Q. In the 2025 Capital Budget Supplemental Application – Application for the Purchase and Installation of Bay d'Espoir Unit 8 and Avalon Combustion Turbine – Revision 1 and Evidentiary Update, Hydro states that an annual borrowing rate of 4.96% was used to calculate the IDC for the cost estimate (Attachment 2, Revision B1, page 18).

In the Application for Approval of a Deferral Account for an Allowance for Funds Used During Construction, in the response to PUB-NLH-001 Hydro sets out an embedded cost of debt for 2027 of 4.05% and a rate of return on rate base of 4.88%. In the response to PUB-NLH-006, the amount of the IDC appears to be lower than the amount of AFUDC for the period 2027 to 2032.

In the 2026 General Rate Application Hydro is proposing a 4.88% rate of return on rate base for the 2027 Test Year, which includes an embedded cost of debt of 4.05%. Hydro also reports that the embedded cost of debt for the period 2024 to 2026 ranges from a high of 4.75% in 2024 to 4.02% forecast for 2026 (Schedule D-IV, page 1 of 1, GRA Application).

a) Explain why the interest rate used to calculate IDC in the 2025 Capital Budget Supplemental Application is higher than the embedded cost of debt noted in the other two applications.

b) Provide an explanation of how the 4.96% was calculated.

c) Provide a new "Table 2: Spend Profile to Calculate IDC ($ millions)", as presented in PUB-NLH-008, to reflect a rate of 4.05% and 4.88%.

A. **a)** The 4.96% is consistent with Newfoundland and Labrador Hydro's ("Hydro") Interest During Construction ("IDC") rate of 4.926%[1] in effect at the time that the original cost estimate was being completed for the initial 2025 Build Application. It was not changed in the Avalon Combustion Turbine ("CT") Evidentiary Update in order to limit the number of variables that were modified in assessing the impact of the cost increase of the CT. The IDC rate is a variable, and actual debt costs will be applied against incurred project costs monthly

[1] The IDC rate of 4.926% was calculated as of June 30, 2024, but 4.96% was utilized in the analysis.

according to the rate in effect at that time. Any variances will be tracked against the baseline cost estimate, which is based on an IDC of 4.96%, and included in regular cost reporting.

As noted above, the IDC rate of 4.926% was calculated as of June 30, 2024, and the calculation of the embedded debt rates will change as interest rates change on outstanding debt, which also includes short-term borrowings. Since the calculation, Hydro has issued new debt in 2025 at a rate of 4.6% and, in 2026, had $300 million of debt maturing with an interest rate of 8.40%. In addition, Hydro is forecasting to issue new debt in 2026 and 2027 at interest rates of 4.68% and 4.73%, respectively, which will lower the embedded cost of debt.

b) The IDC rate is calculated each quarter using a rolling 12-month average of actual regulated debt outstanding (short-term and long-term debt less sinking funds) and eligible interest expenses. Refer to Attachment 1 of this response for the calculation of the 4.926% IDC rate calculated at the time of the cost estimate.

c) Please note that the cost profiles in Table 1 and Table 2 do not include IDC; therefore, they remain the same as the respective tables that were provided in the response to PUB-NLH-008 of this proceeding.

The Planned Spend Profiles referenced in Table 3 and Table 4 do include IDC and are based on IDC rates of 4.05% and 4.88%, respectively.

Table 1: Cost Profile to Calculate Escalation ($ Millions)

	2024	2025	2026	2027	2028	2029
Original Cost Profile	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Update Cost Profile	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Table 2: Spend Profile to Calculate IDC ($ Millions)

	2024	2025	2026	2027	2028	2029
Original Cost Profile	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Updated Cost Profile	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Table 3: Planned Spend Profile ($ Millions) – Based on IDC Being Changed to 4.05%

	2024	2025	2026	2027	2028	2029
Original Planned Spend Profile	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Updated Planned Spend Profile	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Table 4: Planned Spend Profile ($ Millions) – Based on IDC Being Changed to 4.88%

	2024	2025	2026	2027	2028	2029
Original Planned Spend Profile	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Updated Planned Spend Profile	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Newfoundland and Labrador Hydro
Interest Actual to June 30, 2024
($000)
Rate for Interest During Construction (IDC)

13.1 - Average Regulated Debt Balance For the Year - Proposed

	Actual 30-Jun-23	Actual 30-Jun-24	Average Balance
Long-Term Debt, Par Value	2,125,000	2,125,000	2,125,000
Sinking Funds - Hydro Issues	(101,206)	(115,592)	(108,399)
Sinking Funds - Other Holdings	(204,080)	(211,220)	(207,650)
Unamortized Discount on Long-Term Deb	8,887	10,310	9,599
Long-Term Regulated Debt, Net	1,828,602	1,808,498	1,818,548
Non-Regulated Debt Pool	9,248	(2,503)	3,373
Short-Term Regulated Debt	20,000	428,000	224,000
Total Regulated Debt	**1,857,850**	**2,233,995**	**2,045,922**

13.2 - Proposed Embedded Cost of Debt For The Year

	2024 Actual
Gross Interest	
Actual Coupon Interest on Long-Term Debt	97,725
Actual Interest Expense, Short-Term (Net)	12,920
	110,645
Actual Amortization of long-term Debt Discounts	1,424
Actual Bank Fees	1,048
Actual Amortization of FX Loss	2,157
Actual Fiduciary Fees Related to Long-Term Debt	5
Actual Other Interest	(1,705)
Actual Guarantee Fee	8,867
Actual Sinking Fund Revenue	(14,863)
Total Eligible Interest Expense for 2024	**107,577**
Less:	
Guarantee Fee Exclusion	(6,792)
Total Eligible Interest Cost for IDC Calculation	**100,785**
Total Regulated Debt	**2,045,922**
Proposed Embedded IDC Rate	**4.926%**