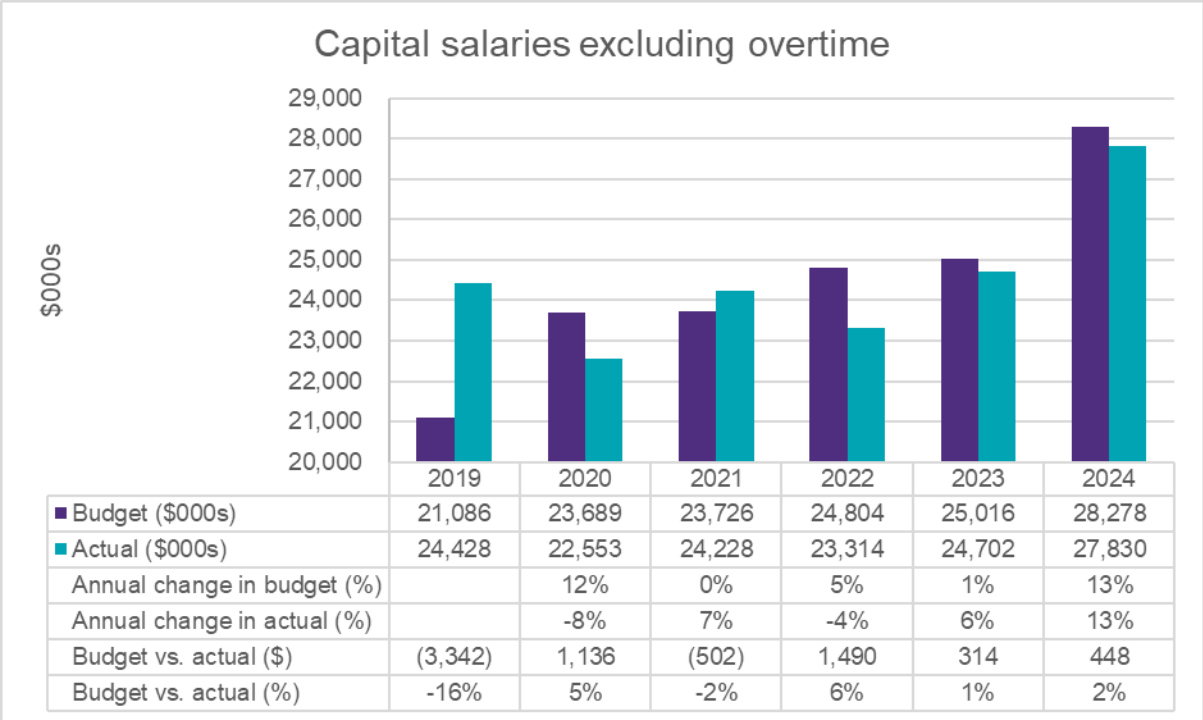
Figure 55 – Capital salaries and overtime

(000s)	2019TY	2023A	2024B	2024A
Capitalized salaries	$ 21,086	$ 24,702	$ 28,278	$ 27,830
Capitalized overtime	4,986	6,110	5,500	6,612
Payroll charged to capital	**$ 26,072**	**$ 30,812**	**$ 33,778**	**$ 34,442**

Capital salaries

The following chart details the trends for capitalized salaries including 2019-2024 Actuals, 2019 Test Year, and 2020-2024 Budgets.

Figure 56 – Capitalized salaries



	2019	2020	2021	2022	2023	2024
Budget ($000s)	21,086	23,689	23,726	24,804	25,016	28,278
Actual ($000s)	24,428	22,553	24,228	23,314	24,702	27,830
Annual change in budget (%)		12%	0%	5%	1%	13%
Annual change in actual (%)		-8%	7%	-4%	6%	13%
Budget vs. actual ($)	(3,342)	1,136	(502)	1,490	314	448
Budget vs. actual (%)	-16%	5%	-2%	6%	1%	2%

There were no changes to Hydro's budgeting methodology for capital salaries in 2024. According to Hydro, they use a zero-based budget approach for capitalized labour. Departments

review their capital plan for the year and determine the number of hours expected per position to be allocated to capital jobs for the current Budget year. The hours are then multiplied by the applicable bill rate for the year to derive the capitalized labour cost.

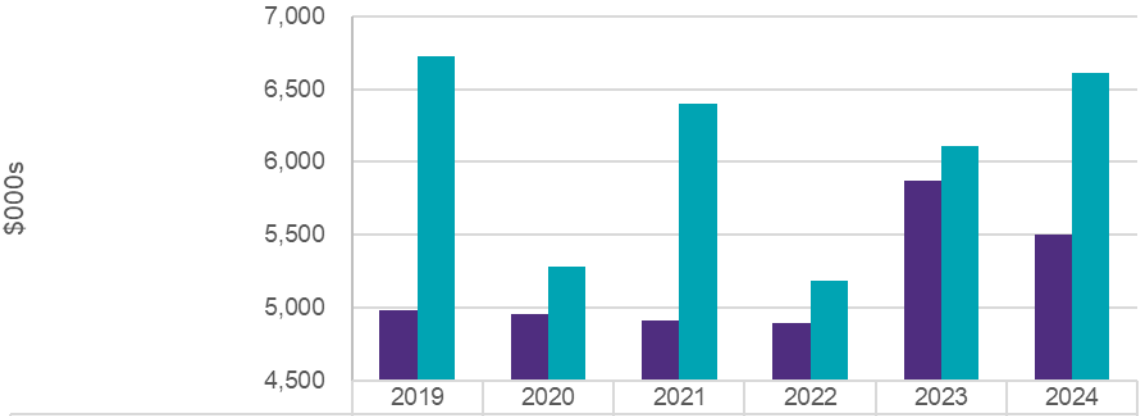
Based on the chart above we identified the following significant variance:

- **Capitalized salaries for both 2024 Actual and 2024 Budget were 13% higher than 2023 Actual.** According to Hydro, the increase reflects planned salary increases and capital work. Actual capitalized salaries remained generally consistent with budget in both 2023 and 2024.

Capital overtime

The following chart details the trends for capitalized overtime including 2019-2024 Actuals, 2019 Test Year, and 2020-2024 Budgets.

Figure 57 – Capital overtime



	2019	2020	2021	2022	2023	2024
Budget ($000s)	4,986	4,960	4,909	4,898	5,870	5,500
Actual ($000s)	6,728	5,282	6,403	5,183	6,110	6,612
Annual change in budget (%)		-1%	-1%	0%	20%	-6%
Annual change in actual (%)		-21%	21%	-19%	18%	8%
Budget vs. actual ($)	(1,742)	(322)	(1,494)	(285)	(240)	(1,112)
Budget vs. actual (%)	-35%	-6%	-30%	-6%	-4%	-20%

Hydro's budgeting methodology for capital overtime has not experienced any changes in 2024. Hydro uses a zero-based budget approach for its Capitalized Overtime. Departments review their capital plan for the year and their budgeted overtime to estimate how much of this time is expected to be capitalized.

Based on the chart above we identified the following significant variances:

- **Capital overtime was 20% higher than Budget in 2024**. According to Hydro, this is a result of salary increases, and additional capital work.

Conclusion and recommendation

We have completed our procedures in the review of Hydro's labour costs. Our review included comparing 2023 and 2024 Actual results to the 2019 Test Year and the 2024 Plan. Our analysis included trending on total salaries and fringe benefits, executive compensation, salary expense by FTE, and capitalized salaries and overtime. We identified significant year-over-year trends and made subsequent inquiries with Hydro for further clarification. Our key findings include the following:

- **Over the period of our review, total Actual results in 2024 for labour costs increased by 4% and 8% from 2024 Budget and 2023 Actuals, respectively.**

- **Average net FTE employees by division have increased from 804 in 2023 to 821 2024. We also noted that average salary per net FTE experienced increased by 7.9% in 2024. This is a result of salary costs increasing by 9%, which Hydro explained is a result of wage increases, front-line leader differential adjustments, and progress within salary scales and classifications.**

Overall, we have not noted any issues in our analysis and are satisfied with Hydro's explanations provided through our inquiry process.

7. Non-regulated activity

Scope

Review Hydro's 2024 non-regulated activity and assess the appropriateness of adjustments in the calculation of regulated earnings.

Procedures

To review Hydro's 2024 non-regulated activity, we completed following:

- Summarized and reviewed a description of Hydro's various non-regulated activities.
- Reviewed the existence of Hydro's non-regulated statement of earnings and retained earnings for compliance with Board Orders.
- Assessed the reasonableness of regulatory adjustments in the calculation of regulated earnings.

Analysis

Description of non-regulated activities

We obtained a description of the key non-regulated activities along with the relevant Business Units ("BU's") from Hydro. This has been summarized in the following table.

Figure 58 – Non-regulated activities

Non-regulated activity	Description and impact	Relevant business units(s)
Churchill Falls	Services provided to Churchill Falls by Hydro are governed by the Churchill Falls (Labrador) Corporation Limited ("CF(L)Co") – Hydro Services Agreement dated January 1, 2010. Revenues and expenses from these services are excluded from regulated income determination. Any employee providing services related to this entity will charge their time in accordance with Hydro's Intercompany Transaction Costing Guidelines filed by Hydro as part of their 2017 General Rate Application ("2017 Intercompany Costing Guidelines" or "Intercompany Transaction Costing Guidelines")	**BU 1955**

Non-regulated activity	Description and impact	Relevant business units(s)
Lower Churchill Development Corporation ("LCDC")	No activity has occurred since 2007 but all revenues and expenses from this activity are excluded from regulated income determination.	**BU 1953** (captures any minimal costs such as external audit fees)
Supply of power to Industrial customers on the Labrador Interconnected System	The rate to recover transmission related costs is regulated by the Board but the rate to recover generation-related costs is not regulated. All revenues and expenses associated with the generation portion are excluded from the determination of regulated net income. Any employee providing services related to this entity will charge their time in accordance with Hydro's Intercompany Transaction Costing Guidelines per the 2017 GRA.	**BU 1952**
Export sales	Power and energy requirements for the Labrador Interconnected System are met primarily through an agreement with Churchill Falls, allowing Hydro to purchase up to 300 MW and 2,362 GWh annually and any surplus is sold to NEM. To optimize profitability, Muskrat Falls energy may be purchased to make recall energy purchased from Churchill Falls available for export, which is captured in BU 1950. BU 1948 captures the power purchase costs and revenue from the sales such that the net impact of these transactions is $nil. Specifically, BU 1948 is credited with revenue based on industrial customer energy requirements at the rate charged by Muskrat Falls, and then charged with a power purchased expense determined by the same calculation. This results in $nil balance in BU 1948. Meanwhile, Regulated Hydro is credited with revenue based on regulated customer energy requirements at the rate NLH can earn on export. Also credited to Regulated Hydro is the incremental difference between industrial customer energy requirements at the Muskrat Falls rate and the NLH Export rate. Regulated Hydro is then charged with power purchased costs calculated based on regulated customer energy requirements at the Muskrat Falls rate. This ultimately results in profits from the difference in rates being reflected in regulated Hydro, specifically within the SCVDA.	**BU 1948** & **BU1950**

Non-regulated activity	Description and impact	Relevant business units(s)
	Any employee providing services related to this entity will charge their time in accordance with Hydro's Intercompany Transaction Costing Guidelines per the 2017 GRA.	
Natuashish	Hydro has been operating and maintaining the plant in Natuashish on behalf of the Federal Government on a cost recovery basis. All costs are charged at bill rates plus overheads to ensure full cost recovery. All revenues and expenses associated with this activity are excluded from the determination of regulated income. Any employee providing services related to this entity will charge their time in accordance with Hydro's Intercompany Transaction Costing Guidelines per the 2017 GRA.	**BU 1405**
Star Lake	Hydro is operating the Star Lake plant as an agent for the Province. The assets are owned by the Province but Hydro is responsible for the operation and maintenance of the assets, costs for which are then recovered from the Province. Hydro also purchases all power generated from these assets which flows through regulated operations. All costs relating to Star Lake are tracked across BUs and actual operating and capital expenditures relating to the operation and maintenance of the assets are netted against the power purchased through a contra account. This amount carries forward as a net Accounts Receivable or Accounts Payable balance between Hydro and the Province. Therefore, all revenues and expenses associated with this activity are excluded from the determination of regulated income. Any employee providing services related to Star Lake will charge their time in accordance with Hydro's Intercompany Transaction Costing Guidelines per the 2017 GRA.	**BU 1970**

Non-regulated activity	Description and impact	Relevant business units(s)
Exploits	Consistent with Star Lake, Hydro is operating the Exploits generating facilities as an agent for the Province as well. The assets are owned by the Province but Hydro is responsible for the operation and maintenance of the assets, costs for which are then recovered from the Province. Hydro also purchases all power generated from these assets which flows through regulated operations. All costs relating to the Exploits generating facilities are tracked across BUs and actual operating and capital expenditures relating to the operation and maintenance of the assets are netted against the power purchased through a contra account. This amount carries forward as a net Accounts Receivable or Accounts Payable balance between Hydro and the Province. As Hydro acts as an agent for the province, Hydro's revenues and expenses associated with these business units are excluded from the determination of regulated income. Power purchased from Exploits is captured in regulated Hydro. Any employee providing services related to Exploits will charge their time in accordance with Hydro's Intercompany Transaction Costing Guidelines per the 2017 GRA.	**BUs 2125, 2127, 2129, 2124**
Ramea project	In accordance with Order No. P.U.31 (2007), all expenses associated with the construction, implementation, operation or abandonment of the wind-hydrogen diesel generation project at Ramea are excluded from the determination of regulated income. Many of the hydrogen assets relating to this project have been written off while wind assets have recently been sold to Frontier Power Systems per Order No. P.U.30 (2024). Therefore, no activity is expected going forward for this project. Please note that there is also a regulated diesel generation operation in Ramea which serves customers in the area as well as wind energy power purchases also used to serve regulated customers. However, the non-regulated operations relate only to the wind-hydrogen diesel generation project per Order No. P.U.31 (2007) which is no longer operational. Any employee providing services related to this project will charge their time in accordance with Hydro's Intercompany Transaction Costing Guidelines per the 2017 GRA.	**BU 1406**

Non-regulated activity	Description and impact	Relevant business units(s)
Conservation demand management	Previously, per Order No. P.U. 7 (2008), all expenses associated with the energy conservation initiatives in Labrador were excluded from the determination of regulated income and captured in BU 1949. Upon approval by the Board in Order No. P.U.33 (2022), the costs of energy conservation initiatives on the Labrador Interconnected System now qualify for inclusion as part of island conservation initiatives that are deferred for future recovery from customers. BU 1949 remains in use and contains costs associated with the administration of government directed programs for oil to electric conversion and rebates for electric vehicles. Employees providing services related to this activity will charge their time in accordance with Hydro's Intercompany Transaction Costing Guidelines per the 2017 GRA.	**BU 1949**
Cost recovery business units	Cost recovery business units capture costs incurred by Hydro personnel on behalf of other lines of business. These costs are billed on a monthly basis and are excluded from the determination of Hydro regulated income. Employees charge time in accordance with Hydro's Intercompany Transaction Costing Guidelines per the 2017 GRA.	**BUs 2100, 2103, 1968, 2136.**
Electric vehicle charging stations	Hydro operates a network of public electric vehicles fast-chargers across the Province as well as a number of Level Two chargers which enable the operation of Hydro's electric vehicle fleet. Costs, net of any revenues, for six fast charging sites located on the Great Northern Peninsula are recoverable from customers as per Board Order No. P.U. 30 (2021). Costs associated with fleet vehicle chargers are also recovered from customers. All other public fast chargers are excluded from recovery from customers with all revenues and expenses captures in BU1975 and excluded from the determination of regulated income.	**BU 1975**

Non-regulated activity	Description and impact	Relevant business units(s)
Non-regulated finance - Capital and tax	The following are excluded from the determination of regulated income: • All costs associated with Non-Regulated Capital projects; • Costs associated with the position that supports taxation requirements (charged as required in accordance with the Intercompany Transaction Costing Guidelines); and, • Training costs for Non-Regulated employees.	**BU 2101, 2105, 2106**
Executive leadership	In June, 2021, Hydro moved the operations of Nalcor Energy under Hydro operations. As part of this organizational change, the Executive leadership team moved to a non-regulated business unit. All revenues and expenses associated with this activity are excluded from the determination of regulated income. Any employee providing services related to this activity will charge their time in accordance with Hydro's Intercompany Transaction Costing Guidelines per the 2017 GRA.	**BU 1995**
Finance shared service	Certain finance services are shared among the lines of business and are charged and allocated using an Administration fee in accordance with Hydro's Intercompany Transaction Costing Guidelines per the 2017 GRA and are not included in the determination of regulated income.	**BU 2102** & **BU 2107**
Other specific non-regulated costs	The following are not charged to customers: • Contributions and donations to charities • Advertising expenses for corporate image building • Companion travel costs • Bad debt expenses for uncommon reasons • Power purchases of hydraulic power from Corner Brook Pulp and Paper • Audit fees associated with the preparation of the Hydro Financial Statements that includes non regulated activities.	**BU 1947** & **BU 1955**
Dividends	Net cash generated from certain non-regulated activities can be paid to Nalcor as a dividend at the discretion and recommendation of the Chief Financial Officer and must be approved by the Board of Directors. Any remaining cash that is not paid out as dividends is kept within Hydro's legal entity.	**BU 1955**

Non-regulated activity	Description and impact	Relevant business units(s)
NCC RFA agreement	In 2024, NL Hydro signed the NunatuKavut Community Council (“NCC”) Relationship Framework Agreement ("NCC RFA") with the NCC which is focused on renewable energy projects. Community partnerships are excluded from the determination of regulated income.	**BU 1976**

Non-regulated statement of earnings and retained earnings

In Order No. P.U. 7 (2002-2003), the Board ordered Hydro to file separate financial statements for regulated and non-regulated activities, including reconciliation to annual consolidated financial statements. Included below are the details of the Company’s Non-Regulated Statement of Earnings and Retained Earnings for the years ended December 31, 2023 to 2024.

Figure 59 – Non-regulated statement of earnings and retained earnings

(000)'s	2023	2024	2024 vs 2023 ($)	2024 vs 2023 (%)
Revenue				
Energy sales	$ 56,969	$ 61,471	$ 4,502	8%
Other revenue (loss)	18,855	18,855	-	0%
Total revenue	75,824	80,326	4,502	6%
Operations and administration				
Operating costs	4,132	313	(3,819)	-92%
Transmission rental and market fees	18,855	18,855	-	0%
Fuels	36	35	(1)	-3%
Power purchased	51,132	89,915	38,783	76%
Interest	-	41	41	100%
Other expense and (income)	-	5,868	5,868	100%
Total operating and administration	74,155	115,027	40,872	55%
Net operating income	**1,669**	**(34,701)**	**(36,370)**	**-2179%**
Other Revenue				
Equity in CF(L) Co.	30,231	45,642	15,411	51%
Preferred dividends	6,395	10,410	4,015	63%
Total other revenue	36,626	56,052	19,426	53%
Net income	**38,295**	**21,351**	**(16,944)**	**-44%**
Retained earnings, beginning of year	645,843	678,660	32,817	5%
Net income	38,295	21,351	(16,944)	-44%
Dividends	(5,478)	-	5,478	-100%
Retained earnings, end of year	**$ 678,660**	**$ 700,011**	**$ 21,351**	**3%**

Throughout our analysis of the above year-over-year trends, we identified the following variances:

- **Operating costs decreased by 92% from 2023 to 2024.** According to Hydro, the decrease in operating costs ($3.8M) is primarily related to the following:
  - Bad Debt Expense ($1.8M) – In 2023, there was an allowance for doubtful account set up for a non-regulated customer for $1.9M. In 2024, a payment was received against that allowance ($0.2M). This resulted in a net variance of $2.0M relating to the bad debt for this customer. This is partially offset by normal variations related to set up of bad debt on account balances after 90 days ($0.2M).

- Other Salary Costs ($1.2M) – This is primarily related to the 2023 portion of the collective agreement adjustment.
- Energy Efficiency Projects ($0.4M) – Due to the timing of recovery of the Labrador energy efficiency projects, as costs were incurred in 2023 but recovered in 2024.
- Labour Recharge ($0.4M) – This is primarily related to the increased executive recharge out, relating to specific work on projects.

- **Power purchased increased by 76% from 2023 to 2024.** According to Hydro, the increase primarily related to two Power Purchase Agreements Hydro entered into with Corner Brook Pulp and Paper during 2024, as instructed by Orders in Council OC2024–013 dated January 22, 2024 and OC2024–165 dated October 17, 2024.

- **Interest increased from $nil in 2023 to approximately $41,000 in 2024.** According to Hydro, the interest expense relates to accretion expense on a liability related to the NCC RFA executed in October 2024, which requires Newfoundland and Labrador Hydro to make an annual payment each year. However, the accounting required a majority of the total payment liability to be expensed upon signing of the agreement. In accordance with the International Financial Reporting Standards, the expense booked was on a Net Present Value basis, with accretion booked to reflect the impact of the passage of time on the liability. The accretion expense for the last two months of 2024 was $41,000.

- **Other expense increased from $nil in 2023 to approximately $5.87 million in 2024.** According to Hydro, the increase related to the NCC RFA that Hydro executed in October 2024. The agreement is intended to establish a framework with an objective to reduce fuel consumption in Southern Labrador diesel reliant communities. Under the NCC RFA, Hydro will make an annual payment in support of this objective. In October 2024, Hydro recorded a liability and expense of $5.8 million associated with the first four years of the agreement.

- **Equity in CF(L) Co. increased by 51% from 2023 to 2024.** According to Hydro, other revenue from Hydro's investment (65.8%) in Churchill Falls (Labrador) Corporation Limited reflects Hydro's share of CF(L)Co's earnings for the year. The increase in CF(L)Co's earnings in 2024 was primarily due to a new short-term energy sales agreement, which was subsequently amended and extended, to sell banked Muskrat Falls energy and upgrade Churchill Falls energy to Hydro Québec.

- **Preferred dividends increased by 63% from 2023 to 2024.** According to Hydro, the preferred dividend is based on 15% of CF(L)Co's taxable income, if it were to be taxable as determined by the terms of the shares. As a result, preferred dividends vary with the income earned each year in CF(L)Co. As mentioned above, income was higher in 2024 due to a new short-term energy sales agreement with Hydro Quebec.

- **Dividends were $nil in 2024.** According to Hydro, dividends were $nil in 2024 in anticipation of the amalgamation of the Newfoundland and Labrador Hydro legal entity with the parent company, as announced by the Government of Newfoundland and Labrador in June 2021. The amalgamation became effective as of January 1, 2025.

Regulatory adjustments

Given there are separate financial statements for both regulatory and non-regulatory operations, Hydro has reconciled the non-consolidated financial statement balances to the regulated income statement through the application of regulatory adjustments.

The regulatory income statement reconciliation is detailed below for 2024:

Figure 60 – 2024 regulatory income statement reconciliation

(000)'s	Non-regulated (A) [1]	Regulated (B) [1]	Total non-regulated & regulated (C = A + B)	Regulatory adjustments (D)	Non-consolidated income statement (E=C+D) [2]
Revenue					
Energy sales	$ 61,471	$ 640,615	$ 702,086	$ 99,590	$ 801,676
Other revenue (loss)	18,855	8,033	26,888	277,363	304,251
Total revenue	80,327	648,648	728,975	376,953	1,105,928
Operations and administration					
Operating costs	313	145,210	145,523	4,207	149,730
Transmission rental and market fees	18,855	27	18,882	(0)	18,882
Fuels	35	244,682	244,717	(75,673)	169,044
Power purchased	89,915	59,343	149,258	1,024,015	1,173,274
Interest	-	90,208	90,208	(9,890)	80,318
Other expense and (income)	5,868	2,633	8,501	7,728	16,230
Interest	41	86,053	86,094	23,416	109,510
Total operating and administration	115,028	628,156	743,184	973,803	1,716,987
Net operating income	**(34,701)**	**20,492**	**(14,209)**	**(596,850)**	**(611,059)**
Other Revenue					
Equity in CF(L) Co.	45,642	-	45,642	10,410	56,052
Preferred dividends	10,410	-	10,410	(10,410)	-
Total other revenue	56,052	-	56,052	-	56,052
Net income	**$ 21,351**	**$ 20,492**	**$ 41,843**	**$ (596,850)**	**$ (555,007)**

1 Per Hydro's Quarterly Regulatory Report for the Quarter Ended December 31, 2024.
2 Per Hydro's Annual Audited Non-Consolidated Financial Statements for the Year Ended December 31, 2024.

In Hydro's Quarterly reports to the Board, the income statement regulatory adjustments are within various accounts. Under IFRS, the regulatory adjustments are included in one regulatory adjustment line. These adjustments represent deferred charges activity. The table below provides a breakdown of the regulatory adjustments for 2024. Deferred charges are discussed further in **Section 8** of this report.

Figure 61– 2024 regulatory adjustment reconciliation

In millions	2024	2023
Deferral activity - Figure 62	595	339
Contributions in Aid of Construction Amortization [1]	1	1
Employee future benefits actuarial loss [2]	1	2
Total regulatory adjustments per above	**597**	**342**

Note 1: Per Order No. P.U. 1 (2017), Hydro recognizes the amortization of deferred Contributions in Aid of Construction ("CIAC") received from non-customer-related parties in profit or loss. During 2024, Hydro recognized $1.1 million (2023: $1.2 million) of non-customer CIAC amortization as a regulatory adjustment. Under IFRS, in the absence of rate regulation, these non-customer CIACs would be recorded as contributed capital with no subsequent amortization recognized in profit or loss. Accordingly, Hydro reduced contributed capital by $1.1 million (2023: $1.2 million) to reflect the amount recognized in income under its regulatory accounting treatment.

Note 2: Per Order No. P.U. 36 (2015), Hydro has recognized the amortization of employee future benefit actuarial gains and losses in net income. During 2024 Hydro recorded $1.0 million (2023 - $2.0 million) employee future benefits losses as a regulatory adjustment. In the absence of rate regulation, IFRS would require Hydro to include employee future benefits actuarial gains and losses in other comprehensive income. As a result, during 2024 Hydro also recorded a decrease of $1.0 million (2023 - $2.0 million) to other comprehensive income to recognize the amount that was reclassified to profit or loss.

As broken down in the tables above, Hydro made regulatory adjustments totaling $597.0 million in 2024 (2023-$342.0 million).These are IFRS presentation adjustments which reflect deferral activity within the year. These adjustments have been analyzed further in **Section 8** of this report.

Conclusion and recommendation

We have completed our procedures in the review of Hydro's non-regulated activity, which included understanding Hydro's non-regulated activity, analyzing year-over-year trends of the non-regulated statement of earnings, and reviewing the regulatory adjustments for 2024. In our analysis of the non-regulated statement of earnings, we found that operating costs decreased significantly in 2024. Based on our discussions with Hydro, we understand that the decrease in operating costs is primarily due to a decrease in bad debt expense. Additionally, we noted a large increase to other expenses which according to Hydro, related to an RFA that was executed in October 2024. During our review, nothing came to our attention to suggest the adjustments in the calculation of regulated earnings were not appropriate.

8. Deferrals

Scope

Conduct a review of the charges (credits) to and amortization of the deferral accounts and assess their compliance with Board Orders, including the following:

a) Holyrood Thermal Generating Station Accelerated Depreciation Deferral Account

b) Muskrat Falls Power Purchase Agreement Sustaining Capital Deferral Account

c) Power Purchase Expense Recognition Account

d) Muskrat Falls Export Revenue Recognition Deferral Account

e) Business Systems Transformation Program (approved for recovery)

f) Electrification Cost Deferral Account

g) Supply Cost Variance Deferral Account

h) Conservation and Demand Management Account, including the incorporation of costs relating to the Labrador Interconnected System

Procedures

Our review of deferrals included the following specific procedures:

- Obtained a listing of changes to deferred charges and vouched the additions to Hydro's audited financial statements.
- Agreed all carry-forward data and ending deferred charges to supporting documentation, including audited financial statements and internal accounting records where applicable.
- Reviewed amortization for reasonableness considering the nature of the deferred charge being amortized.
- Assessed compliance with Board orders.

Analysis

The following table shows the transactions in the deferred charges account for 2024, including the prior year.

Figure 62 – 2024 Deferred charges

(000s)	Balance Jan 01/24 (A)	Adjustments (B)	Addition (disposal) (C)	Amortization (D)	Total activity (E=C+D)	Balance Dec 31/24 (F=A+B+E)	24A - 23A (G=F-A)
Regulatory assets/liabilities included in rate base							
Foreign Exchange Losses	$ 38,825	$ -		$ (2,157)	$ (2,157)	$ 36,668	$ (2,157)
Deferred Energy Conservation Costs	7,329	-	1,384	(922)	462	7,791	462
Deferred Foreign Exchange on Fuel	(218)	-	1,272	-	1,272	1,053	1,272
Asset Disposal	254	-	-	(19)	(19)	235	(19)
Supply Deferral	12,059	(12,059)	6,725	-	6,725	6,725	(5,334)
Deferred Purchased Power Savings	(104)	-	-	36	36	(68)	36
Business Systems Transformation Program	6,686	-	-	-	-	6,686	-
2018 Revenue Deficiency	(1)	-	-	-	-	(1)	-
2019 Revenue Deficiency	77	-	-	-	-	77	-
Hydraulic Resources Optimization Deferral Account	(5,712)	-	(131)	-	(131)	(5,842)	(131)
Frequency Converter Revenue Deferral Account	(931)	-	(229)	-	(229)	(1,160)	(229)
Total deferred charges included in rate base	58,264	(12,059)	9,021	(3,062)	5,959	52,164	(6,100)
Regulatory assets/liabilities that earn interest							
Rate Stabilization Plan	47,373	11,589	(27,975)	-	(27,975)	30,987	(16,386)
Supply Cost Variance Deferral Account [1]	271,272	-	260,443	-	260,443	531,714	260,443
Electrification Cost Deferral Account	704	-	-	-	-	704	-
Total regulatory assets/liabilities that earn interest	319,349	11,589	232,468	-	232,468	563,406	244,057
Regulatory assets/liabilities net in property, plant and equipment							
Removal Provision	(22,796)	-	(5,811)	1,689	(4,122)	(26,918)	(4,122)
Insurance Amortization and Proceeds	(4,030)	-	-	130	130	(3,900)	130
Retirement Asset Pool	40,140	-	5,761	-	5,761	45,901	5,761
Total regulatory assets/liabilities net in property, plant and equipment	13,314	-	(50)	1,819	1,769	15,083	1,769
Regulatory assets/liabilities excluded from rate base							
Holyrood Thermal Generating Station Accelerated Depreciation Account	(9,843)	-	(4,282)	-	(4,282)	(14,125)	(4,282)
Phase Two Hearing Costs	1,364	-	-	-	-	1,364	-
Muskrat Falls Power Purchase Agreement Sustaining Capital	4,979	-	10,975	-	10,975	15,954	10,975
Muskrat Falls PPA Monetization [2]	13,279	-	60,486	-	60,486	73,765	60,486
Power Purchase Expense Recognition [2]	440,288	-	286,215	-	286,215	726,503	286,215
Reliability and Resource Adequacy Study	2,639	-	325	-	325	2,964	325
Business System Transformation Program	2,538	-	1,502	-	1,502	4,040	1,502
Total regulatory assets/liabilities excluded from rate base	455,245	-	355,220	-	355,220	810,464	355,220
Total regulatory assets and liabilities [3]	**$ 846,171**	**$ (470)**	**$ 596,659**	**$ (1,243)**	**$ 595,416**	**$ 1,441,117**	**$ 594,945**

Note 1: The Supply Cost Variance Deferral balance as at December 31, 2024 of $531,714,463 is inclusive of an amount due from utility customers of $22,623,806 (as shown in Figure 63).

Note 2: Power Purchase Expense Recognition and Muskrat Falls Export Revenue Recognition represent timing differences in revenue and expense recognition and are excluded from rate base.

Note 3: Please note that the total opening balance for regulatory assets and liabilities as at January 1, 2024 differs slightly from the closing December 31,2023 balance by approximately $15,000 due to small differences in the Rate Stabilization Plan and Insurance Amortization and Proceeds accounts.

Regulatory assets/liabilities included in rate base

Realized foreign exchange losses

In 2002, the Board ordered Hydro to defer realized foreign exchange losses related to the issuance of Swiss Franc and Japanese Yen denominated debt and amortize the balance over a 40-year period. Accordingly, these costs were recognized as a regulatory asset. During 2024, amortization expense of $2.2 million (2023 - $2.2 million) was recorded.

Deferred energy conservation costs

In Order No. P.U. 22 (2017), the Board approved Hydro's Conservation Demand Management Deferral account. In Order No. P.U.33 (2022), the Board approved the proposal to allow deferral of CDM costs incurred for customers on the Labrador Interconnected System in the CDM Cost Deferral Account and noted that Hydro stated it would apply for a revised account definition to align the amortization period between the utilities, but did not approve the proposed deferral of costs associated with the delivery of the electrification programs on the Island Interconnected System.

Subsequently, in Order No. P.U.37(2022), the Board approved revisions to the CDM deferral and cost recovery adjustment definition. The Board approved Hydro's request to increase the amortization period of annual CDM costs from seven to ten years effective as of January 1, 2023 for both historical balances and annual charges. The Board also approved Hydro's proposed modifications to the CDM Cost Deferral Account definition to allow for deferral of costs associated with CDM programs for customers on the Labrador Interconnected System beginning January 1, 2023, including a portion of the Rural Deficit allocation related to CDM investments for Hydro Rural customers. Recovery of the annual amortizations of costs in the CDM account for the Island Interconnected System and Rural Isolated Systems shall be through an annual application to the Board in accordance with Hydro's approved CDM Cost Recovery Adjustment. Recovery of deferred program costs for the Labrador Interconnected System will be dealt with through Hydro's General Rate Applications.

In 2024, Hydro deferred $1.4 million (2023 - $1.4 million) in Energy Conservation Costs associated with an electrical conservation demand management program for residential, industrial, and commercial sectors. As per Board Order No. P.U. 22 (2017), Hydro recovered $0.9 million (2023 - $1.6 million) of the balance through a rate rider, which resulted in a total deferred balance of $7.8 million (2023 - $7.3 million).

Deferred foreign exchange on fuel

Hydro purchases a significant amount of fuel for the Holyrood Thermal Generating Station in US dollars. Hydro noted that there are regulatory mechanisms that allow Hydro to defer variances in fuel prices, including foreign exchange fluctuations. According to Hydro the foreign exchange deferral is a change in accounting required due to adoption of IFRS. Prior to IFRS, Hydro recorded the full amount of the foreign exchange gain or loss in inventory. Upon adoption of IFRS, Hydro segregated the foreign exchange gain or loss, which would require immediate charge to the company's profit and loss instead of inventory. Hydro created a regulatory

asset/liability to segregate the foreign exchange gain or loss until the fuel is consumed at which time the fuel inventory used and the relevant deferred foreign exchange on inventory would be realized and flow through the relevant regulatory mechanisms (fuel recorded within the SCVDA).

During 2024, Hydro recognized an increase to regulatory assets due to foreign exchange on fuel purchases of $1.3 million (2023 – decrease to regulatory assets due to foreign exchange on fuel purchases of $0.6 million).

Asset disposal

In Order No. P.U. 49 (2016), the Board ordered that Hydro recognize a regulatory asset of $0.4 million related to the Sunnyside transformer that was disposed of in 2014. Hydro is required to recover the deferred asset in rate base and amortize the asset over a 22.4-year period, which commenced in 2015. Hydro is required to exclude the new Sunnyside transformer from rate base until the Sunnyside Transformer Original Asset Deferral has been fully amortized.

Supply deferral

Pursuant to Order No. P.U. 22 (2017), the Board approved the Supply Cost Deferrals which included the Energy Supply, Holyrood Conversion and Isolated Systems Supply Deferrals. Per Order P.U.33 (2021), the Energy Supply and Holyrood Conversion Deferrals were discontinued as at October 31, 2021 with the account maintained to provide a timely recovery of historic balances. There was no change to the Isolated Systems Supply Cost Variance Deferral Account ("ISSCVDA") in Order No. P.U. 33 (2021).

During 2024, Hydro recorded a balance of $6.7 million owing from customers in the ISSCVDA (2023 - $12.3 million), this was a decrease of $5.6 million in comparison to 2023. The decrease to the ISSCVDA is primarily due to recovery of the 2023 ISSCVDA balance per Order No. P.U.10 (2024) with $11.6 million of the total recovered from the current RSP plan, partially offset by the normal operation of the deferral of $6.5 million.

The $11.6 million of the total recovered from the current RSP plan consists of Hydro's proposed disposition of the $12,059,436 balance in the 2023 Isolated Systems Supply Cost Variance Deferral Account less a debit of $470,318 allocated to Hydro Rural Labrador Interconnected System customers.

Deferred purchased power savings

In 1997, the Board ordered Hydro to defer $1.1 million related to reduced purchase power rates resulting from the interconnection of communities in the area of L'Anse au Clair to Red Bay to the Hydro-Quebec system and amortize the balance over a 30-year period. The remaining unamortized savings in the amount of $0.1 million (2023-$0.1 million) are deferred as a regulatory liability.

Business system transformation program

As per Order No.'s P.U. 23 (2019) and P.U. 30 (2019), the Board approved the deferral of business system transformation program costs commencing in 2018. As per Order No. P.U. 27 (2022), the Board approved the recovery of a portion of the deferred costs up to the end of 2022, which totaled $6.7 million, through customer rates to be established in Hydro's next General Rate Application. In 2024, Hydro deferred $1.5 million (2023-$1.5 million), resulting in a total deferral of $10.7 million (2023-$9.2 million).

Hydraulic resources optimization deferral account

In Order No. P.U. 49 (2018), a deferral account to capture the revenues and costs associated with the hydraulic optimization activities was approved. In 2024, hydraulic optimization activities were an addition of $0.1 million (2023 - $nil), resulting in a total balance of $5.8 million (2023 - $5.7 million) recorded as a deferred liability.

Frequency converter revenue deferral account

In Order No. P.U. 35 (2020), the Board approved the deferral of the cumulative revenue requirement impact associated with the loss on the sale of a frequency converter, commencing December 2019. The disposition of the cumulative revenue requirement impact included in the deferral account balance will be addressed as part of Hydro's next General Rate Application. During 2024, Hydro deferred $0.2 million as a regulatory liability (2023 - $0.2 million), resulting in a balance payable of $1.2 million (2023 - $0.9 million).

Regulatory assets/liabilities that earn interest

Rate Stabilization Plan

In 1986, the Board ordered Hydro to implement the RSP, which primarily provides for the deferral of fuel expense variances resulting from changes in fuel prices, hydrology, load and associated interest. Adjustments required in utility rates to cover the amortization of the balance are implemented on July 1 of each year. Similar adjustments required in industrial rates are implemented on January 1 of each year.

Per Board Order No. P.U. 33 (2021) and Hydro's compliance filing, the RSP was discontinued for purposes of deferring variations in hydraulic production, No. 6 fuel and load as at October 31, 2021. The Board ordered that the RSP should be maintained to provide timely recovery of the remaining balance, which results in the continuation of recovery and interest charges and, in 2024, Hydro recovered $30.2 million (2023 - $16.5 million) from customers. As well, Board Order No. P.U. 10 (2024) approved the recovery of the 2023 Isolated Systems Supply Cost Variance Deferral from the RSP Current Plan, resulting in an increase to the RSP of $11.6 million (2023 - $8.7 million). This activity and associated interest accrued of $2.2 million in 2024 (2023 - $3.0 million) resulted in a remaining balance for future recovery from customers of $31.0 million (2023 - $47.4 million).

Electrification cost deferral account

In Order No. P.U. 33 (2023), the Board approved Hydro's proposal to establish an account to defer costs related to electrification initiatives effective January 1, 2023. The transfer of the net book value and unamortized contributions as of January 1, 2023 for the electric vehicle charging stations approved for recovery in Order No. P.U. 30 (2021) to the Electrification Cost Deferral Account was also approved. As per the definition set out in Schedule A of Order No. P.U. 33 (2023), the account shall be increased (reduced) by an interest charge (credit) on the balance in the account at the beginning of the month, at a monthly rate equivalent to the mid-point of the Company's allowed rate of return on rate base. The account will not be included in the Company's calculation of rate base until otherwise ordered by the Board. The account shall also be credited with any related funds, contributions or grants, and charged with specified costs pertaining to the electrification program and major studies. According to Hydro, no amounts pertaining to the interest component, operating costs, and revenues were charged to the account in 2024. Hydro has noted that these balances are not considered material but were recorded through true-up adjustments in fiscal 2025. As per Order No. P.U. 33 (2023), electrification cost deferral is grouped in property, plant and equipment under IFRS, but for regulatory purposes, the deferral is included in regulatory assets.

In 2024, Hydro recorded $nil (2023 - $0.1 million) in the account relating to the net of 2024 depreciation expense of the electric vehicle charging stations and the amortization of contributions in aid of construction resulting in a total balance of $0.1 million (2023 - $0.1 million).

As there was no activity recorded in 2024, the balance of this account did not change in 2024 and was consistent at $0.7 million per Return 11 (2023 – $0.7 million). This amount was excluded from rate base and had no impact on the total deferred charges.

Supply cost variance deferral account

The Supply Cost Variance Deferral Account came into effect on November 1, 2021. The SCVDA had an accumulated debit balance, or due from customers balance, of approximately $531.7 million at December 31, 2024 (2023 - $271.3 million). This balance is a receivable for Hydro and is a liability for rate payers. The breakdown of the Section A and Section B components included in the account, as defined in Order No. P.U. 4 (2022), in 2024 is as follows:

Figure 63– Summary of activity in the SCVDA

	2024	2023
Section A		
SCVDA balance	$ 554,338,269	$ 283,716,067
Section B		
Utility customer	(22,623,806)	(12,444,308)
Industrial customer	-	-
Total due from customers (due to)	**$ 531,714,463**	**$ 271,271,759**

The table below provides a breakdown of the activity in the Section A and Section B of the SCVDA for 2024. Positive values denote amounts owing from customers to Hydro, while negative values denote amounts owing from Hydro to customers.

Figure 64 – Breakdown of SCVDA

Section A: Summary			
Component	**2024 Opening**	**2024 Activity**	**2024 Closing**
Muskrat Falls Project Cost Variance	$ 855,037,017	$ 710,630,112	$ 1,565,667,129
Rate Mitigation Fund	(335,104,321)	(240,329,113)	(575,433,434)
Project Cost Recovery Rider - Utility	(65,690,947)	(52,429,071)	(118,120,018)
Project Cost Recovery Rider - Industrial	-	(3,949,867)	(3,949,867)
Holyrood Thermal Generating Station Fuel Cost Variance	(114,193,068)	(55,266,815)	(169,459,883)
Other Island Interconnected System Supply Cost Variance	(48,568,155)	(25,600,001)	(74,168,156)
Net Revenue from Exports Variance	(48,570,916)	(77,404,113)	(125,975,029)
Transmission Tariff Revenue Variance	(26,781,096)	(17,978,388)	(44,759,484)
Load Variation - Utility	53,096,149	17,997,927	71,094,076
Load Variation - Industrial	36,415,696	13,217,373	49,633,069
Greenhouse Gas Credit Revenues Variance	(35,494,446)	(20,105,857)	(55,600,303)
Financing Charges - Utility	(2,474,924)	(4,395,233)	(6,870,157)
Financing Charges - Industrial	-	(83,286)	(83,286)
Financing Charges - Other	16,045,078	26,318,534	42,363,612
Section A total	**$ 283,716,067**	**$ 270,622,202**	**$ 554,338,269**
Section B: Summary			
Utility Customer	**2024 Opening**	**2024 Activity**	**2024 Closing**
Allocation Rural Rate Alternation	$ (11,788,153)	$ (9,347,584)	$ (21,135,737)
Financing Charges	(656,155)	(831,914)	$ (1,488,069)
Utility customer total	**$ (12,444,308)**	**$ (10,179,498)**	**$ (22,623,806)**
Industrial Customer [1]	-	-	-
Section B total	**$ (12,444,308)**	**$ (10,179,498)**	**$ (22,623,806)**
Total (Section A + B)	**$ 271,271,759**	**$ 260,442,704**	**$ 531,714,463**

Note 1: There were no transactions applied to the Industrial Customer balance in 2024. Hydro is required to obtain approval from the Board in compliance with Order No. P.U.4 (2022).

Muskrat Falls Project Cost Variance

Per Order No. P.U.4 (2022), the balance applied to the Muskrat Falls Project Cost Variance represents the difference between actual purchased power and Test Year purchase power under the Muskrat Falls Power Purchase Agreement and Transmission Funding Agreement.

Rate Mitigation Fund

In 2022, as part of the Government's rate mitigation plan, Hydro, the Government of Newfoundland and Labrador and the Government of Canada signed term sheets enabling access, upon commissioning of the Labrador-Island Link, to a $1.0 billion investment by the Government of Canada in the LIL in the form of a convertible debenture.

Per Order No. P.U.4 (2022), the Rate Mitigation Fund component pertains to any funding to provide rate mitigation to offset the cost of the Muskrat Falls Project. As per Order in Council OC2024-062 dated May 7, 2024, Hydro has been directed by the Government of Newfoundland and Labrador to retire the 2023 Supply Cost Variance Deferral Account balance of $271.3 million over the 2024 to 2026 period using its own sources of funding.

On May 16, 2024, the Province announced the finalization of its Rate Mitigation Plan. The Plan ensures domestic rate increases, for customers subject to Island Interconnected System rates, attributable to Hydro's costs are targeted at 2.25% per year up to and including 2030. The Plan also requires that any additional rate mitigation funding required to mitigate Lower Churchill costs for the period up to and including 2030 come from Hydro and Nalcor's own sources, to the extent possible.

In June 2024, the Government provided further direction for Nalcor Energy to transfer $90.0 million of rate mitigation funding to Hydro, for the purpose of offsetting a portion of the 2023 Supply Cost Variance Deferral Account balance.

In 2024, the second drawing on the convertible debenture of $150.3 million, including interest (2023 - $144.7 million), was received by Labrador-Island Link (2021) Limited Partnership ("LIL LP") and the funds were transferred to Hydro for the purpose of mitigating projected future customer rate increases that would be required to recover net supply costs.

The total amount of rate mitigation funding received in 2024 was $240.3 million (2023 - $335.1 million). This rate mitigation funding offset by normal activity of the SCVDA of $500.8 million (2023 - $416.0 million), resulted in a net increase in the account of $260.4 million (2023 - $80.9 million). The total balance owing from customers for year ended December 31, 2024 is $531.7 million (2023 - $271.3 million).

In February 2025, Hydro applied $441.0 million of rate mitigation funding against the SCVDA. Use of these funds from Hydro's own sources reduces Hydro's nonregulated net income.

Project Cost Recovery Rider – Utility and Industrial customers

Per Order No. P.U.4 (2022), the Project Cost Recovery component consists of charges applied to customers to recover Muskrat Project Costs and are tracked by customer class. As per Order No. P.U. 15 (2024), the Board approved a Project Cost Recovery Rider effective August 1, 2024 of 1.124 cents per kWh for utility customers. As per Order No. P.U. 4 (2024), the Board approved a Project Cost Recovery Rider of 0.888 cents per kWh that became effective as of January 1, 2024 for industrial customers.

Holyrood Thermal Generating Station Fuel Cost Variance

Per Order No. P.U.4 (2022), this component is based on the difference between Actual and Test Year Holyrood Thermal Generating System fuel costs incurred monthly to supply firm energy to the customers on the Island Interconnected System.

In 2021, Nalcor commenced delivery of the Nova Scotia Block that, combined with limited LIL capacity, meant Hydro could not be delivered as much energy from the Muskrat Falls Hydroelectric Generating Facility as it would otherwise. Nalcor committed to indemnify Hydro for any damages suffered as a result of this reduction in deliveries including compensating Hydro for incremental costs of fuel and/or imports over the Maritime Link ("Indemnity Agreement"). The 2024 balances reflect adjustments to the calculation to eliminate incremental costs incurred by Hydro as a result of reduced deliveries. Balances reflect the true-up of initial estimates made throughout the period. The Indemnity Agreement with Nalcor terminated upon commissioning of the LIL, and all surviving obligations were fulfilled on November 30, 2024. According to Hydro, all balances reported as at December 31, 2024 reflect final actual incremental cost eliminations.

Other Island Interconnected System Supply Cost Variance

Per Order No. P.U.4 (2022), Other Island Interconnected System component includes cost variances, such as differences between Actual and Test Year, in thermal generation costs, on-island power purchases, Corner Brook Pulp and Paper firm energy power purchases and off-island power purchases, in excess of the Cost Variance Threshold. The Cost Variance Threshold is applied on a calendar year, equals ±$500,000.

Net Revenue from Exports Variance

In Order No. P.U.4 (2022), Net Revenue from Exports Variance reflects the revenues from Hydro exports less the costs incurred to export energy.

In Order No. P.U. 34 (2023), Hydro's application to implement a non-firm rate for the Labrador Interconnected System and the Non-Thermal Generation Sources Non-Firm rate for the Island Industrial customers to be calculated based on the export market prices was approved. The Board Order also approved a revision to the SCVDA so that revenues from Rate No. 5.1L – Non-Firm Energy will also be credited to the Net Revenue from Exports Variance component. During 2024, $1,336,878 in revenue from non-firm sales was credited to this component.

Transmission Tariff Revenue Variance

Per Order No. P.U.4 (2022), Transmission Tariff Revenue Variance reflects the transmission revenues paid by third parties to enable exports. It is computed on a monthly basis as the difference between Actual and Test Year transmission tariff revenues paid by third parties.

The LIL was commissioned in April 2023. Starting on May 1, 2023, Energy Marketing has been paying all costs associated with the long-term rights under an interim agreement. Effective June 1, 2023, Hydro assigned its long-term transmission rights, including associated payment obligations, to Energy Marketing for a period of ten years.

Load Variation

Per Order No. P.U.4 (2022), Load Variation component represents firm load variation based on the revenue variation for firm energy sales compared to the Test Year Cost of Service Study firm sales and is calculated separately for Newfoundland Power firm sales and Island Industrial firm sales.

Greenhouse Gas Credit Revenues Variance

Per Order No. P.U.4 (2022), the Greenhouse Gas Credit Revenues Variance is the difference between Actual and Test Year Greenhouse Gas Credit Revenues. The largest transaction occurred in September 2024 where Hydro sold 330,494 Greenhouse Gas Performance Credits within the province for $19.8 million.

Rural Rate Alteration

Per Order No. P.U.4 (2022), the Rural Rate Alteration represents the changes in Hydro's rural revenues resulting from changes in Rural Rates between test years and the change in Rural revenues on the Island Interconnected System because of changes in Rural load between test years. The Rural Rate Alteration is allocated between utility and Labrador Interconnected customers in the same proportion that the Rural Deficit was allocated in the approved 2019 Cost of Service Study, which is 96.1% and 3.9%, respectively. The Labrador Interconnected amount is then removed from the plan and written off to net income (loss).

Financing costs

Financing charges are accrued at the 2023 short-term cost of borrowing of 5.72% for the period of January to November 2024. In December 2024, financing costs were trued-up to reflect the actual short-term cost of borrowing for 2024 of 5.03%.

Regulatory assets/liabilities net in property, plant, and equipment

Removal provision

In Board Order No. P.U. 30 (2019), the Board approved Hydro's proposed depreciation methodology which includes the provision for removal costs. Hydro recorded a net increase to the provision relating to 2024 activity of $4.1 million resulting in a total balance of $26.9 million. The increase was driven by removal depreciation of $5.8 million which was partially offset by removal costs of $1.7 million.

Insurance amortization and proceeds

Pursuant to Board Order No. P.U. 13 (2012), Hydro records net insurance proceeds against the capital costs and amortizes the balance over the life of the asset. Under IFRS, Hydro is required to recognize the insurance proceeds and corresponding amortization in regulatory liabilities. During 2024, Hydro recorded a net decrease of $0.1 million to the regulatory liability resulting in a balance of $3.9 million. The decrease was driven by insurance amortization of $0.1 million.

Retirement asset pool

In Board Order No. P.U. 30 (2019), the Board approved Hydro's proposed depreciation methodology which includes the deferral of gains and losses on retirement of assets. The deferral will be recovered through future depreciation expense. In 2024, Hydro deferred $5.8 million of retirement asset activity resulting in a total balance of $45.9 million.

Regulatory assets/liabilities excluded from rate base

Holyrood Thermal Generating Station accelerated depreciation deferral account

In Order Nos. P.U. 33 (2021) and P.U. 4 (2022), the Board approved Hydro's proposal to establish an account to defer, for future recovery, any difference in excess of ±$2.5 million, between the accelerated depreciation expense for Holyrood Thermal Generating Station in 2023 and 2024 and the accelerated depreciation expense included in the approved 2019 Test Year.

In 2024, the Holyrood accelerated depreciation expense was $6.8 million lower than the 2019 Test Year depreciation resulting in a regulatory liability of $14.1 million ($4.3 million lower after subtracting the ±$2.5 million difference threshold). The disposition of the balance of this deferral account is to be determined in a future Board Order.

Phase two hearing costs

Pursuant to Board Order No. P.U. 13 (2016), Hydro received approval to defer consulting fees and salary related costs relating to Phase Two of the investigation into the reliability and adequacy of power on the Island Interconnected system after the interconnection with the Muskrat Falls generating station. In 2019, Phase Two of the Board's investigation was concluded with recovery to be addressed in a future Board Order. There were no additions in 2023 or 2024. The total deferred balance is $1.4 million.

Muskrat Falls PPA sustaining capital

In Order No. P.U. 33 (2021), the Board approved Hydro's proposal to defer contributions required to be made by Hydro for sustaining capital investments pursuant to the Muskrat Falls PPA with recovery to be addressed in Hydro's next General Rate Application. In 2024, Hydro deferred $11.0 million in contribution activity resulting in a total balance of $15.9 million.

Muskrat Falls PPA monetization

Under the Muskrat Falls PPA, following the calendar year end, Hydro is able to monetize an amount of undelivered Schedule II energy at an Annual Average Sales Price of Muskrat Falls energy exports for the previous year. In Board Order Nos. P.U. 33 (2021) and P.U. 4 (2022), the Board approved Hydro's proposal to recognize an estimate of the monetized energy in the year in which the energy was exported by Muskrat Falls, instead of waiting until Hydro can monetize in the following year resulting in a regulatory receivable.

In 2024, Hydro eliminated the 2023 balance of the regulatory receivable in the amount of $13.3 million upon actual monetization of the 2023 undelivered Schedule II energy and recorded a

regulatory receivable for the estimated monetization of 2024 undelivered Schedule II energy of $73.8 million.

Power purchase expense recognition

In Order No. P.U. 9 (2021) and Order No. P.U. 33 (2021), the Board approved Hydro's proposal to deviate from IFRS to allow recognition of expenses related to the purchase of energy in accordance with the commercial terms of the Muskrat Falls Power Purchase Agreement and Labrador-Island Link Transmission Funding Agreement.

In 2024, IFRS power purchase expenses were $286.2 million higher than commercial payments which resulted in a total regulatory asset of $726.5 million.

Reliability and resource adequacy study

In Board Order No. P.U. 29 (2019), the Board approved the deferral of costs associated with the Reliability and Resource Adequacy proceeding.

In 2024, Hydro deferred $0.3 million resulting in a regulatory asset of $3.0 million. The recovery of the balance is to be determined in a future Board Order.

Business system transformation program

As of December 31, 2024, there was $4.04 million in the Business Systems Transformation Program deferral that has not been authorized for recovery and is therefore excluded from the rate base.

Conclusion and recommendation

We have completed our procedures in the review of Hydro's 2024 charges (credits) to and amortization of the deferral accounts and note the following:

- **We acknowledge that Hydro's regulatory assets/liabilities include significant regulated deferral balances. In 2024, the balance of the regulatory assets/liabilities totaled $1.44 billion. We understand that Hydro has plans to address these deferrals. These plans were not specifically part of this review. However, we encourage the Board to continue monitoring deferrals in future filings.**

- **Based upon our analysis, we noted that recovery of Holyrood TGS accelerated depreciation, Phase II hearing costs, Muskrat Falls Power Purchase Agreement sustaining capital, the reliability and resource adequacy balance, and a portion of the business systems transformation program have not yet been approved by the Board. These deferral accounts have been appropriately excluded from rate base.**

- **We also note that power purchase expense recognition deferral represents a timing difference in expense recognition and is appropriately excluded from rate base.**

- **Finally, we note that the Muskrat Falls PPA Monetization represents a timing difference in revenue recognition and is appropriately excluded from rate base.**

9. Key performance indicators

Scope

Review Hydro's annual report on Key Performance Indicators and any other information on initiatives and efforts targeting productivity or efficiency improvements in 2024.

Procedures

- Reviewed how indicators are established and monitored during the year.
- Obtained analytical detail on variances in KPIs from the prior year. Assessed the reasonableness and consistency of Hydro’s explanations.
- Summarized the result of KPI's and determined whether or not they are meeting the targets.
- Obtained details on any changes to the KPIs used compared to the prior year.
- Assessed compliance with Board orders.

Analysis

In Order No. P.U. 14 (2004), Hydro was ordered to file annually with the Board a report outlining:

- A strategic overview highlighting core strategies, corporate goals and achievements;
- Appropriate historic, current and forecast comparisons of reliability, operating, financial and other key targeted outcomes/measures, including certain specified KPI’s; and,
- Initiatives targeting productivity or efficiency improvements, including the status of ongoing projects and improved performance resulting from completed projects.

The 2024 annual report on strategic goals and objectives and productivity initiatives was filed with Hydro’s December 31, 2024 quarterly report.

In addition to the filing requirements identified above, Order No. P.U. 14 (2009) requires the filing of a report on Hydro’s Conservation and Demand Management activities. This report is filed separately.

Strategic Goals and Objectives

The quarterly report referenced above provides information on Hydro's achievements relative to its 2024 strategies, goals and initiatives. This section provides details on activities and outcomes relative to a broad range of initiatives undertaken during the 2024 fiscal year.

Safety

In 2024, Hydro evaluated its safety metrics to ensure alignment with Electricity Canada ("EC") and its members. As a result of this evaluation, Hydro reported on the following metrics:

- Total Recordable Injury Frequency;
- Lost Time Injury Frequency; and,
- The severity rate.

According to Hydro, during 2024, the safety team continued to focus on ensuring the safety of employees, contractors and the general public. Some key activities in the year included the following:

- Continuing risk-based review of existing practices, processes and programs to ensure a focus on hazard recognition, safe job planning, and injury prevention;
- Focusing on safety training for supervisors, operational managers, and lead hands to reinforce core responsibilities and duties;
- Advancing their mental health initiatives and ensuring support programs are in place for employees; and
- Supporting employees in Early and Safe Return to Work with disability case management support and attendance support.

The results of Total Recordable Injury Frequency and Lost Time Injury Frequency metrics have been presented in the table below:

Figure 65 – TRIF AND LTIF ratio 2024

Measurement	2024 Actual	2024 Plan	2024 Target Met
Total Recordable Injury Frequency (TRIF)	0.74	1.25	Yes
Lost Time Injury Frequency (LTIF)	0.25	0.15	No

Through our analysis of Actual versus Plan TRIF and LTIF ratios, we noted that for 2024, Hydro met its TRIF ratio but did not meet its LTIF ratio. Further information regarding this discrepancy has been summarized below.

Total Recordable Injury Frequency

The Total Recordable injury frequency is a calculation of the rate at which injuries occur. The calculation is as follows:

TRIF = number of recordable injuries x 200,000 / number of hours worked.

Prior to fiscal 2024, Hydro reported on an All Injury Frequency ("AIF"). Hydro transitioned to reporting on the TRIF rate rather than the AIF rate as of January 1, 2024. This decision was made because the TRIF rate is considered a more representative indicator of safety performance as it tracks "First Aid with Restrictions", as well as lost-time injuries, medical treatment injuries, and fatalities. The AIF only tracks the latter three. Hydro noted that successfully achieving its TRIF target for 2024 demonstrates that overall injury prevention efforts continue to be effective across the organization.

Lost-Time Injury Frequency

The Lost-Time Injury Frequency is based on the total number of lost-time injuries or illnesses, which occurred in the calendar year. The calculation is as follows:

LTIF= number of lost-time injuries x 200,000/ exposure hours.

In 2024, Hydro's LTIF rate was 0.25. Hydro did not meet its target of 0.15. According to Hydro, their LTIF target of 0.15 allowed for one lost-time injury during the year based on overall exposure hours for regulated Hydro that are used to calculate rates. While their overall safety performance remained stable, the LTIF target was not met because they experienced two lost-time injuries in 2024. Hydro explained that in February, a slip and fall incident resulted in a lost-time injury and in September a musculoskeletal injury ("MSI") was the second Lost-Time Injury recorded for the year. Both injuries were minor in nature and fall within two of the most common injury types for Hydro: slips, trips, falls and MSIs. Continued focus on slip, trip and fall prevention, along with MSI injury reduction is ongoing to support prevention of these common injury types.

Lead/lag ratio

In 2024, the lead/lag ratio was removed as an organizational target. This decision aligns with Electricity Canada's safety reporting framework, which does not include the lead/lag ratio as a standard or required metric. This shift reflects both industry practice, as well as feedback from employees.

Environment and Conservation

Targets used to evaluate this goal are summarized below:

Figure 66 – Environment and conservation 2024

Measurement	2024 Actual	2024 Target	Target Met
Achievement of EMS targets	95%	95%	Yes
Annual energy savings from Residential and Commercial Conservation and Demand Management Programs	1019 MWh	1286 MWh	No

Hydro's 2024 Residential and Commercial Conservation and Demand Management Programs included the following:

- In 2024, Hydro continued to parter with Newfoundland Power to deliver the takeCHARGE program. The program offers customer education and conservation awareness activities, primarily through promotion of its takeCHARGE rebate programs and outreach activities.

- The Hydro Residential Program relates to three programs offered jointly by Hydro and Newfoundland Power (Insulation and Air Sealing, HRV, and the low-income Energy Savers Kit), and one offered solely by Hydro - the Isolated Community Energy Efficiency Program ("ICEEP").

- Hydro's Commercial Program includes the Business Efficiency Program, offered jointly through Hydro and Newfoundland Power, to provide prescriptive and custom rebates for commercial energy efficiency programs. Hydro also offers the Isolated Business Efficiency Program to commercial customers in its isolated regions to provide technical support to identify economic energy efficiency opportunities and financial support for capital upgrades.

- Isolated Community Energy Efficiency Program targets residential and commercial customers in Hydro's isolated diesel systems. The ICEEP provides outreach, education, and energy efficient products to residential and business customers in the diesel system communities within Newfoundland and Labrador

- The Electric Vehicle Rebate Program continued to make electric vehicles more affordable to Newfoundlanders and Labradorians with Hydro offering a $2,500 rebate for battery-electric vehicles and $1,500 for plug-in hybrid electric vehicles, funded by the Provincial Government of NL.

- The Oil to Electric Rebate Program helps Newfoundlanders and Labradorians wanting to transition their homes to an electricity-based heat source from an oil-based source. The program, which is funded through provincial and federal government initiatives and delivered by NL Hydro and Newfoundland Power under the takeCHARGE partnership, entered its fourth year in April 2024.

As noted in the above figure, Hydro did not meet its 2024 target for the measurement of annual energy savings from Residential and Commercial Conservation and Demand Management Programs. According to Hydro, this was primarily due to the lower energy savings from Hydro's Energy Savers Kit Program. This program was materially impacted by the Canada Post strike in the last quarter of 2024 and caused a delay in customer communications and Energy Savers Kit deliveries to customers. Timing was the primary issue in this situation, as customer participation returned to target levels once postal operations returned to normal.

Key Performance Indicators

Appendix D to the December 31, 2024 quarterly report filed by Hydro includes the 2024 Annual Report on Key Performance Indicators. The Key Performance Indicators results for 2024 as compared with prior years are summarized in the following table:

Figure 67 – KPIs 2020-2024

Category / KPIs [1]	Measure Definition	Units	2020	2021	2022	2023	Avg. 20-23	2024	2024 Variance from Average	2023-2024 Variance
Reliability										
Generation										
Weighted Capability Factor ("WCF")	Availability of Units for Supply	%	88.0	79.2	84.2	74.1	81.4	76.2	(5.2)	2.0
Weighted Derated Adjusted Forced Outage Rate ("DAFOR")	Unavailability of Units due to Forced Outage	%	1.9	11.7	3.1	12.9	7.4	11.7	4.3	(1.2
Transmission										
System Average Interruption Duration Index ("SAIDI")	Outage Duration per Delivery Point	Minutes / Point	449.2	247.0	258.0	373.1	331.8	422.9	91.1	49.8
System Average Interruption Frequency Index ("SAIFI")	Number of Outages per Delivery Point	Number / Point	1.7	1.9	1.9	3.0	2.1	2.5	0.4	(0.5)
System Average Restoration Index ("SARI")	Outage Duration per Interruption	Minutes / Outage	265.8	130.7	135.1	124.4	164.0	167.8	3.8	43.4
Distribution										
SAIDI	Average Outage Duration for Customers	Hours / Customer	17.9	21.3	17.5	16.6	18.3	13.3	(5.1)	(3.3)
SAIFI	Number of Outages for Customers	Number / Customer	4.6	6.0	4.9	6.3	5.5	5.3	(0.2)	(1.0)
End User SAIDI	Average Outage Duration for Customers	Hours / Customer	2.7	3.0	2.4	2.3	2.6	2.3	(0.3)	0.0
End User SAIFI	Number of Outages for Customers	Number / Customer	0.8	1.5	1.1	1.3	1.2	1.7	0.5	0.3
Under Frequency Load Shedding ("UFLS")										
UFLS	Customer Load Interruptions Due to Generator Trip	Number of Events	-	2	2	-	1.0	4	3.0	4.0
Operating										
Hydraulic Conversion Factor [2]	Net Generation / 1 Million m [3] Water	GWh / MCM	0.434	0.427	0.427	0.424	0.4	0.429	0.0	0.0
Thermal Conversion Factor [3]	Net kWh / Barrel No. 6 HFO	kWh / BBL	586	568	573	511	559.5	558	(1.5)	47.0
Financial (Regulated)										
Controllable Unit Cost [4]	Controllable OM&A$ / Energy Deliveries	$ / MWh	$ 14.37	$ 13.78	$ 14.10	$ 15.44	$ 14.42	$ 15.44	$ 1	$ -
Generation Controllable Costs	Generation OM&A$ / Installed MW	$ / MW	$ 30,292	$ 28,602	$ 29,607	$ 32,390	$ 30,223	$ 32,955	$ 2,732	$ 565
	Generation OM&A$ / New Generation	$ / GWh	$ 9,640	$ 9,574	$ 9,506	$ 11,117	$ 9,959	$ 11,354	$ 1,395	$ 237
Transmission Controllable Costs	Transmission OM&A$ / 230 kV Eqv Circuit	$ / Km	$ 4,194	$ 4,086	$ 4,229	$ 4,627	4,284	$ 4,707	$ 423	$ 80
Distribution Controllable Costs	Distribution OM&A$ / Circuit Km	$ / Km	$ 3,079	$ 3,628	$ 3,750	$ 4,101	$ 3,640	$ 4,172	$ 533	$ 71
	Distribution OM&A$ / MWh of retail sales	$ / MWh	$ 9.64	$ 9.13	$ 8.83	$ 9.70	$ 9.33	$ 10.24	$ 0.92	$ 0.54
Other										
Percent Satisfied Customers	Satisfaction Rating	Max = 100%	90%	N/A	89%	N/A	89.50%	89%	(0.0)	N/A

Note1: Doane Grant Thornton did not independently verify the calculation of KPIs.

Note 2: For the Bay d 'Espoir hydroelectric plant.

Note 3: For Holyrood Thermal Generating Station.
Note 4: Energy deliveries have been normalized for weather, customer hydrology, and industrial strikes.

As consistent with prior year, Hydro reports on 19 KPIs covering the following four areas: reliability, operating, financial and customer related.

Figure 68 – Four areas of KPIs 2023-2024

Category	KPI	Units	2024 Target	2024 Results	Target Achieved
Reliability	Weighted Capability Factor [1]	%	80.1	76.2	No
	Weighted DAFOR [2]	%	N/A	11.7	N/A
	T-SAIDI	Minutes / Point	432.9	422.9	Yes
	T-SAIFI	Number / Point	2.9	2.5	Yes
	T-SARI [3]	Minutes / Outage	N/A	167.8	N/A
	D-SAIDI	Hours / Customer	17.7	13.3	Yes
	D-SAIFI	Number / Customer	5.4	5.3	Yes
	End User SAIDI	Hours / Customer	2.6	2.3	Yes
	End User SAIFI	Number / Customer	1.1	1.7	No
	Underfrequency Load Shedding	# of events	0	4	No
Operating	Hydraulic CF	GWh / MCM	0.433	0.429	No
	Thermal CF	kWh / BBL	583	558	No
Financial	Controllable Unit Cost	$/MWh	N/A	$15.44	N/A
	Generation Controllable Costs	$/MW	N/A	$32,955	N/A
	Generation Output Controllable Cost	$/GWh	N/A	$11,354	N/A
	Transmission Controllable Cost	$/Km	N/A	$4,707	N/A
	Distribution Controllable Cost	$/Km	N/A	$4,172	N/A
	Distribution Controllable Cost	$/MWh	N/A	$10.24	N/A
Other	Customer Satisfaction (Residential)	Max = 100%	85%	89%	N/A

Note 1: Weighted Capability Factor Target is based on planned annual maintenance outages, an allowance for other short duration maintenance outages and targeted forced outage durations.

Note 2: Hydro no longer sets Overall DAFOR targets for combined Thermal and Hydro. Individual targets for each generation class will continue to be established and reported annually.

Note 3: According to Hydro, they do not establish a restoration index target.

Further information and observations on each of the above categories have been summarized below.

Reliability

During 2024, Hydro met 5 out of the 8 reliability KPI targets, as noted above. Within the reliability category, Hydro did not achieve its target for Weighted Capability Factor ("WCF"), End User SAIFI, and Underfrequency Load Shedding ("UFLS").

WCF

According to Hydro, they set their WCF target using the expected annual generation unit outage schedule combined with performance improvements relative to recent history. Hydro explains that they did not meet their WCF target due to extended unit outages at the Holyrood TGS and the availability of the Stephenville Gas Turbine ("GT") within its Combustion Turbine fleet. Thermal unit WCF was 47.44% in 2024, compared to 45.56% in 2023, and the 2024 target of 56.9%. Holyrood Unit 1 had a capability factor of 26.01%, Unit 2 had a capability factor of 47.02%, and Unit 3 had a capability factor of 71.49%. Unit 1 was offline for approximately 8 months during 2024.

Unit 1 was taken offline for the planned annual maintenance outage in April, followed by a forced extension of the planned outage, for work related to the last stage blades and rotor journals. The unit returned to service in early 2025. Unit 2 was offline for approximately 4 months (January through April) in the first half of 2024 due to a forced extension to the 2023 planned annual maintenance outage related to the low-pressure turbine blades.

GT WCF was 80.25% in 2024, compared to 87.45% in 2023, and the 2024 GT WCF target of 90.3%. The decline in WCF was largely related to the Stephenville GT being unavailable for 9 months during 2024 due to damage sustained to the generator from the failure of a generator cooling fan.

While WCF performance in 2024 was below the annual target in all asset classes, with the exception of hydraulic assets, Hydro maintained sufficient generation to meet customer requirements at all times throughout the year. Hydro plans capital outages and schedules maintenance outages to ensure supply is available as required. This includes the consideration of the availability of generation supplied from Muskrat Falls and delivered via the LIL, which will be used to meet customer needs into the future.

End User SAIFI

Hydro's End User SAIFI target for 2024 was also not achieved. Hydro explains that this measure is a combination of their service continuity data and Newfoundland Power's service continuity data for outages related to loss of supply due to events on Hydro's transmission system. End Consumer SAIFI measures the average number of interruptions experienced per customer. Some of the most significant impacts to this metric occur during Under Frequency Load Shedding events. In 2024, the largest contributor to the year-end SAIFI was the four UFLS events experienced during the year. Of the total SAIFI of 1.65, approximately 0.58 can be attributed to these UFLS events. Hydro does not plan for any UFLS events, however, events can occur when there is loss of generation supply on the system. UFLS events are a protection

mechanism designed to avoid larger electricity grid implications when generation supply losses occur.

UFLS

Additionally, Hydro did not meet their UFLS target in 2024. According to Hydro, UFLS is the reliability KPI that measures the number of events in which shedding of customer load is required to counteract loss of generation supply. During a UFLS event, customers are removed from the electrical system to regulate system frequency. The quantity of customers removed is proportional to the amount of generation lost. UFLS is a protection mechanism that is designed to avoid larger electricity grid implications. Hydro sets its target at zero events; however, there are times when generation supply is lost that trigger a UFLS event. This occurred 4 times throughout 2024. Hydro explained that these events may be attributed to the early operation of the Labrador Island Link. As these unplanned events occur, engineering and operational solutions are implemented to prevent further occurrence and improve reliability of the high voltage direct current system.

Operating

The hydraulic conversion factor for Bay d'Espoir was not met in 2024 with 0.429 GWh/MCM, compared to 0.433 GWh/MCM set as the Company's target. Hydro noted that above average inflows into the Bay d'Espoir System during the beginning of 2024 due to the historical rainfall event in December 2023, in addition to multiple significant rainfall events which were exacerbated by snowmelt, led to the exceedance of reservoir storage in the Bay d'Espoir System in January 2024, March 2024 and April 2024. While generation remained maximized to the extent possible, the spill events resulted in lost energy and therefore a reduction to the Bay d'Espoir KPI target.

In 2024, the net thermal conversion factor of 558 kWh per barrel was also not met, being lower than the target of 583 kWh per barrel. The thermal conversion factor for the Holyrood TGS is proportional to the output level of its units and varies based on hydraulic production on the island, heating content in fuel consumed at plants, customer demand, and energy requirements. The Holyrood TGS showed a similar performance in 2024 when compared to 2023.

Financial

We noted that the financial KPIs do not have targets. According to Hydro, the financial KPIs and relevant peer group data are provided to the Board in line with Board direction per Order No. P.U. 8 (2007). The KPIs provide insight into Hydro's performance in managing utility-specific costs in comparison to other companies with comparable business parameters. In the report "Peer Group Benchmarking," Hydro provided separate peer groups for KPIs relating to generation and transmission, both fully comprised of companies in the United States. According to Hydro, the purpose of calculating these metrics is to determine how Hydro's cost-management activities are performing in relation to its peer group.

Each year, in the financial update to its Quarterly Regulatory Report for the Quarter Ending December 31 of the applicable reporting year, Hydro provides its annual performance for these

KPIs, as well as the most recent performance of the peer group. As highlighted by Hydro, the latest financial update shows that they have recently been outperforming their peer group in these metrics; however, Hydro does not believe that the selected peer group is an appropriate comparator on all metrics.

In the compilation of the KPIs annually, Hydro also performs an analysis of the year-over-year variance to evaluate the reasonability of the results and to understand any major drivers or trends in the financial KPIs which may be influencing the metrics year to year and/or against the peer group.

Other

The most recent Customer Satisfaction Survey was completed in 2024 and showed that 89% of customers were either very satisfied or somewhat satisfied with Hydro. This remains consistent with the 2022 results, which was also 89% satisfaction rate. The next satisfaction survey will be completed in 2026 as it is completed on a biennial basis.

Target and benchmark setting

For KPIs with set targets, we inquired with Hydro to understand how they assess whether the chosen target or benchmark is appropriate.

Hydro reviews their performance each year in order to establish target metrics for reliability and operating KPIs for the upcoming year. According to Hydro, consistent with other utilities, they generally utilize rolling averages to establish targets, which typically result in targets that seek to maintain reliability and operating efficiency levels. This allows Hydro to drive small, incremental changes in its performance, rather than endeavoring to further increase system reliability, which would lead to higher costs incurred for customers. KPI targets are reviewed annually to ensure they remain relevant and aligned with evolving operational realities, regulatory expectations, and customer needs. In testing the reasonability of targets, Hydro evaluates trends in year-over-year performance and strives to balance performance improvements with cost-effectiveness and customer satisfaction.

According to Hydro, in 2024, they received feedback from customers that they consider Hydro's system to be reliable and that customers prioritize lower rates over improved reliability. Hydro believes this approach continues to be appropriate, as it is consistent with its mandate of balancing cost and reliability in providing electricity service to customers.

The below figure provides the individual rationale for each of Hydro's reliability and operating KPIs per its most recent financial update filing.

Figure 69 – Hydro's KPI rationale

KPI	2024 target setting approach per Hydro
Reliability	Hydro has adopted a target setting approach wherein the five-year outage performance is used for distribution and transmission targets.
WCF	The 2024 target is set using the expected annual generation unit outage schedule combined with performance improvements relative to recent history
Weighted DAFOR	The 2024 target is set using the expected annual generation unit outage schedule combined with performance improvements relative to recent history.
Transmission SAIDI, SAIFI, and SARI	The 2024 targets for outage performance were based on the five-year average performance.
Distribution SAIDI and SAIFI	The 2024 targets for outage performance were based on the five-year average performance.
Under Frequency Load Shedding	The 2024 target is set at 0 events.
Hydraulic Conversion Factor	Held at the previous target value.
Thermal Conversion Factor	2024 target was 583 kWh/bbl based on the 2019 Test Year.

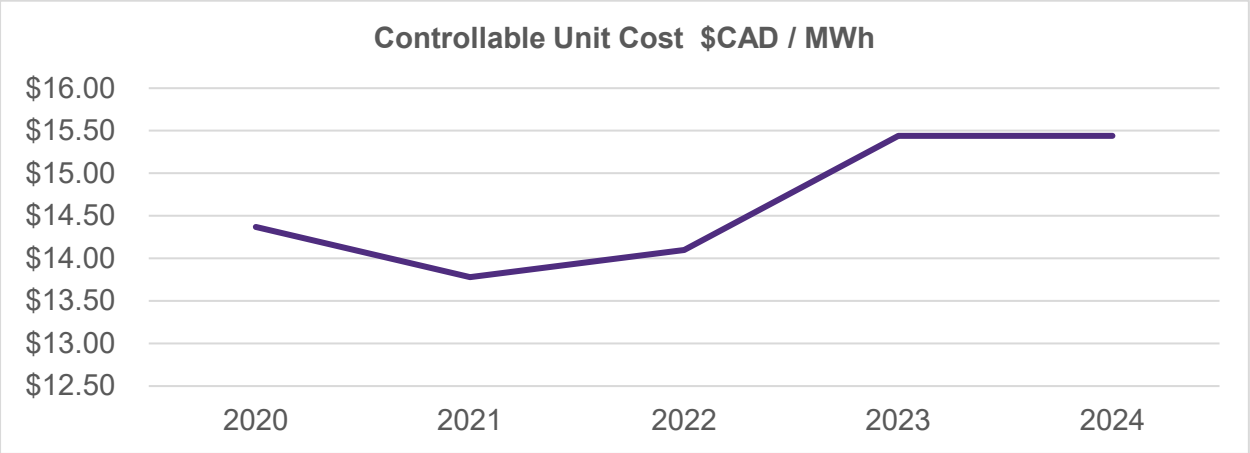
The following sections illustrate the trends in the actual financial metrics from 2020 to 2024.

Financial KPIs

Controllable Unit Costs

Controllable Unit Cost is a high-level corporate KPI that tracks Hydro's operations, maintenance, and administration expenses in relation to its total energy delivered, expressed as dollars per MWh. The following chart provides a line graph for years 2020 to 2024 of this KPI:

Figure 70 – Controllable unit costs $CAD / MWh 2020-2024

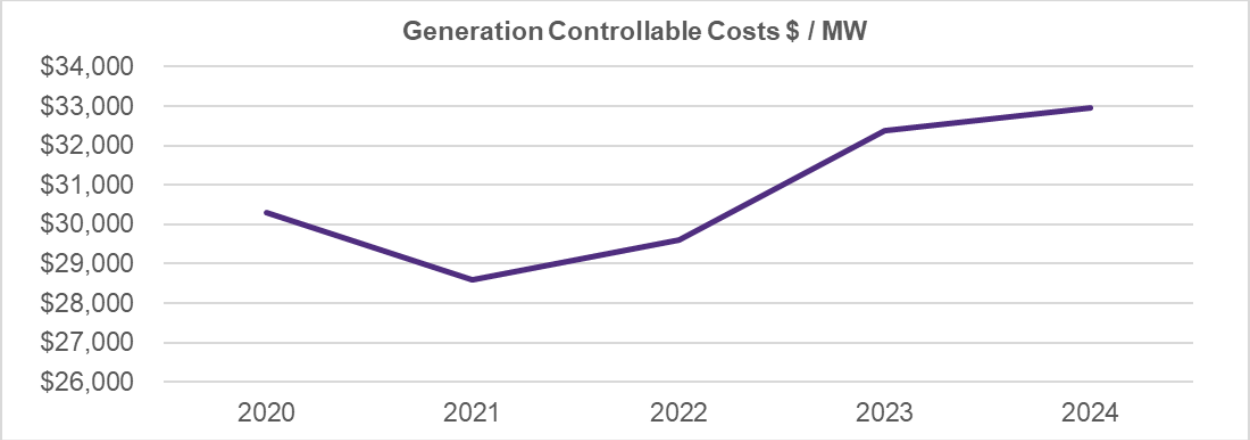


According to Hydro, OM&A costs increased from $142.8 million in 2023 to $145.2 million in 2024, a $2.4 million increase. Hydro's energy deliveries also increased from 9,245 GWh in 2023 to 9,405 GWh in 2024. This resulted in a Controllable Unit Cost of $15.44 per MWh in 2024, which is the same as 2023.

Generation Controllable Costs – Installed MV

Generation Controllable Cost is a functional corporate KPI that tracks Hydro's generation costs in relation to its installed generation. It is computed by dividing generation OM&A by installed capacity, measured in MW. The following chart provides a line graph for years 2020 to 2024 of this KPI:

Figure 71– Generation controllable costs $CAD / MW 2020-2024

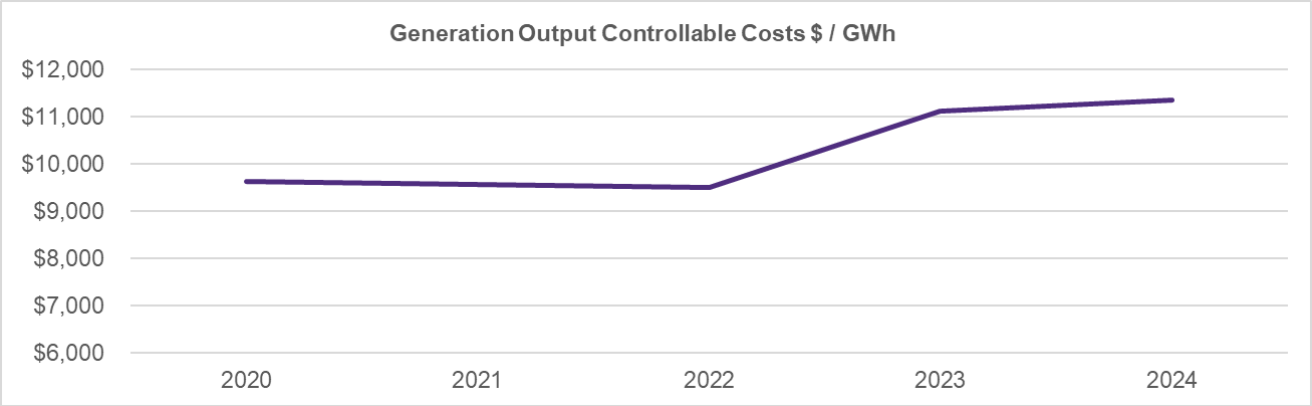


There was an increase in Generation Controllable Costs of $565 per MW, from $32,390 per MW to $32,955 per MW from 2023 to 2024. Similar to the table above, the increase in Generation Controllable costs is largely attributed to an increase in OM&A costs in 2024 relative to 2023.

Generation Output Controllable Costs

Generation Output Controllable Cost is a functional corporate KPI that tracks Hydro's generation OM&A expenses in relation to its net generation measured in GWh. The following chart provides a line graph for years 2020 to 2024 of this KPI:

Figure 72 – Generation output controllable costs $CAD / GWh 2020-2024

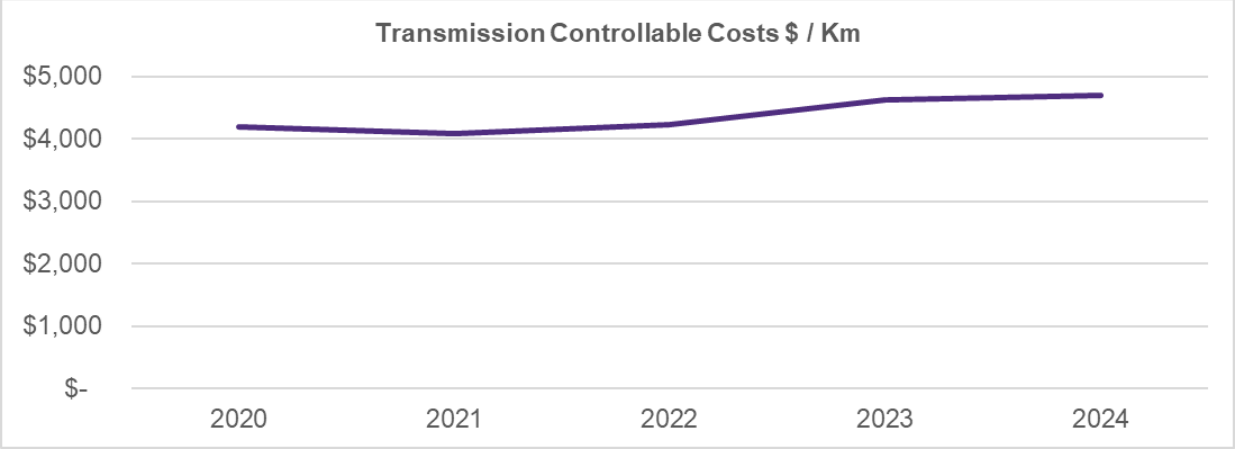


In 2024, Hydro's Generation Output Controllable Cost remained fairly stable at $11,354 per GWh. This is an increase of $237 per GWh compared to 2023 ($11,117 per GWh).

Transmission Controllable Costs

Transmission Controllable Cost is a KPI that tracks Hydro's transmission and OM&A expenses in relation to the 230 kv equivalent length of its transmission circuits (69 kv and above). The following chart provides a line graph for years 2020 to 2024 of this KPI:

Figure 73 – Transmission controllable costs $CAD / Km 2020-2024

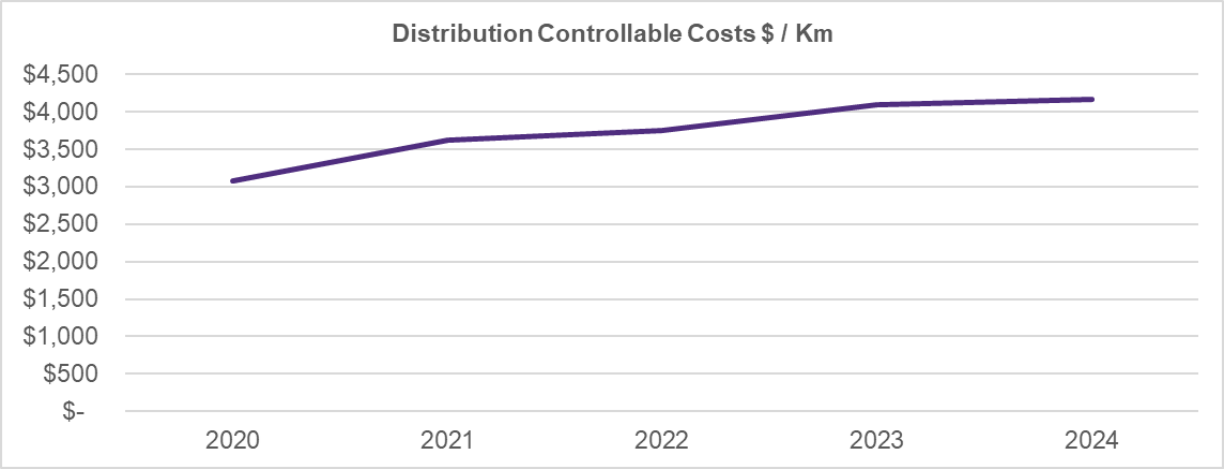


In 2024, Transmission Controllable Costs were $4,707 per kilometre, an $80 per kilometre increase from the $4,627 per kilometre reported in 2023. These costs have remained stable over the past five years.

Distribution Controllable Costs – Distribution OM&A per Km

Distribution Controllable Cost is a functional corporate KPI that tracks Hydro's distribution OM&A expenses in relation to the length of its equivalent 230 kv distribution circuits in kilometres. The following chart provides a line graph for years 2020 to 2024 of this KPI:

Figure 74– Distribution controllable costs $CAD / Km 2020-2024

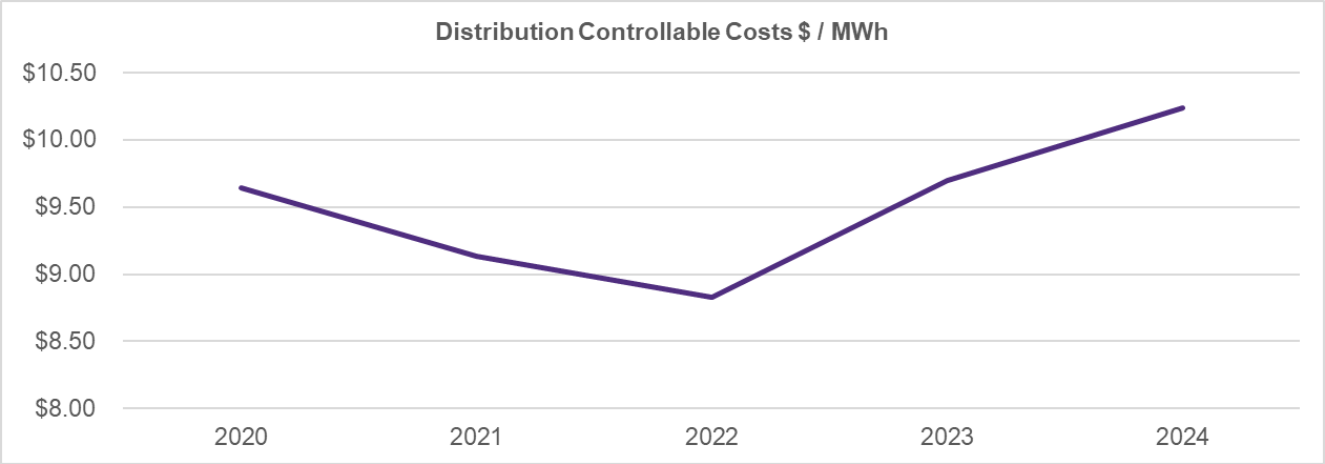


In 2024, Hydro's Distribution Controllable Cost increased by $71 per kilometre compared to 2023. Overall, Hydro's Distribution Controllable Cost per kilometre was generally stable year-over-year. Hydro attributes these higher costs to the rural and geographically dispersed nature of its distribution system. The distribution cost per kilometre of circuit length will continue to be reported for year-over-year trend analysis.

Distribution Controllable Costs – Distribution OM&A per MWh of retail sales

The Distribution Controllable Cost KPI had previously been reported as dollars per kilometre of distribution using the Electricity Canada Cost of Power Exchange ("EC COPE") data however, EC COPE data is no longer available for the benchmarking of financial KPIs. Although distribution cost data is available for the U.S.- based peer group used by Hydro for Transmission Controllable Cost, the associated kilometres of distribution data are unavailable. In the absence of the EC COPE data, Newfoundland Power has chosen to use a KPI that divides total Distribution OM&A by MWh of retail sales; therefore, Hydro uses the same data set. The following chart provides a line graph for years 2020 to 2024 of this KPI:

Figure 75 – Distribution controllable costs $/ MWh of retail sales



In 2024, Hydro's Distribution Controllable Cost increased by $0.54/MWh compared to 2023. Given Hydro's relatively small quantity of retail sales and the rural and remote locations of its retail customers, Hydro's distribution cost per MWh is higher than that of Newfoundland Power and the peer group average.

Conclusion and recommendation

We have reviewed the KPI results and note the following findings:

- **Hydro did not meet all of their safety targets in 2024. They met their TRIF target ratio, but did not meet their LTIF target ratio.**
- **Hydro did not meet both of their environment and conservation targets in 2024. While they met the achievement of EMS targets, they did not meet annual energy savings from conservation and demand management programs target.**
- **Hydro did not meet all applicable reliability KPIs in 2024. According to Hydro, this was caused by extended unit outages and may be attributed to the early operation of the Labrador Island Link.**
- **Hydro did not meet their operating KPI targets in 2024. According to Hydro, various spill events resulted in lost energy across the Bay d'Espoir System and therefore, a slight decrease in the Bay d'Espoir KPI.**
- **We understand that Hydro does not have set targets for their financial KPIs and instead compares these metrics to peer group data in line with Board direction in Order No. P.U. 8 (2007). We note that Hydro is outperforming their peer group in these metrics, however, Hydro does not believe that the selected peer group is an appropriate comparator on all metrics.**

We have reviewed the explanations provided by Hydro for the changes and variations experienced in 2024 and find them to be consistent with our observations and findings noted in conducting our annual financial review. There were no internal inconsistencies identified in Hydro's report.

Appendix A - Glossary of terms

Glossary of terms	
$CAD	Canadian Dollars
2017 Intercompany Costing Guidelines, Intercompany Costing Guidelines	The Intercompany Transaction Costing Guidelines filed by Hydro as part of their 2017 General Rate Application
A	Actual
AIF	All Injury Frequency
B	Budget
Board, P.U.B	Board of Commissioners of Public Utilities
Braya	Braya Renewable Fuels
BU	Business Unit
CBPP	Corner Brook Pulp and Paper
CDM	Conservation Demand Management
CEATI	Centre for Energy Advancement Technological Innovation
CF(L)Co	Churchill Falls (Labrador) Corporation Limited
CIAC	Contributions in aid of construction
Company, Hydro, NLH	Newfoundland and Labrador Hydro
CPP	Canadian Pension Plan
CRA	Canada Revenue Agency
DAFOR	Derated Adjusted Forced Outage Rate
EBITDA	Earnings before interest, taxes, depreciation, and amortization
EC	Electricity Canada
EC COPE	Electricity Canada Cost of Power Exchange
EFB	Employee future benefits
EI	Employment Insurance
EMS	Environmental management system
Energy Marketing, NEM	Nalcor Energy Marketing Corporation
Energy Supply Deferrals	Includes the Revised Energy Supply Cost Variance Deferral Account, the Holyrood Conversion Deferral Account, and the Isolated Systems Supply Cost Variance Deferral Account.
FBEC	First Block Energy Charge
FTE	Full-time equivalent
GRA	General Rate Application
GT	Gas Turbine
HCRDA	Holyrood Conversion Rate Deferral Account
Holyrood TGS	Holyrood Thermal Generating Station
ICEEP	Isolated Community Energy Efficiency Program
IFRS	International Financial Reporting Standards
IIC	Island Interconnected System
Indemnity Agreement	Early NS Block Indemnification Agreement

Glossary of terms	
ISSCVDA	Isolated Systems Supply Cost Variance Deferral Account
KPI	Key performance indicator
LCDC	Lower Churchill Development Corporation
Lead/lag ratio	Ratio of condition and incident reports to lost time and medical treatment injuries
LIC	Labrador Interconnected System
LIL	Labrador-Island Link
LIL LP	Labrador-Island Link Limited Partnership
LTIF	Lost Time Injury Frequency
Marathon	Marathon Gold Corporation
MF Plant	Muskrat Falls hydroelectric generating facility
MF PPA, Muskrat Falls PPA, PPA	Muskrat Falls Power Purchase Agreement
MSI	Musculoskeletal injury
Nalcor	Nalcor Energy
NCC	NunatuKavut Community Council
NCC RFA	NunatuKavut Community Council Relationship Framework Agreement
NLSO	Newfoundland and Labrador System Operator
NS Block	Nova Scotia Block
NSPI	Nova Scotia Power Inc.
NUG	Non-Utility Generator
OM&A, O&M	Operations, maintenance, and administration
OT	Overtime
PSPP	Public Service Pension Plan
RFA	Relationship Framework Agreement
RRA	Resource Reliability Adequacy
RSP	Rate Stabilization Plan
ESCVA	Revised Energy Supply Cost Variance Deferral Account
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
SARI	System Average Resoration Index
SCVDA	Supply Cost Variance Deferral Account
STI	Short-term incentive
S&P	Standard & Poor
TFA	Transmission Funding Agreement
TRIF	Total Recordable Injury Frequency
TRO	Transmission and Rural Operations
TY	Test Year
UFLS	Under Frequency Load Shedding
UCRA	Upper Churchill Redress Agreement
Vale	Vale Newfoundland and Labrador Limited
WACC	Weighted average cost of capital

Glossary of terms	
WCC	Worker's Compensation Coverage
WCF	Weighted Capability Factor
We, us, our, Doane Grant Thornton	Doane Grant Thornton LLP

Newfoundland and Labrador – Board of Commissioners of Public Utilities
Newfoundland and Labrador Hydro
2024 Annual Review



Audit | Tax | Advisory

© 2026 Doane Grant Thornton LLP. A Canadian Member of Grant Thornton International Ltd. All rights reserved.

About Doane Grant Thornton in Canada

Doane Grant Thornton LLP is a leading Canadian accounting and advisory firm providing audit, tax and advisory services to private and public organizations. We help dynamic organizations unlock their potential for growth by providing meaningful, actionable advice through a broad range of services. Doane Grant Thornton in Canada has approximately 2,800 people in offices across the country. Doane Grant Thornton LLP is a Canadian member of Grant Thornton International Ltd, whose member firms operate across the globe.

About Grant Thornton International Ltd

Grant Thornton International Ltd is one of the world's leading organizations of independent assurance, tax and advisory. Proactive teams, led by approachable partners, use insights, experience and instinct to understand complex issues for privately-owned, publicly-listed and public sector clients, and to help them find suitable solutions. More than 58,000 Grant Thornton people, across over 130 countries, are focused on making a difference to clients, colleagues and the communities in which we live and work.