Q. **Reference: Schedule 7, project/program estimates**

Hydro generally combines interest during construction and escalation within a single "Interest and Escalation" budget category. The 2025 Capital Expenditures and Carryover Report also identifies additional interest during construction associated with project carryover.

a) Please provide Hydro's current policy governing capitalization of interest during construction.

b) Please identify the interest rate(s) used in the 2027 CBA.

c) For each project/program exceeding $750,000, please separately provide the amounts presently reported as "Interest and Escalation" attributable to: i) interest during construction; and ii) escalation.

d) Please provide the total interest during construction included in the 2027 CBA.

e) Please explain Hydro's policy governing suspension of interest capitalization where project activity is materially interrupted.

f) Please identify capital projects during 2024–2026 that were materially paused or delayed for reassessment of scope, budget, justification or alternatives but for which interest continued to be capitalized. As part of the response, for each project identified, please also provide the period of interruption and amount of interest capitalized during that period.

g) Please explain whether interest is calculated on: i) unused contingency; ii) customer-funded expenditures; iii) expenditures subsequently reimbursed by insurance or another party; and iv) vehicles, mobile equipment or other substantially completed assets during the period between ordering and delivery.

A. **a)** Newfoundland and Labrador Hydro ("Hydro") currently calculates and capitalizes borrowing costs in accordance with International Financial Reporting Standards – International Accounting Standard 23, *Borrowing Costs*. Below are the guidelines followed by Hydro with regards to capitalization of borrowing costs during a capital project.

Interest During Construction ("IDC")

Hydro shall include IDC as an element of the cost of a qualifying asset when borrowing costs are incurred to fund a capital project (prior to the asset being placed in service).

During the project's construction, the amount of IDC capitalized must be that portion of interest cost incurred by Hydro which could have been avoided if the expenditure for the project had not been made.

IDC related to a particular asset represents the cost of borrowing that the project is subject to during the construction phase. Only projects with durations greater than six months are subject to IDC.

When any of the following criteria is met, IDC is **NOT** incurred as part of a project's construction cost:

- The project is procurement-only (e.g., purchase of an asset such as vehicles, tools, capital spares);
- The project involves work on assets not owned by Hydro (e.g., Exploits, Star Lake, Natuashish);
- The project is fully funded, up front by third parties (contributions in aid of construction, grants, etc.);
- Programs that contain more than one project and multiple in-service dates (e.g., a circuit breaker program that contains multiple circuit breaker projects with varying in-service dates); and/or
- Projects with expected duration less than six months from the project commencement date to the date when substantially all the activities necessary to prepare the qualifying asset for its intended use are complete.

Once the project is in-service, the interest capitalized is amortized as part of the cost of the asset over the service life of the asset(s).

Borrowing Costs Eligible for Capitalization

To the extent Hydro borrows funds specifically for the purpose of obtaining a qualifying asset, Hydro shall determine the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings (net interest expense).

To the extent that Hydro borrows funds generally and uses them for the purpose of obtaining a qualifying asset, Hydro shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to Hydro's borrowings that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalized during a period shall not exceed the amount of borrowing costs incurred during that period.

Commencement of IDC Capitalization

Hydro begins capitalizing borrowing costs as part of the cost of a qualifying asset on the commencement date. The commencement date for capitalization is the date when the project first meets all of the following conditions:

- Expenditures for the asset are being incurred;
- Borrowing costs are being incurred; and
- Activities that are necessary to prepare the asset for its intended use or sale are in progress.

Suspension of IDC Capitalization

Hydro suspends capitalization of borrowing costs during extended periods in which it suspends active development of a qualifying asset. An example would include when a capital project is ceased if Hydro is unsure whether progress on the project will continue. Such costs are costs of holding partially completed assets and do not qualify for capitalization.

However, during a period when a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale, no suspension of IDC capitalization is required (i.e., IDC capitalization would continue during an extended period that the business delayed construction of an asset while it waited for a scheduled outage; managing scheduled outages is common during the construction season within the utility industry).

Whether a suspension period is considered to be extended is subject to professional judgment and is to be communicated to the Capital Accounting Team by the Project Manager.

Cessation of IDC Capitalization

Hydro ceases capitalizing borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

b) The Interest During Construction rate used in the 2027 CBA was 4.65%.

c) Please see **Error! Reference source not found.** below for a listing of all projects and programs exceeding $750,000 contained within the 2027 Capital Budget Application and their individual Interest and escalation budgets.

Table 1: **Project Interest and Escalation ($000)**

CBA Project Description	Total Interest	Total Escalation
Upgrade Worst-Performing Distribution Feeders (2025-2027)	593.9	579.7
Replace Diesel Gensets (2025-2027)	99.1	184.2
Replace Mobile Equipment (2025-2027)	-	214.6
Replace Light- and Heavy-Duty Vehicles (2025-2027)	-	338.1
Upgrade Spherical Valve Controls (2026-2029) - Bay d'Espoir	112.9	71.4
Refurbish Water Treatment Systems (2026-2027) - Holyrood	56.2	64.7
Renew Circuit Breakers (2026-2028)	-	289.1
Replace Disconnects (2026-2028)	-	152.1
Replace Protective Relays (2026-2027)	-	135.6
Upgrade Power Transformers (2026–2027)	93.6	61.3
L23/24 Steel-Tower Transmission Line Renewal (2026-2029)	603.3	879.4
Relocate Section of Line (2026-2028) - TL220	251.7	335.2
Upgrade Distribution System (2026-2027) - Wiltondale	47.5	71.8
Renew Distribution Feeders (2026-2027)	113.3	231.6
Upgrade Worst-Performing Distribution Feeders (2026-2027)	131.1	238.7
Upgrade PLX Metering System (2026-2028) - Labrador East	-	73.1
Replace Heavy-Duty Mobile Equipment (2026-2028)	-	206.8

Replace Roof (2026-2027) - Hopedale	33.8	106.3
Perform Software Upgrades and Minor Enhancements - Information Technology (2026-2027)	43.6	55.1
Upgrade Core IT Infrastructure (2026-2027)	54.1	38.2
Replace 48 V Battery Banks and Chargers (2026-2027)	-	25.8
Replace Network Communications Equipment (2026-2027)	-	25.6
Install Intelligent Electronic Devices Management Software (2026-2028)	93.1	44.8
Replace Radio Link to Hydraulic Control Structure (2026-2027) - Ebbegunbaeg	45.3	40.8
Replace Teleprotection Equipment (2026-2028)	143.0	39.4
Replace Heavy-Duty Vehicles (2026-2028)	-	202.2
Replace Light-Duty Vehicles (2026-2027)	-	88.2
Hydraulic In-Service Failures (2027)	-	108.3
Refurbish Draft Tube Deck - Phase 3 (2027-2029) - Bay d'Espoir	78.7	100.5
Refurbish Intake Access Road (2027-2028) - Bay d'Espoir	72.0	155.5
Refurbish MD-1 (2027-2028) - Ebbegunbaeg	542.5	788.3
Stabilize Powerhouse Slope (2027) - Cat Arm	28.4	53.9
Overhaul Hydraulic Units (2027)	38.5	149.6
Replace Diesel Gensets (2027–2029) - Burnt Dam Spillway	119.0	85.8
Thermal In-Service Failures (2027)	-	135.8
Overhaul Marine Terminal Loading Arms (2027) - Holyrood	17.2	28.7
Overhaul Major Pumps and Associated Motors (2027) - Holyrood	54.7	123.0
Overhaul Generator - Unit 3 (2027) - Holyrood	65.4	137.7
Overhaul Turbine Valves - Unit 1 (2027) - Holyrood	139.7	285.4
Perform Boiler Condition Assessment and Miscellaneous Upgrades (2027) - Holyrood	175.4	363.8
Combustion Turbine In-Service Failures (2027)	-	28.7
Overhaul Main Enclosure (2027) - Stephenville	19.0	26.4
Renew Circuit Breakers (2027-2029)	-	167.9
Replace Disconnects (2027-2029)	-	115.7
Replace Protective Relays (2027-2028)	-	124.8
Terminal Station In-Service Failures (2027)	-	96.7
Install Breaker Failure Protection (2027-2028) - Western Avalon and Holyrood	102.9	88.9
Upgrade Power Transformers (2027–2028)	45.2	71.3
Wood Pole Line Management (2027)	-	435.2
Refurbish Aluminum Towers (2027-2028) - TL212	46.7	232.4
Distribution System In-Service Failures and Miscellaneous Upgrades (2027)	-	270.3
Provide Service Extensions (2027)	-	236.9
Distribution Equipment SCADA Additions - Phase I (2027-2028)	53.5	50.0
Replace T1 (2027-2029) - Burgeo	108.0	191.5
Renew Distribution Feeders (2027-2028)	68.0	167.7
Upgrade Worst-Performing Distribution Feeders (2027–2028) – Fleur De Lys, Line 1	72.3	234.9
Diesel In-Service Failures (2027)	-	37.2
Renew Diesel Units (2027)	-	134.1
Inspect Fuel Storage Tanks (2027-2028) - Makkovik	41.7	128.8
Replace Diesel Gensets (2027-2029)	88.8	160.5
Replace Light-Duty Mobile Equipment (2027)	-	42.3
Replace Heavy-Duty Mobile Equipment (2027-2028)	-	80.8
Perform Facilities Refurbishments (2027)	-	41.3
Replace Roof (2027-2028) - Cartwright	31.0	65.5
Upgrade Line Depots (2027-2029) - Bay d'Espoir	238.1	334.5
Purchase Tools and Equipment (2027)	-	62.2

Purchase Personal Computers (2027)	-	50.8
Upgrade Energy Management System (2027-2028)	-	27.8
Migrate Legacy Applications (2027)	22.2	26.5
SWOP Replacement (2027-2028)	22.9	48.0
Perform Software Upgrades and Minor Enhancements - Information Technology (2027-2028)	31.1	45.9
Upgrade Core Information Technology Infrastructure (2027)	-	70.3
Replace Power Line Carrier (2027-2029) - TL212	124.3	95.0
Replace Heavy-Duty Vehicles (2027-2029)	-	167.7
Replace Light-Duty Vehicles (2027-2028)	-	122.9
Modify Office Buildings and Procure Furniture, Fixtures, & Equipment (2027)	-	27.7
Total:	**4,962.7**	**11,619.2**

d) Please see table included in c) above.

e) Refer to response a) above.

f) Table 2 below summarizes the capital projects during 2024–2026 that were materially paused or delayed for reassessment of scope, budget, justification or alternatives but for which interest continued to be capitalized. The table includes the period of interruption and amount of interest capitalized during that period. Interest incurred each month on a project is calculated against actual expenditures incurred to date on that project. In most cases when projects have been paused, there has not been significant procurement and construction expenditures to date, and therefore the additional interest costs during the period of interruption were not material.

Table 2: Capitalized Interest During Periods of Interruption for Paused Projects

Project Title	Period of Interruption	Amount of Interest Capitalized During Period of Interruption ($000)
Additions for Load (2022) - Distribution System - Mary's Harbour Voltage Conversion	May 1, 2023 to December 31, 2025	21.6
Replace VHF Radio System (2024–2025)	January 1, 2024 to May 31, 2025	7.5
Replace Intermediate Fuel 1 Storage Tanks (2023–2024) - Nain	July 1, 2024 to November 30, 2024	9.4
Purchase Spare Generator Step-Up Transformer (2023–2028)	January 1, 2025 to February 28, 2025	0.6
Additions for Load - Wabush Substation Upgrades (2021–2025)	December 18, 2025 to December 31, 2025	-[1]
Replace Fuel Storage Tank (2026) - McCallum	January 1, 2026 to August 31, 2026	1.3
Additions for Load Growth - Upgrade Transformer Capacity (2023–2028) - Jean Lake Terminal Station	January 1, 2026 to August 31, 2026	10.4[2]
Install Breaker Failure Protection (2025–2027) - Holyrood	June 1, 2026 to August 31, 2026	3.5

g) Refer to response a) above. Interest During Construction is not calculated on unused contingency, customer-funded expenditures, expenditures subsequently reimbursed by insurance or another party, or procurement only assets such as vehicles, mobile equipment or other substantially completed assets during the period between ordering and delivery.

[1] Hydro closed this project on December 31, 2025 without completing the entire scope of work. Remaining scope will be included in a future Capital Budget Application.
[2] The interest amount indicated is the amount associated with the scope of work that was paused. Interest was also incurred in this same period for the work that was not paused, specifically the procurement of a transformer.