Q. Does Hydro require the Board to approve an IFRS deviation under IFRS 14 for the establishment of this deferral account? If not, please explain why and how it is different from P.U. 16(2021), which permitted a deferral account for the recovery of capital-related overhead costs using IFRS 14.

A. No. Newfoundland and Labrador Hydro ("Hydro") does not require the approval of a deviation from International Financial Reporting Standards ("IFRS") for the establishment of this deferral account.

Deferral accounts are permitted under IFRS 14 *Regulatory Deferral Accounts* ("IFRS 14") and represent the opportunity to recover costs in a period other than the one in which the costs would normally be recognized under IFRS. To the extent that Hydro defers costs for regulatory purposes that would normally be expensed under IFRS, IFRS 14 allows these amounts to be recognized as a regulatory deferral.

In this application, Hydro is proposing to defer expenditures related to the implementation of cloud-based computing arrangements that are required to be recognized as operating expenditures under IFRS. Hydro is requesting approval to establish a regulatory deferral account under IFRS 14 to defer the full impact of these operating expenditures. This approach allows for recovery over a longer period than the year in which the costs are incurred, and is consistent with the development of on-premises solutions, better aligning cost recovery with the period over which customers receive the benefit.

Board of Commissioners of Public Utilities Order No. P.U. 16(2021) approved the deferral account for the recovery of capital-related overhead costs. The deferral account allows Hydro to defer a portion of overhead expenditures which are incremental to its capital program but are not permitted to be capitalized under IFRS. While Hydro referenced an IFRS deviation due to the nature of the underlying calculation and the driver for the requested approvals, the proposed deferral account was in accordance with IFRS under IFRS 14, and a specific approval of an IFRS deviation wasn't necessary.