

1 Q. **Reference: Schedule 1: Evidence**

2 Page 2, lines 19-21 states “The proposed deferral account would also provide for rate mitigation
3 funding and/or rate changes implemented solely to recover Project costs to be applied to the
4 proposed deferral account to offset Project charges to Hydro.”

5 During the Rate Mitigation Reference, it was noted by Nalcor and Hydro that the application of
6 rate mitigation sources received from the province raised a number of accounting issues that
7 needed to be addressed. In particular Hydro did not want to be viewed from an accounting
8 standards perspective as not being “self-supporting”. Has Hydro received any opinion or
9 consultation from external accountants/auditors confirming that applying the rate mitigation
10 funding from the province to a deferral account would resolve the potential issues and be
11 appropriate under IFRS? If so, please provide this information. If not, please explain how Hydro
12 has come to the conclusion that this treatment of the rate mitigation funding received from the
13 province would be appropriate under IFRS.

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16 A. The Agreement in Principle for the financial restructuring of the Lower Churchill Assets
17 announced on July 28, 2021 by the province of Newfoundland and Labrador and the
18 Government of Canada sets out the principles to be used to negotiate term sheets followed by
19 definitive agreements. Until the definitive agreements are negotiated and the mechanics for
20 rate mitigation are determined, Newfoundland and Labrador Hydro (“Hydro”) is not in a position
21 to determine the financial accounting effects of rate mitigation and any impacts on its self-
22 supporting status.

23 Under International Financial Reporting Standards (“IFRS”) 14 – *Regulatory Deferral Accounts*,
24 the Board of Commissioners of Public Utilities can provide an order that permits Hydro to
25 recognize regulatory assets and liabilities in Hydro’s financial statements. The request to include
26 any rate mitigation funding received in the proposed deferral account is consistent with Hydro’s
27 other deferral accounts that have been approved in accordance with IFRS 14. Hydro believes

1 that the usage of the deferral account to record the receipt of any rate mitigation funds
2 received, until such time as the full rate mitigation details are known and incorporated in rates,
3 is an appropriate usage of deferral accounts. Please refer to Hydro's response to PUB-NLH-003
4 for additional information.