

1 Q. According to paragraph 12 of the Application, Hydro is proposing that the Cloud Cost Deferral
2 Account be included in Hydro's regulated rate base and be effective January 1, 2025. Please
3 provide a 2025 and 2026 forecast statement of earnings, including the rates of return on rate
4 base and equity, with and without approval of the Application.

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7 A. Please refer to PUB-NLH-003, Attachment 1. Please note that, at this stage, only the Lotus Notes
8 Migration Project¹ has been assessed as cloud-based operating expenditures. This project is
9 forecast to conclude in 2025, and therefore, the scenario which excludes the Cloud Cost Deferral
10 Account in Attachment 1 does not include any cloud-based operating expenditures for 2026.
11 There are other ongoing and future projects that are currently under review and may result in
12 cloud-based operating expenditures in 2026 and future years. The number of cloud projects is
13 expected to continue to grow as the market shifts to cloud-based solutions.

14 The exclusion of a cloud deferral would result in the Lotus Notes Migration Project being
15 recorded as a net increase to operating expenses of \$1 million in 2025.² If the Cloud Cost
16 Deferral Account was approved, the expenditures would be spread over the estimated useful
17 life of the asset.

¹ The Lotus Notes Migration Project is budgeted to have a \$2 million spend in 2025.

² Gross operating costs of \$2 million which would be partially offset by an intercompany recovery of \$1 million.

**Comparison of Forecast Net Income, Return on Rate Base and
Return on Equity, With and Without Cloud Cost Deferral Account¹**

	Forecast 2025		Forecast 2026	
	Including Cloud Deferral	Excluding Cloud Deferral	Including Cloud Deferral	Excluding Cloud Deferral
Revenue				
Energy Sales	644,046	644,046	646,601	646,601
Generation Demand Cost Recovery	1,560	1,560	1,560	1,560
CIAC Revenue	2,307	2,307	2,310	2,310
Other Revenue	2,271	2,271	2,247	2,247
Total Revenue	650,185	650,185	652,717	652,717
Expenses				
Operating Expenses ²	153,920	155,114	153,326	153,538
Amortization of Foreign Exchange Losses	2,157	2,157	2,157	2,157
Fuels	233,514	233,514	231,677	231,677
Power Purchases ³	67,026	67,026	66,327	66,327
Power Purchases – Off-Island	174	174	844	844
Depreciation	94,058	94,044	103,084	102,920
Accretion of Asset Retirement Obligation	1,075	1,075	1,148	1,148
Interest	88,527	88,527	86,653	86,653
Total Expenses	640,451	641,631	645,216	645,263
Net Income	9,734	8,553	7,502	7,454
Add: Cost of Service Exclusions:				
Revenue Req. Cost of Service Exclusions	404	404	404	404
Interest Cost of Service Exclusions	6,848	6,848	8,238	8,238
Other Cost of Service Exclusion				
Regulated Interest	83,836	83,836	80,571	80,571
Return on Rate Base	100,821	99,641	96,714	96,667
Average Rate Base	2,472,167	2,471,153	2,564,689	2,562,742
Return on Rate Base %	4.08%	4.03%	3.77%	3.77%
Return on Equity %	2.49%	2.32%	2.31%	2.31%

¹ Numbers may not add due to rounding.

² The balance excluding cloud deferral results in an increase in operating and maintenance ("O&M") due to the one-time costs. In the scenario including the cloud deferral, there is also an O&M credit relating to the intercompany admin fee charge for depreciation and return on the asset.

³ Please note that there is no impact to power purchase expense because the Supply Cost Variance Deferral Account ("SCVDA") would defer the impact of Lower Churchill's portion of the cost in 2025–2026. Absent the SCVDA, there would be a variation in power purchase expense for Lower Churchill's portion of cloud costs that are recharged to Regulated Hydro through the monthly power purchase invoice.