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April 22, 2026

Board of Commissioners of Public Utilities
Prince Charles Building
120 Torbay Road, P.O. Box 21040
St. John's, NL A1A 5B2

Attention: Mike McNiven
Board Secretary

Re: Request to Review Disposition of Rural Rate Alteration Balance in the Supply Cost Variance Deferral Account – Hydro's Reply

In its correspondence dated April 14, 2026, the Board of Commissioners of Public Utilities ("Board") requested that Newfoundland and Labrador Hydro ("Hydro") consider whether it would be reasonable to utilize the Rural Rate Alteration ("RRA") balance in Hydro's Supply Cost Variance Deferral Account ("SCVDA") to reduce the projected July 1, 2026 customer rate impact.¹

Prior to receiving this correspondence from the Board, Hydro, Newfoundland Power, and the Government of Newfoundland and Labrador ("Government") were finalizing a mechanism to reduce the projected July 1, 2026 rate increase to customers, which considered the RRA balance in the SCVDA.

Government has advised that they are supportive of utilizing the current balance to offset the Newfoundland Power portion of the upcoming rate increase, as noted in their letter dated April 22, 2026, which has been attached to this correspondence. Government has asked that Hydro work with Newfoundland Power and the Board to implement this action. The application of these funds will effectively reduce the July 1 rate increase for customers to the targeted level of 2.25% in total, down from the anticipated 7% rate increase.

As noted in the letter, Government has asked Hydro to work with the Board on the disposition of the RRA balance on a go-forward basis.

To arrive at this decision, there were many factors which needed to be considered. The rates charged to Hydro's non-government customers in rural interconnected and isolated systems do not cover the full cost incurred to serve these customers. Pursuant to Government policy, since 1975, rates charged to these customers are linked to Newfoundland Power customer rates.² As a result, when Newfoundland Power customer rates change on July 1 of each year, Hydro's rural customer rates are also adjusted.

The difference between the cost to serve these rural customers and the revenue recovered through customer rates creates the Rural Deficit. Consistent with Government direction since 1992, the Rural

¹ The July 1, 2026 customer rate impact associated with Newfoundland Power Inc.'s ("Newfoundland Power") July 1, 2026 rate application is projected to be 7%, including 2.25% associated with Hydro's costs in accordance with the rate mitigation plan.

² OC2024-092 (*Electrical Power Control Act, 1994*, SNL 1994, c E-5.1), <https://www.exec-oic.gov.nl.ca/public/oic/details?order-id=22053>

Deficit is recovered from Newfoundland Power's customers and Hydro's Labrador Interconnected System rural customers.

The RRA reflects additional revenue collected from Hydro's rural customers when rates increase between Hydro's General Rate Applications ("GRA"). These revenues are then allocated accordingly to Newfoundland Power and Hydro's Labrador Interconnected System rural customers using a Board approved methodology.³

The RRA balance was historically included as part of the Rate Stabilization Plan and netted against costs owing from Newfoundland Power, also included in that account. Since November 1, 2021, the effective date of the SCVDA, the balance has been accumulated in the SCVDA with the same intent. The SCVDA was established to address material changes in system costs following the commencement of payments under the Muskrat Falls Power Purchase Agreement and the Transmission Funding Agreement (collectively "Muskrat Falls Supply Costs"). In advance of Hydro's GRA, all Muskrat Falls Supply Costs incurred to serve customers on the Island Interconnected System, are also accumulating in the SCVDA.

As of February 28, 2026, the RRA component of the SCVDA reflects a credit balance of \$45.0 million. In contrast, the overall SCVDA reflects a balance owing from customers of \$457.8 million.

The magnitude of the RRA balance largely reflects the extended period and rate increases between the implementation of rates resulting from Hydro's last GRA in October 2019, and its next GRA. Hydro does not anticipate that RRA balances will accumulate to similar levels in the future, as it is not expected that comparable periods will elapse between rate applications.⁴

On May 16, 2024, Government announced the finalization of the rate mitigation plan. The plan applies to Island Interconnected System customers responsible for the costs of the Muskrat Falls Project, and was first implemented in Hydro's Utility Rate Adjustment effective August 1, 2024. As directed by Order in Council OC2024-062, Hydro is required to structure utility rate applications such that retail rate increases for domestic customers attributable to Hydro's costs, are targeted at 2.25 percent annually up to and including 2030, with remaining costs funded through rate mitigation. To date, approximately \$1.6 billion in rate mitigation funding has been provided to customers.

Government has committed to funding rate mitigation through agreements with the Government of Canada and through funding intended to reduce amounts owing from customers in the SCVDA. Order in Council OC2024-062 also directs that any additional funding required for rate mitigation be sourced, to the extent possible, from Hydro's internal sources.

In considering the transfer of the utility allocation of the RRA balance to Newfoundland Power to reduce customer rate impacts, it is important to consider the significant balances owed by customers to Hydro. A substantial portion of these balances are also captured in the SCVDA and relate to Muskrat Falls Supply Costs,⁵ which Hydro is obligated to recover. While the allocation between customer classes of the supply cost balances owing from customers in the SCVDA has not yet been determined,⁶ it is

³ Hydro's last Board approved Test Year allocates 96.1% of the rural deficit to Newfoundland Power and 3.9% to Hydro's Rural Labrador Interconnected customers. As approved in Board Order No. P.U. 16 (2019).

⁴ Hydro's upcoming GRA had been delayed until the commissioning of the Muskrat Falls Project was achieved and the details of Government's rate mitigation plan were known. Hydro is currently preparing to file its GRA in the coming weeks.

⁵ There are other deferral accounts such as the Reliability and Resource Adequacy Study Deferral, Muskrat Falls Sustaining Capital Deferral, and Business Systems Transformation Program Deferral, for which recovery of costs from customers such as Newfoundland Power has not commenced. Cost recovery will be proposed in Hydro's next GRA for approval by the Board.

⁶ Hydro anticipates proposing the methodology to allocate costs between customers for the balances contained in the SCVDA in Hydro's application to the Board for disposition of the account, subsequent to the finalization of the GRA.

anticipated that Newfoundland Power would be allocated the primary share of these costs, at which point the RRA credit and any other credits and balances owing from Newfoundland Power would be considered together. Government's rate mitigation plan also required consideration, in particular how credit balances and costs accumulating in the SCVDA were meant to be captured in the calculation of rate mitigation funding required. For these reasons, prior to transferring the utility allocation of the RRA balance to Newfoundland Power, consultation with Government was required.

Hydro will work with Newfoundland Power in advance of its rate application to finalize the details of the transfer. Hydro will also engage the Board to establish an approach going forward for the disposition of the balance in the RRA component of its SCVDA.

Should you have any questions, please contact the undersigned.

Yours truly,



NEWFOUNDLAND AND LABRADOR HYDRO

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THE PREMIER
GOVERNMENT OF
NEWFOUNDLAND AND LABRADOR

April 22, 2026

Jennifer Williams
Chief Executive Officer
Newfoundland and Labrador Hydro
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Dear Ms. Williams,

Affordability remains a top priority for the Government of Newfoundland and Labrador. We are committed to protecting households and businesses from rising costs, ensuring access to reliable and affordable essential services, and taking practical steps to mitigate cost-of-living pressures.

Recognizing that electricity rate decisions must advance affordability objectives while balancing considerations related to the ongoing reliability and viability of utilities, I am writing to outline Government's position to reduce the proposed July 1, 2026, electricity rate increase to customers through utilization of Newfoundland and Labrador Hydro's Rural Rate Alteration (RRA) account within the Supply Cost Variance Deferral Account (SCVDA).

The RRA account was established to reflect the revenue impacts associated with differences between rural and island electricity rates, and to ensure that those impacts were addressed in a manner consistent with approved rate setting practices and government policy.

Historically, balances in the RRA account were combined with other supply costs and addressed as part of the annual Rate Stabilization Plan (RSP) adjustment, incorporated collectively into the overall calculation of July 1 rate changes for Newfoundland Power customers. In 2021, the Public Utilities Board approved the inclusion of the RRA within the SCVDA where it is also incorporated collectively with other supply costs.

Since that time, the RRA has accumulated a significant credit balance - now approximately \$45 million. This magnitude of accumulated credit was not anticipated at the time the RRA was transitioned into the SCVDA and I understand it is not anticipated to accumulate similarly in the future with the filing of Newfoundland and Labrador Hydro's upcoming General Rate Application.

Government, Newfoundland and Labrador Hydro, and Newfoundland Power have been engaged in ongoing discussions regarding electricity rate affordability and the utilization of the RRA balance as a means to reduce the upcoming July 1 rate change.

Given the ongoing affordability challenges facing households and businesses across Newfoundland and Labrador we believe it is both reasonable and necessary that the credit balance currently held in the RRA account be applied to offset the Newfoundland Power portion of the projected July 1 rate increase. Doing so would reduce the overall increase faced by customers from a projected 7 per cent to the targeted 2.25 per cent, delivering meaningful near-term relief while longer-term solutions continue to be developed.

Accordingly, I ask that Newfoundland and Labrador Hydro work collaboratively with Newfoundland Power and the Public Utilities Board to request approval for the appropriate application of these credits for July 1, 2026. Government requests NL Hydro work with the Public Utilities Board so the PUB can determine the clear and transparent approach on the disposition of the RRA balance on a go-forward basis.

We are committed to protecting Newfoundland and Labrador families from undue cost increases, supporting rural sustainability, and ensuring that our energy system is managed responsibly, transparently, and in the public interest. I appreciate your cooperation on this matter and look forward to continued collaboration in support of these shared goals.

Please do not hesitate to engage with my office should further clarification be required.

Sincerely,



HONOURABLE TONY WAKEHAM
Premier of Newfoundland and Labrador
MHA, Stephenville-Port au Port