

1 Q. **Reference: Financial Reporting of Project Costs**

2 (a) Please provide examples of the accounting of the monthly payments that Hydro will be
3 incurring as a result of the Muskrat Falls PPA and the TFA to reflect the IFRS deviation, the
4 deferral of sustaining capital payments, and the Supply Cost Variance Deferral Account.
5 Please state and explain any assumptions made by Hydro to provide this information.

6 (b) Please explain how the purchased power and transmission costs recorded in these regulatory
7 accounts as a result of the IFRS deviation will eventually be included in the proposed Supply
8 Cost Variance Deferral Account?

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11 A. (a) Please refer to PUB-NLH-026, Attachment 1 for the accounting of the monthly payments
12 that Newfoundland and Labrador Hydro will be incurring as a result of the Muskrat Falls
13 Power Purchase Agreement and the Transmission Funding Agreement.

14 (b) Amounts recorded in the International Financial Reporting Standards (“IFRS”) deviation
15 account result from timing differences only and balance to zero at the end of the contract
16 term and are not included in the proposed Supply Cost Variance Deferral Account. The IFRS
17 deviation deferral is the same as the deferral previously approved by the Board of
18 Commissioners of Public Utilities in Order No. P.U. 9(2021) for pre-commissioning energy, is
19 non-cash and will not be included in rate base.

Illustrative Example in Response to PUB-NLH-026
(\$)

	Year 1	Year 2	Total	
<u>Contract payment</u>				
E	Total Contract Payment	65,000,000	45,000,000	110,000,000
F	Affiliate Loan Payment	20,000,000		20,000,000
G	Contract Payments (Excluding Affiliate Loan Payment) (E-F)	45,000,000	45,000,000	90,000,000
H	Contract Payment - Sustaining Capital	5,000,000	5,000,000	10,000,000
I	Contract Payment Power Purchase (G-H)	40,000,000	40,000,000	80,000,000
D	Contract Payment- 2019 Test Year	-	-	
J	PP Supply Cost Variance (I-D)	(40,000,000)	(40,000,000)	
<u>IFRS Accounting Value</u>				
K	PP - Capacity (I * 40%)	18,000,000	18,000,000	36,000,000
L	PP - Energy (O * Q)	20,250,000	33,750,000	54,000,000
R	Total Accounting Value	38,250,000	51,750,000	90,000,000
M	Non-Cash Accounting Deviation (Contract vs Delivered) (G-R)	(6,750,000)	6,750,000	-
N	Contract Units	20,000,000	20,000,000	40,000,000
O	Delivered Units	15,000,000	25,000,000	40,000,000
P	Over(under) Units (O-N)	(5,000,000)	5,000,000	-
Q	Rate per Unit ((G-K)/N)			\$ 1.35

Assumptions

Amounts are for demonstration purposes only.

Test Year contract payment excludes affiliate loan payment and sustaining capital.

Power purchase is split between energy and capacity using a 60% and 40% respectively.

Contract period is two years.

Capacity is allocated on a straight line basis.

Non-cash accounting deviation balances to zero at the end of the contract as the differences are due to timing only.

Year 1 assumes a deferral of 5 million units and no export.

Year 2 assumes a release of the deferred 5 million units.

Year 1

Contract Payment

1 Power Purchase (IS)	40,000,000	
Sustaining Capital Deferral (BS)	5,000,000	
Affiliate Loan Payment (BS)	20,000,000	
Cash (BS)		65,000,000

To record contract cash payment.

IFRS Deviation

2 Interco (BS)	6,750,000	
IFRS Deviation - Contract Payment vs. Accounting Value (BS)		1,750,000
IFRS Deviation - Sustaining Capital (BS)		5,000,000

To record the deviation associated with sustaining capital and power purchase accounting value vs contract payment.

Supply Cost Deferral

3 Supply Cost Deferral (BS)	40,000,000	
Power Purchase (IS)		40,000,000

To defer power purchase supply costs as test year was zero.

Interest on Affiliate Loan Payment

4 Interco	90,500	
Interest Revenue		90,500

To record interest on the affiliate loan payment at weighted average cost of capital ("WACC") of 5.43% for one month.

Year 2

Contract Payment

1 Power Purchase	40,000,000	
Sustaining Capital Deferral	5,000,000	
Cash		45,000,000

To record contract cash payment.

IFRS Deviation

2 IFRS Deviation - Contract Payment vs. Accounting Value	11,750,000	
IFRS Deviation - Sustaining Capital		5,000,000
Interco		6,750,000

To record the deviation associated with sustaining capital and power purchase accounting value vs contract payment.

Supply Cost Deferral

3 Supply Cost Deferral	40,000,000	
Power Purchase		40,000,000

To defer power purchase supply costs as test year was zero.

Interest on Affiliate Loan Payment

4 Interco	1,086,000	
Interest Revenue		1,086,000

To record interest on the affiliate loan payment at WACC of 5.43% for 12 months.