Newfoundland and Labrador Hydro
Hydro Place. 500 Columbus Drive
P.O. Box 12400. St. John's. NL
Canada A1B 4K7
t. 709.737.1400 | f. 709.737.1800
nlhydro.com

July 25, 2024

Board of Commissioners of Public Utilities
Prince Charles Building
120 Torbay Road, P.O. Box 21040
St. John's, NL A1A 5B2

Attention: Jo-Anne Galarneau
Executive Director and Board Secretary

Re: 2023 Annual Return – Update

Newfoundland and Labrador Hydro ("Hydro") is enclosing an updated version of its 2023 Annual Return, which was filed confidentially with the Board of Commissioners of Public Utilities pursuant to Section 59(2) of the *Public Utilities Act* on April 2, 2024.

Please note that within its 2023 Annual Return submitted on April 2, Hydro restated the working capital allowance for 2022 to exclude power purchases and transmission expenses that were deferred in the Supply Cost Variance Deferral Account with monthly interest calculated on outstanding balances. The adjustment resulted in a reduction of $9,036,000 in the working capital allowance for a revised allowance of $1,276,000 and a revised 2022 average rate base of $2,325,085,000.

The exclusion of the power purchases and transmission expenses recorded directly in the deferral account will avoid earning a return on these payments in both the calculation of the working capital allowance and through interest accrued in the Supply Cost Variance Deferral Account.

Hydro confirms that its financial results for 2023 have been presented in the House of Assembly of Newfoundland and Labrador.

Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO

SWalsh

Shirley A. Walsh
Senior Legal Counsel, Regulatory
SAW/rr

Encl.

ecc:

Board of Commissioners of Public Utilities
Jacqui H. Glynn
Maureen Greene, KC
Katie R. Philpott
Board General

Consumer Advocate
Dennis M. Browne, KC, Browne Fitzgerald Morgan & Avis
Stephen F. Fitzgerald, KC, Browne Fitzgerald Morgan & Avis
Sarah G. Fitzgerald, Browne Fitzgerald Morgan & Avis
Bernice Bailey, Browne Fitzgerald Morgan & Avis

Newfoundland Power Inc.
Dominic J. Foley
Lindsay S.A. Hollett
Regulatory Email

2023 Annual Return

July 25, 2024

A report to the Board of Commissioners of Public Utilities

newfoundland labrador hydro

Contents

NEWFOUNDLAND AND LABRADOR HYDRO
NON-CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023

Deloitte.

Deloitte LLP
5 Springdale Street
Suite 1000
St. John's NL A1E 0E4 Canada

Tel: 709-576-8480
Fax: 709-576-8460
www.deloitte.ca

Independent Auditor's Report

To the Directors of Newfoundland and Labrador Hydro

Opinion

We have audited the non-consolidated financial statements of Newfoundland and Labrador Hydro (the "Company"), which comprise the non-consolidated statement of financial position as at December 31, 2023, and the non-consolidated statements of profit and comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including material accounting policy information (collectively referred to as the "financial statements").

In our opinion, the accompanying non-consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2023, and the results of its financial performance and its cash flows for the year then ended in accordance with the financial reporting provisions of Section 59 of the Public Utilities Act.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Basis of Accounting

We draw attention to Note 2 to the non-consolidated financial statements, which describes the basis of accounting. The non-consolidated financial statements are prepared to assist the Company in complying with the financial reporting provisions of Section 59 of the Public Utilities Act. As a result, the non-consolidated financial statements may not be suitable for another purpose.

Other Matter

Newfoundland and Labrador Hydro has prepared separate consolidated financial statements for the year ended December 31, 2023 in accordance with International Financial Reporting Standards on which we issued an unmodified auditor's report to the Lieutenant-Governor in Council, Province of Newfoundland and Labrador dated March 13, 2024.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the financial reporting provisions of Section 59 of the Public Utilities Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte LLP

Chartered Professional Accountants
March 13, 2024

NEWFOUNDLAND AND LABRADOR HYDRO
NON-CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31 (millions of Canadian dollars)	Notes	**2023**	2022
ASSETS			
Current assets			
Cash		**29**	16
Trade and other receivables	5	**116**	112
Inventories	6	**101**	99
Current portion of sinking fund investments	9	**7**	9
Contract receivable	25	**13**	-
Prepayments		**6**	6
Deferred asset	7	**68**	86
Related party loan receivable	25	**-**	30
Total current assets		**340**	358
Non-current assets			
Property, plant and equipment	8	**2,315**	2,236
Sinking fund investments	9	**199**	193
Investments in joint arrangements	10	**732**	703
Other non-current assets		**8**	8
Total assets		**3,594**	3,498
Regulatory deferrals	11	**889**	540
Total assets and regulatory deferrals		**4,483**	4,038
LIABILITIES AND EQUITY			
Current liabilities			
Short-term borrowings	13	**230**	131
Trade and other payables	12	**167**	161
Current portion of contract payable	25	**274**	165
Current portion of long-term debt	13	**7**	7
Derivative liability	24	**68**	86
Other current liabilities		**5**	5
Total current liabilities		**751**	555
Non-current liabilities			
Long-term debt	13	**2,017**	2,032
Deferred contributions	14	**38**	35
Decommissioning liabilities	15	**27**	16
Employee future benefits	17	**82**	71
Contract payable	25	**178**	-
Other long-term liabilities		**3**	4
Total liabilities		**3,096**	2,713
Shareholder's equity			
Share capital	18	**23**	23
Contributed capital	18	**143**	144
Reserves		**19**	31
Retained earnings		**1,159**	1,094
Total equity		**1,344**	1,292
Total liabilities and equity		**4,440**	4,005
Regulatory deferrals	11	**43**	33
Total liabilities, equity and regulatory deferrals		**4,483**	4,038

Commitments and contingencies (Note 26)
See accompanying notes

On behalf of the Board

DIRECTOR

DIRECTOR

NEWFOUNDLAND AND LABRADOR HYDRO
NON-CONSOLIDATED STATEMENT OF PROFIT AND COMPREHENSIVE INCOME

For the year ended December 31 (millions of Canadian dollars)	Notes	**2023**	2022
Energy sales		**797**	709
Other revenue	19	**407**	47
Revenue		**1,204**	756
Fuels		**187**	188
Power purchased	20	**978**	524
Operating costs	21	**152**	136
Transmission rental		**19**	19
Depreciation and amortization		**73**	80
Net finance expense	22	**95**	94
Other expense	23	**9**	24
Expenses		**1,513**	1,065
Loss for the year from operations		**(309)**	(309)
Share of profit of joint arrangement	10	**30**	44
Preferred dividends		**7**	13
Loss before regulatory adjustments		**(272)**	(252)
Regulatory adjustments	11	**(342)**	(352)
Profit for the year		**70**	100
Other comprehensive (loss) income for the year			
Items that may or have been reclassified to profit or loss:			
Actuarial loss on employee future benefits regulatory adjustment		**(2)**	-
Actuarial (loss) gain on employee future benefits		**(9)**	32
Share of other comprehensive (loss) income of joint arrangement		**(1)**	5
Other comprehensive (loss) income for the year		**(12)**	37
Total comprehensive income for the year		**58**	137

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO
NON-CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(millions of Canadian dollars)	Note	Share Capital	Contributed Capital	Reserves	Retained Earnings	Total
Balance at January 1, 2023		**23**	**144**	**31**	**1,094**	**1,292**
Profit for the year		**-**	**-**	**-**	**70**	**70**
Other comprehensive loss for the year		**-**	**-**	**(12)**	**-**	**(12)**
Total comprehensive income for the year		**-**	**-**	**(12)**	**70**	**58**
Regulatory adjustment	**18**	**-**	**(1)**	**-**	**-**	**(1)**
Dividends	**18**	**-**	**-**	**-**	**(5)**	**(5)**
Balance at December 31, 2023		**23**	**143**	**19**	**1,159**	**1,344**
Balance at January 1, 2022		23	145	(6)	1,015	1,177
Profit for the year		-	-	-	100	100
Other comprehensive income for the year		-	-	37	-	37
Total comprehensive income for the year		-	-	37	100	137
Regulatory adjustment	18	-	(1)	-	-	(1)
Dividends	18	-	-	-	(21)	(21)
Balance at December 31, 2022		23	144	31	1,094	1,292

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO
NON-CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31 (millions of Canadian dollars)	Notes	**2023**	2022
Operating activities			
Profit for the year		**70**	100
Adjustments to reconcile profit to cash provided from (used in) operating activities:			
Depreciation and amortization		**73**	80
Regulatory adjustments	11	**(342)**	(352)
Share of profit of joint arrangement	10	**(30)**	(44)
Finance income	22	**(18)**	(16)
Finance expense	22	**113**	110
Loss on disposal of property, plant and equipment	23	**5**	19
Other		**2**	6
		(127)	(97)
Changes in non-cash working capital balances	28	**(10)**	56
Increase in contract payable	25	**287**	147
Increase in contract receivable	25	**(13)**	-
Interest received		**5**	2
Interest paid		**(112)**	(109)
Net cash provided from (used in) operating activities		**30**	(1)
Investing activities			
Additions to property, plant and equipment	8	**(148)**	(102)
Additions to intangible assets		**-**	(1)
Contributions to sinking funds	9	**(7)**	(7)
Decrease in related party loan receivable	25	**30**	23
Changes in non-cash working capital balances	28	**10**	(4)
Net cash used in investing activities		**(115)**	(91)
Financing activities			
Dividends paid		**-**	(13)
Increase in short-term borrowings	13	**99**	76
Other		**4**	11
Changes in non-cash working capital balances	28	**(5)**	(8)
Net cash provided from financing activities		**98**	66
Net increase (decrease) in cash		**13**	(26)
Cash, beginning of the year		**16**	42
Cash, end of the year		**29**	16

See accompanying notes

1. DESCRIPTION OF BUSINESS

Newfoundland and Labrador Hydro (Hydro or the Company) is incorporated under a special act of the Legislature of the Province of Newfoundland and Labrador (the Province). The principal activity of Hydro is the generation, transmission and sale of electricity. Hydro's operations include both regulated and non-regulated activities. Hydro is a 100% owned subsidiary of Nalcor Energy (Nalcor). Hydro's head office is located at 500 Columbus Drive in St. John's, Newfoundland and Labrador, A1B 0C9, Canada.

Hydro holds interests in the following entities:

A 65.8% interest in Churchill Falls (Labrador) Corporation Limited (Churchill Falls). Churchill Falls is incorporated under the laws of Canada and owns and operates a hydroelectric generating plant and related transmission facilities situated in Labrador which has a rated capacity of 5,428 megawatts (MW).

A 51.0% interest in Lower Churchill Development Corporation (LCDC), an inactive subsidiary. LCDC is incorporated under the laws of Newfoundland and Labrador and was established with the objective of developing all or part of the hydroelectric potential of the Lower Churchill River.

2. MATERIAL ACCOUNTING POLICIES

2.1 Statement of Compliance and Basis of Measurement

These annual audited non-consolidated financial statements (financial statements) have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) with the exception of Hydro's investments in joint arrangements and related disclosures. These statements are non-consolidated as the investments in joint arrangements have been accounted for using the equity method of accounting, as described in Note 2.8. Consolidated statements for the same period have been prepared for presentation to the Lieutenant Governor in Council of the Province.

These financial statements have been prepared on a historical cost basis, except for financial instruments at fair value through profit or loss (FVTPL) which have been measured at fair value. The financial statements are presented in Canadian Dollars (CAD) and all values rounded to the nearest million, except when otherwise noted. The financial statements were approved by Hydro's Board of Directors (the Board) on March 8, 2024.

2.2 Cash and Cash Equivalents and Short-Term Investments

Cash and cash equivalents consist of amounts on deposit with Schedule 1 Canadian Chartered banks, as well as highly liquid investments with maturities of three months or less. Investments with maturities greater than three months and less than twelve months are classified as short-term investments.

2.3 Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes expenditures incurred in acquiring inventories and bringing them to their existing condition and location. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

2.4 Property, Plant and Equipment

Items of property, plant and equipment are recognized at cost less accumulated depreciation and accumulated impairment losses. Cost includes materials, labour, contracted services, professional fees and, for qualifying assets, borrowing costs capitalized in accordance with Hydro's accounting policy outlined in Note 2.6. Costs capitalized with the related asset include all those costs directly attributable to bringing the asset into operation.

When significant parts of property, plant and equipment are required to be replaced at intervals, Hydro recognizes such parts as individual assets with specific useful lives and depreciation rates. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the asset as a replacement if the recognition criteria are satisfied. All other repairs and maintenance costs are recognized in profit or loss as incurred.

Depreciation commences when the assets are ready for their intended use. Residual values and useful lives are reviewed at the end of each year and adjusted prospectively, if appropriate. As per Board Order P.U. 30 (2019), Hydro was approved to recover gains and losses through accumulated amortization and to record removal costs through depreciation. To comply with International Accounting Standard (IAS) 16, the adjustments related to the recovery of gains and losses through accumulated amortization and removal depreciation are presented as a regulatory adjustment in Note 11. The depreciation rates used are as follows:

Generation plant	
Hydroelectric	25 to 110 years
Thermal	20 to 70 years
Diesel	3 to 70 years
Transmission	
Lines	26 to 65 years
Terminal stations	20 to 60 years
Distribution system	20 to 60 years
Other assets	3 to 70 years

Hydroelectric generation plant includes the powerhouse, turbines, governors and generators, as well as water conveying and control structures, including dams, dikes, tailraces, penstocks and intake structures. Thermal generation plant is comprised of the powerhouse, turbines and generators, boilers, oil storage tanks, stacks, and auxiliary systems. Diesel generation plant includes the buildings, engines, generators, switchgear, fuel storage and transfer systems, dikes and liners and cooling systems.

Transmission lines include the support structures, foundations and insulators associated with lines at voltages of 230, 138 and 69 kilovolt (kV). Terminal station assets are used to step up voltages of electricity for transmission and to step down voltages for distribution. Distribution system assets include poles, transformers, insulators, and conductors.

Other assets include telecontrol, buildings, vehicles, furniture, tools and equipment.

The carrying amount of a replaced asset is derecognized when replaced. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recorded in Other expense. Pursuant to Board Order No. P.U. 30 (2019), the gains and losses are deferred on retirement of property, plant and equipment. The deferral will be recovered through future depreciation expense.

2.5 Intangible Assets

Intangible assets that are expected to generate future economic benefit and are measurable, including computer software costs and feasibility studies, are capitalized as intangible assets in accordance with IAS 38.

Intangible assets with finite useful lives are carried at cost less accumulated amortization and accumulated impairment losses. The estimated useful life and amortization method are reviewed at the end of each year with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.

Amortization is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Feasibility studies	22 years
Computer software	7 years

2.6 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in the Non-Consolidated Statement of Profit and Comprehensive Income in the period in which they are incurred.

2.7 Impairment of Non-Financial Assets

Property, plant and equipment and other non-financial assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where it is not possible to estimate the recoverable amount of an individual asset, Hydro estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs. The recoverable amount is the higher of fair value less costs of disposal and value in use. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from non-financial assets. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount and an impairment loss is recognized immediately in the Non-Consolidated Statement of Profit and Comprehensive Income.

2.8 Investments in Joint Arrangements

A joint arrangement is an arrangement in which two or more parties involved have joint control. Control exists when Hydro has the power, directly or indirectly, to govern the financial and operating policies of another entity, so as to obtain benefits from its activities. A joint arrangement is either classified as a joint operation or a joint venture based on the rights of the parties involved. Hydro's investment in Churchill Falls is classified as a joint operation.

Hydro's investment in Churchill Falls is recorded using the equity method of accounting. Under the equity method, the interest in the investment is carried in the Non-Consolidated Statement of Financial Position at cost plus post acquisition changes in Hydro's share of net assets of the investment. The Non-Consolidated Statement of Profit and Comprehensive Income reflects the share of the profit or loss of the joint operation.

2.9 Employee Future Benefits

(i) Pension Plan

Employees participate in the Province's Public Service Pension Plan (Plan), a multi-employer defined benefit plan. Contributions by Hydro to this Plan are recognized as an expense when employees have rendered service entitling them to the contributions. Liabilities associated with this Plan are held with the Province.

(ii) Other Benefits

Hydro provides group life insurance and health care benefits on a cost-shared basis to retired employees, in addition to a retirement allowance.

The cost of providing these benefits is determined using the projected unit credit method, with actuarial valuations being completed on an annual basis, based on service and Management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

Actuarial gains and losses on Hydro's defined benefit obligation are recognized in reserves in the period in which they occur. Past service costs are recognized in operating costs as incurred. Pursuant to Board Order No. P.U. 36 (2015), Hydro recognizes the amortization of employee future benefit actuarial gains and losses in the Non-Consolidated Statement of Profit and Comprehensive Income as a regulatory adjustment.

The retirement benefit obligation recognized in the Non-Consolidated Statement of Financial Position represents the present value of the defined benefit obligation.

2.10 Provisions

A provision is a liability of uncertain timing or amount. A provision is recognized if Hydro has a present legal obligation or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. The provision is measured at the present value of the best estimate of the expenditures expected to be required to settle the obligation using a discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. Provisions are re-measured at each Non-Consolidated Statement of Financial Position date using the current discount rate.

2.11 Decommissioning, Restoration and Environmental Liabilities

Legal and constructive obligations associated with the retirement of property, plant and equipment are recorded as liabilities when those obligations are incurred and are measured as the present value of the expected costs to settle the liability, discounted at a rate specific to the liability. The liability is accreted up to the date the liability will be incurred with a corresponding charge to net finance expense. The carrying amount of decommissioning, restoration and environmental liabilities is reviewed annually with changes in the estimates of timing or amount of cash flows added to or deducted from the cost of the related asset or expensed in the Non-Consolidated Statement of Profit and Comprehensive Income if the liability is short-term in nature.

2.12 Revenue from Contracts with Customers

Hydro recognizes revenue from contracts with customers related to the sale of electricity to regulated Provincial industrial, utility and direct customers in rural Newfoundland and Labrador and to non-regulated industrial, utility and external market customers. In addition, Hydro recognizes revenue from the sale of Greenhouse Gas performance credits.

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Hydro recognizes revenue when it transfers control of a product or service to a customer.

Revenue from the sale of energy is recognized when Hydro satisfies its performance obligation by transferring energy to the customer. Sales within the Province are primarily at rates approved by the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB), whereas export sales and sales to other certain major industrial customers are either at rates under the terms of the applicable contracts, or at market rates. Hydro recognizes revenue at the amount to which it has the right to invoice, which corresponds directly to the value of Hydro’s performance to date.

Revenue from the sale of Greenhouse Gas performance credits is recognized when Hydro satisfies its performance obligation by transferring the title of Greenhouse Gas performance credits to the customer. Hydro recognizes revenue at the amount to which it has the right to invoice, which corresponds directly to the value of Hydro’s performance to date.

2.13 Leasing

Lessee Accounting

Hydro assesses whether a contract is or contains a lease, at inception of a contract. Hydro recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets. For these leases, Hydro recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, Hydro uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed (and in-substance) lease payments less any lease incentives;
- variable lease payments that depend on an index or rate; and
- payments expected under residual value guarantees and payments relating to purchase options and renewal option periods that are reasonably certain to be exercised (or periods subject to termination options that are not reasonably certain to be exercised).

The lease liability is subsequently measured at amortized cost using the effective interest rate method. Lease liabilities are remeasured, with a corresponding adjustment to the related right-of-use assets, when there is a change in variable lease payments arising from a change in an index or rate, or when Hydro changes its assessment of whether purchase, renewal or termination options will be exercised. Hydro did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and accumulated impairment losses.

Whenever Hydro incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under *IAS 37 – Provisions, Contingent Liabilities and Contingent Assets*. The costs are included in the related right-of-use asset.

Right-of-use assets are depreciated over the shorter period of the lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that Hydro expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation starts at the commencement date of the lease.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognized as an expense in operating costs in the period in which the event or condition that triggers those payments occurs.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. Hydro has elected to apply this practical expedient.

2.14 Foreign Currencies

Transactions in currencies other than Hydro's functional currency (foreign currencies) are recognized using the exchange rate in effect at the date of transaction, approximated by the prior month end close rate. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates of exchange in effect at the period end date. Foreign exchange gains and losses not included in regulatory deferrals are recorded in the Non-Consolidated Statement of Profit and Comprehensive Income as Other expense.

2.15 Income Taxes

Hydro is exempt from paying income taxes under Paragraph 149(1) (d.2) of the Income Tax Act.

2.16 Financial Instruments

Classification and Initial Measurement

Financial assets and financial liabilities are recognized in the Non-Consolidated Statement of Financial Position when Hydro becomes a party to the contractual provisions of the instrument and are initially measured at fair value.

Financial assets are classified at amortized cost, fair value through other comprehensive income (FVTOCI), FVTPL or as derivatives designated as hedging instruments in an effective hedge. Financial liabilities are classified at FVTPL, amortized cost or as derivatives designated as hedging instruments in an effective hedge. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial Assets at Amortized Cost

Financial assets with contractual cash flows arising on specified dates, consisting solely of principal and interest, and that are held within a business model whose objective is to collect the contractual cash flows are subsequently measured at amortized cost using the effective interest rate method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

Hydro's financial assets at amortized cost include cash, trade and other receivables, related party loan receivable and sinking fund investments.

Financial Assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI are measured at FVTPL. Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not a part of a designated hedging relationship. Currently, Hydro has no financial assets measured at FVTPL.

Financial Liabilities at Amortized Cost

Hydro subsequently measures all financial liabilities at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the liability is derecognized.

Hydro's financial liabilities at amortized cost include trade and other payables, short-term borrowings and long-term debt.

Financial Liabilities at FVTPL

Financial liabilities that do not meet the criteria for being measured at amortized cost or FVTOCI are measured at FVTPL. Financial liabilities at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship.

Hydro's financial liabilities measured at FVTPL include derivative instruments not part of a designated hedging relationship.

Derecognition of Financial Instruments

Hydro derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

Hydro derecognizes financial liabilities when, and only when, its obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Impairment of Financial Assets

Hydro recognizes a loss allowance for expected credit losses (ECL) on investments in debt instruments that are measured at amortized cost or at FVTOCI. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

Hydro always recognizes lifetime ECL for trade and other receivables. The ECL on these financial assets are estimated based on Hydro's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. Hydro also records 12-month ECL for those financial assets which have low credit risk and where the low credit risk exemption has been applied. The classes of financial assets that have been identified to have low credit risk are cash and sinking funds.

For all other financial instruments, Hydro recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, Hydro measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

2.17 Government Grants

Government grants are recognized when there is reasonable assurance that Hydro will comply with the associated conditions and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which Hydro recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that Hydro should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue in the Non-Consolidated Statement of Financial Position and transferred to the Non-Consolidated Statement of Profit and Comprehensive Income on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to Hydro with no future related costs are recognized in the Non-Consolidated Statement of Profit and Comprehensive Income in the period in which they become receivable.

2.18 Regulatory Deferrals

Hydro's revenues from its electrical sales to most customers within the Province are subject to rate regulation by the PUB. Hydro's borrowing and capital expenditure programs are also subject to review and approval by the PUB. Rates are set through periodic general rate applications utilizing a cost of service methodology. Hydro's allowed rate of return on rate base based upon Board Order No. P.U. 30 (2019) is 5.4% in 2023 and 5.4% in 2022. Hydro applies various regulator approved accounting policies that differ from enterprises that do not operate in a rate regulated environment. Generally, these policies result in the deferral and amortization of costs or credits which are expected to be recovered or refunded in future rates. In the absence of rate regulation, these amounts would be included in the determination of profit or loss in the year the amounts are incurred. The effects of rate regulation on the financial statements are disclosed in Note 11.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the financial statements in conformity with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ materially from these estimates, including changes as a result of future decisions made by the PUB. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is reviewed if the revision affects only that period or future periods.

3.1 Use of Judgments

(i) Property, Plant and Equipment

Hydro's accounting policy relating to property, plant and equipment is described in Note 2.4. In applying this policy, judgment is used in determining whether certain costs are additions to the carrying amount of the property, plant and equipment as opposed to repairs and maintenance. If an asset has been developed, judgment is required to identify the point at which the asset is capable of being used as intended and to identify the directly attributable borrowing costs to be included in the carrying value of the development asset. Judgment is also used in determining the appropriate componentization structure for Hydro's property, plant and equipment.

(ii) Revenue

Management exercises judgment in estimating the value of electricity consumed by retail customers in the period, but billed subsequent to the end of the reporting period. Specifically, this involves an estimate of consumption for each retail customer, based on the customer's past consumption history.

When recognizing deferrals and related amortization of costs or credits, Management assumes that such costs or credits will be recovered or refunded through customer rates in future years. Recovery of some of these deferrals is subject to a future PUB order. As such, there is a risk that some or all of the regulatory deferrals will not be approved by the PUB which could have a material impact on Hydro's profit or loss in the year the order is received.

(iii) Determination of CGUs

Hydro's accounting policy relating to impairment of non-financial assets is described in Note 2.7. In applying this policy, Hydro groups assets into the smallest identifiable group for which cash flows are largely independent of the cash flows from other assets or groups of assets. Judgment is used in determining the level at which cash flows are largely independent of other assets or groups of assets.

(iv) Discount Rates
Certain of Hydro's financial liabilities are discounted using discount rates that are subject to Management's judgment.

(v) Regulatory adjustments
Regulatory assets and liabilities recorded in Hydro arise due to the rate setting process for regulated utilities governed by the PUB. The amounts relate to costs or credits which Management believes will be recovered or settled through customer rates in future periods, pursuant to the proceedings and outcomes of future PUB orders. Certain estimates are necessary since the regulatory environment often requires amounts to be recognized at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. The final amounts approved by the PUB for deferral as regulatory assets and liabilities and the approved recovery or settlement periods may differ from those originally expected. Any resulting adjustments to original estimates could have a material impact and are recognized in profit or loss in the period in which they become known.

3.2 Use of Estimates

(i) Property, Plant and Equipment
Amounts recorded for depreciation are based on the useful lives of Hydro's assets. The useful lives of property, plant and equipment are determined by independent specialists and reviewed annually by Hydro. These useful lives are Management's best estimate of the service lives of these assets. Changes to these lives could materially affect the amount of depreciation recorded.

(ii) Decommissioning Liabilities
Hydro recognizes a liability for the fair value of the future expenditures required to settle obligations associated with the retirement of property, plant and equipment. Decommissioning liabilities are recorded as a liability at fair value, with a corresponding increase to property, plant and equipment. Accretion of decommissioning liabilities is included in the Non-Consolidated Statement of Profit and Comprehensive Income through net finance expense. Differences between the recorded decommissioning liabilities and the actual decommissioning costs incurred are recorded as a gain or loss in the settlement period.

(iii) Employee Future Benefits
Hydro provides group life insurance and health care benefits on a cost-shared basis to retired employees, in addition to a severance payment upon retirement. The expected cost of providing these other employee benefits is accounted for on an accrual basis, and has been actuarially determined using the projected unit credit method prorated on service, and Management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

(iv) Deferred Assets and Derivative Liabilities
Effective October 1, 2015, Hydro entered into a power purchase agreement (PPA) with Nalcor Energy Marketing Corporation (Energy Marketing) which allows for the purchase of available Recapture energy from Hydro for resale by Energy Marketing. Additionally, the PPA allows for the use of Hydro's transmission service rights by Energy Marketing to deliver electricity, through rights which are provided to Hydro pursuant to a Transmission Service Agreement with Hydro-Québec dated April 1, 2009. The current terms of the PPA require a 60 day termination notice by either party. Management's assumption is that the term of the PPA at December 31, 2023, will continue for at least the next 12 months.

Fair values relating to Hydro's financial instruments and derivatives that have been classified as Level 3 have been determined using inputs for the assets or liabilities that are not readily observable. Certain of these fair values are classified as Level 3 as the transactions do not occur in an active market, or the terms extend beyond the period for which a quoted price is available.

Hydro's PPA with Energy Marketing is accounted for as a derivative instrument. Where Hydro determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the derivative transactions are initially measured at fair value and the expected difference is deferred. Subsequently, the deferred difference is recognized in profit or loss on an appropriate basis over the life of the related derivative instrument but not later than when the valuation is wholly supported by observable market data or the transaction has occurred.

Hydro has elected to defer the difference between the fair value of the power purchase derivative liability upon initial recognition and the transaction price of the power purchase derivative liability and to amortize the deferred asset on a straight-line basis over its effective term (Note 7). These methods, when compared with alternatives, were determined by Management to most accurately reflect the nature and substance of the transactions.

4. CURRENT AND FUTURE CHANGES IN ACCOUNTING POLICIES

The following is a list of amendments that have been issued and are effective for accounting periods commencing on or after January 1, 2023, as specified.

- *Amendments to IAS 1 – Presentation of Financial Statements– Disclosure of Accounting Policies*[1]
- *Amendments to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates*[1]
- *Amendments to IAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current and Non-Current Liabilities with Covenants* [2]

[1] Effective for annual periods beginning on or after January 1, 2023.
[2] Effective for annual periods beginning on or after January 1, 2024, with earlier application permitted.

4.1 Amendments to IAS 1 – Presentation of Financial Statements– Disclosure of Accounting Policies

The IASB issued amendments to IAS 1, which change the requirements with regard to the disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. This change did not have a material impact on Hydro's financial statements.

4.2 Amendments to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates

The IASB issued amendments to IAS 8 to clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. The amendments are intended to improve the understanding of the existing requirements and therefore did not have an impact on Hydro's financial statements.

4.3 Amendments to IAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current and Non-Current Liabilities with Covenants

The IASB issued amendments to IAS 1 to promote consistency in applying the requirements by helping companies determine whether, in the Statement of Financial Position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The classification is based on rights that are in existence at the end of the reporting period and specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. Additional information was added to clarify that only covenants with which an entity is required to comply on or before the reporting date affect the classification of a liability as current or non-current. In addition, an entity has to disclose information in the notes that enables users of the financial statements to understand the risk that non-current liabilities with covenants could become repayable within 12 months. The amendments are applied retrospectively upon adoption. The application of these amendments is not expected to have a material impact on Hydro’s financial statements.

5. TRADE AND OTHER RECEIVABLES

As at December 31 (millions of Canadian dollars)	Note	**2023**	2022
Trade receivables		**126**	116
Other receivables	25	**9**	9
Due from related parties		**4**	6
Loss allowance		**(23)**	(19)
		116	112

As at December 31 (millions of Canadian dollars)	**2023**	2022
0-60 days	**114**	112
60+ days	**2**	-
	116	112

As at December 31 (millions of Canadian dollars)	**2023**	2022
Loss allowance, beginning of the year	**(19)**	(17)
Change in balance during the year	**(4)**	(2)
Loss allowance, end of the year	**(23)**	(19)

6. INVENTORIES

As at December 31 (millions of Canadian dollars)	**2023**	2022
Fuel	**59**	59
Materials and other	**42**	40
	101	99

Fuel inventory includes No. 6 fuel in the amount of $41.0 million (2022 - $42.1 million). The cost of inventories recognized as an expense during the year is $190.7 million (2022 - $190.9 million) and is included in operating costs and fuels.

7. DEFERRED ASSET

The deferred asset related to Hydro's PPA with Energy Marketing is amortized into income on a straight-line basis over the assumed twelve month term of the contract, which commenced on January 1, 2023. In December 2023, Management assessed the anticipated contract term and determined that a new deferred asset and derivative liability was required. This resulted in a deferred asset addition of $68.1 million to be amortized into income on a straight-line basis over the assumed twelve month term, commencing on January 1, 2024. The components of change are as follows:

As at December 31 (millions of Canadian dollars)	**2023**	2022
Deferred asset, beginning of the year	**86**	56
Additions	**68**	86
Amortization	**(86)**	(56)
Deferred asset, end of the year	**68**	86

8. PROPERTY, PLANT AND EQUIPMENT

(millions of Canadian dollars)	Generation Plant	Transmission and Distribution	Other	Assets Under Development	Total
Cost					
Balance at January 1, 2022	1,421	1,239	143	18	2,821
Additions	-	-	-	103	103
Disposals	(15)	(14)	(2)	-	(31)
Transfers	39	38	6	(83)	-
Balance at December 31, 2022	1,445	1,263	147	38	2,893
Additions	**-**	**-**	**-**	**150**	**150**
Disposals	**(7)**	**(2)**	**(6)**	**-**	**(15)**
Transfers	**50**	**46**	**13**	**(109)**	**-**
Decommissioning liabilities and revisions	**9**	**-**	**-**	**-**	**9**
Other adjustments	**(1)**	**(1)**	**-**	**(2)**	**(4)**
Balance at December 31, 2023	**1,496**	**1,306**	**154**	**77**	**3,033**
Depreciation					
Balance at January 1, 2022	338	200	53	-	591
Depreciation	42	30	7	-	79
Disposals	(8)	(4)	(1)	-	(13)
Balance at December 31, 2022	372	226	59	-	657
Depreciation	**33**	**30**	**8**	**-**	**71**
Disposals	**(3)**	**(1)**	**(6)**	**-**	**(10)**
Balance at December 31, 2023	**402**	**255**	**61**	**-**	**718**
Carrying value					
Balance at January 1, 2022	1,083	1,039	90	18	2,230
Balance at December 31, 2022	1,073	1,037	88	38	2,236
Balance at December 31, 2023	**1,094**	**1,051**	**93**	**77**	**2,315**

Capitalized interest for the year ended December 31, 2023 was $1.9 million (2022 - $0.9 million) related to assets under development.

9. SINKING FUND INVESTMENTS

As at December 31, 2023, sinking funds include $205.9 million (December 31, 2022 - $201.9 million) related to repayment of Hydro's long-term debt. Sinking fund investments consist of bonds, debentures, short-term borrowings and coupons issued by, or guaranteed by, the Government of Canada, provincial governments or Schedule 1 banks, and have maturity dates ranging from 2024 to 2033.

Hydro debentures, which are intended to be held to maturity, are deducted from debt while all other sinking fund investments are shown separately on the Non-Consolidated Statement of Financial Position as assets. Annual contributions to the various sinking funds are in accordance with bond indenture terms, and are structured to ensure the availability of adequate funds at the time of expected bond redemption. Effective yields range from 1.42% to 6.82% (December 31, 2022 - 1.42% to 6.82%).

The movement in sinking funds for the year is as follows:

As at December 31 (millions of Canadian dollars)	**2023**	2022
Sinking funds, beginning of the year	**202**	192
Contributions	**7**	7
Change in sinking fund investments in own debentures	**(17)**	(10)
Earnings	**14**	13
Sinking funds, end of the year	**206**	202
Less: sinking fund investments maturing within one year	**(7)**	(9)
	199	193

Sinking fund instalments due over the next five years are as follows:

(millions of Canadian dollars)	2024	2025	2026	2027	2028
Sinking fund instalments	7	7	4	4	4

10. INVESTMENTS IN JOINT ARRANGEMENTS

As at December 31 (millions of Canadian dollars)	**Ownership Interest**	**2023**	2022
Churchill Falls	65.8%		
Shares, at cost		**167**	167
Equity in retained earnings, beginning of the year		**531**	487
Accumulated other comprehensive income, beginning of the year		**5**	-
Other comprehensive (loss) gain		**(1)**	5
Equity in profit for the year		**30**	44
		732	703

11. REGULATORY DEFERRALS

(millions of Canadian dollars)		January 1 2023	Reclass & Disposition	Regulatory Activity	**December 31 2023**	Remaining Recovery Settlement Period (years)
Regulatory asset deferrals						
Power purchase expense recognition	(a)	166	-	275	**441**	n/a
Supply cost variance deferral account	(b)	190	-	81	**271**	n/a
Rate stabilization plan (RSP)	(c)	52	9	(14)	**47**	n/a
Foreign exchange losses	(d)	42	-	(2)	**40**	18.0
Retirement asset pool	(e)	35	-	5	**40**	n/a
Muskrat Falls PPA monetization	(f)	26	-	(13)	**13**	n/a
Supply deferral	(g)	9	(9)	12	**12**	n/a
Business system transformation program	(h)	8	-	1	**9**	n/a
Deferred energy conservation costs	(i)	7	-	-	**7**	n/a
Muskrat Falls PPA sustaining capital	(j)	1	-	4	**5**	n/a
Other	(k-p)	4	-	-	**4**	n/a
		540	-	349	**889**	
Regulatory liability deferrals						
Removal provision	(q)	(22)	-	(1)	**(23)**	n/a
Holyrood thermal generating station (TGS) accelerated depreciation deferral account	(r)	-	-	(10)	**(10)**	n/a
Insurance amortization and proceeds	(s)	(4)	-	-	**(4)**	n/a
Other	(t-w)	(7)	-	1	**(6)**	n/a
		(33)	-	(10)	**(43)**	

11.1 Regulatory Adjustments Recorded in the Non-Consolidated Statement of Profit and Comprehensive Income

For the year ended December 31 (millions of Canadian dollars)		**2023**	2022
RSP amortization		**17**	19
RSP interest		**(3)**	(3)
Total RSP activity	(c)	**14**	16
Power purchase expense recognition	(a)	**(275)**	(148)
Supply cost variance deferrals	(b)	**(81)**	(172)
Muskrat Falls PPA monetization	(f)	**13**	(26)
Supply deferral	(g)	**(12)**	(9)
Holyrood TGS accelerated depreciation deferral account	(s)	**10**	-
Loss on disposal	(e)	**(5)**	(16)
Muskrat Falls PPA sustaining capital	(j)	**(4)**	-
Removal provision	(r)	**1**	5
Other	(d,h-i,k-l,m-q,t-x)	**(3)**	(2)
		(342)	(352)

The following section describes Hydro's regulatory assets and liabilities which will be, or are expected to be, reflected in customer rates in future periods and have been established through the rate setting process. In the absence of rate regulation, these amounts would be reflected in operating results in the year and profit for 2023 would have decreased by $342.4 million (2022 - $352.0 million).

11.(a) Power Purchase Expense Recognition

In Board Order No's. P.U. 9 (2021) and P.U. 33 (2021), the PUB approved Hydro's proposal to deviate from IFRS to allow recognition of expenses related to the purchase of energy in accordance with the commercial terms of the Muskrat Falls Power Purchase Agreement and Labrador-Island Link Transmission Funding Agreement (TFA). For the year ended December 31, 2023, IFRS power purchase expenses were $274.9 million (2022 - $148.2 million) higher than commercial payments which resulted in a total regulatory asset of $440.7 million (2022 - $165.8 million).

11.(b) Supply Cost Variance Deferral Account

In Board Order No's. P.U. 33 (2021) and P.U. 4 (2022), the PUB approved Hydro's proposal to establish an account to defer payments under the Muskrat Falls Project agreements, rate mitigation funding, project cost recovery from customers and supply cost variances. The deferral commenced activity on November 1, 2021. On March 31, 2023, as the next step to implement rate mitigation, the Province announced the provision of $190.4 million of rate mitigation funding to offset increases in supply costs primarily associated with the Lower Churchill Project. In August 2023, the first drawing on the convertible debenture of $144.7 million was received by LIL (2021) Limited Partnership, and the funds were transferred to Hydro for the purpose of mitigating projected future customer rate increases that would be required to recover net supply costs. Both sources of rate mitigation, offset by the normal activity of the supply cost variance deferral account of $416.0 million (2022 - $172.1 million) resulted in a net increase in the account of $80.9 million (2022 - $172.1 million). The total balance owing from customers for year ended December 31, 2023 is $271.3 million (2022 - $190.4 million).

11.(c) RSP

In 1986, the PUB ordered Hydro to implement the RSP which primarily provides for the deferral of fuel expense variances resulting from changes in fuel prices, hydrology, load and associated interest. Adjustments required in utility rates to cover the amortization of the balance are implemented on July 1 of each year. Similar adjustments required in industrial rates are implemented on January 1 of each year.

Per Board Order No. P.U. 33 (2021) and Hydro's compliance filing, the RSP was discontinued for purposes of deferring variations in hydraulic production, No. 6 fuel and load as at October 31, 2021. The Board ordered that the RSP should be maintained to provide timely recovery of the remaining balance which results in the continuation of recovery and interest charges and, in 2023, Hydro recovered $16.5 million (2022 - $19.1 million) from customers; which was partially offset by Board Order No. P.U. 7 (2023) which approved the recovery of the 2022 Isolated Systems Supply Cost Variance Deferral from the RSP Current Plan of $8.7 million. This activity and associated interest and other adjustments in 2023 resulted in a remaining balance for future recovery from customers of $47.4 million (2022 - $52.3 million).

11.(d) Foreign Exchange Losses

In 2002, the PUB ordered Hydro to defer realized foreign exchange losses related to the issuance of Swiss Franc and Japanese Yen denominated debt and amortize the balance over a 40 year period. Accordingly, these costs were recognized as a regulatory asset. During 2023, amortization expense of $2.2 million (2022 - $2.2 million) was recorded.

11.(e) Retirement Asset Pool

As per Board Order No. P.U. 30 (2019), the Board approved Hydro's proposed depreciation methodology which includes the deferral of gains and losses on retirement of assets. The deferral will be recovered through future depreciation expense. In 2023, Hydro deferred $4.8 million (2022 - $16.1 million) of retirement asset activity resulting in a total balance of $40.2 million (2022 - $35.4 million).

11.(f) Muskrat Falls PPA Monetization

Under the Muskrat Falls PPA, 30 days following the calendar year end Hydro is able to monetize an amount of undelivered Schedule II energy at an Annual Average Sales Price of Muskrat Falls energy exports for the previous year. In Board Order No's. P.U. 33 (2021) and P.U. 4 (2022), the Board approved Hydro's proposal to recognize an estimate of the monetized energy in the year in which the energy was exported by Muskrat Falls, instead of waiting until Hydro can monetize in the following year. In 2023, Hydro reversed the prior year estimate upon actual monetization of the 2022 undelivered Schedule II energy and recorded an estimate of the monetization of 2023 undelivered Schedule II energy of $13.3 million (2022 - $25.8 million).

11.(g) Supply Deferral

Pursuant to Board Order No. P.U. 22 (2017), the Board approved supply cost deferrals using three specific deferral accounts: the Energy Supply, Holyrood Conversion and Isolated Systems Supply cost deferrals. As per Board Order No. P.U. 33 (2021) and Hydro's compliance application, the Energy Supply and Holyrood Conversion deferrals were discontinued with the account maintained to provide for a timely recovery of the remaining balance. There was no change to the Isolated Systems Supply Cost Variance Deferral in Board Order No. P.U. 33 (2021). During 2023, Hydro recorded a net increase in the supply deferral asset of $3.4 million (2022 - $3.4 million decrease) resulting in a balance from customers of $12.3 million (2022 - $8.9 million). The increase in the supply deferral asset is primarily due to the normal operation of the supply deferral of $12.4 million (2022 - $9.0 million), with recovery to be determined through an annual application process, and the recovery of the 2022 supply cost variance deferral of $9.0 million as per Board Order No. P.U. 7 (2023).

11.(h) Business System Transformation Program

As per Board Order No.'s P.U. 23 (2019) and P.U. 30 (2019), the Board approved the deferral of business system transformation program costs. The recovery of the deferral is subject to a future Board order. During the year, Hydro deferred $1.5 million (2022 - $3.1 million), resulting in a total deferral of $9.2 million (2022 - $7.7 million). As per Board Order No. P.U. 27, (2022), the Board approved the recovery of a portion of the deferred costs up to the end of 2022, which totalled $6.7 million, through customer rates to be established in Hydro's next general rate application.

11.(i) Deferred Energy Conservation Costs

In 2023, Hydro deferred $1.4 million (2022 - $1.1 million) in Energy Conservation Costs associated with an electrical conservation demand management program for residential, industrial, and commercial sectors. As per Board Order No. P.U. 22 (2017), Hydro recovered $1.6 million (2022 - $1.9 million) of the balance through a rate rider which resulted in a total deferred balance of $7.3 million (2022 - $7.5 million)

11.(j) Muskrat Falls PPA Sustaining Capital

In Board Order No. P.U. 33 (2021), the PUB approved Hydro's proposal to defer contributions required to be made by Hydro for sustaining capital investments pursuant to the Muskrat Falls PPA with recovery to be addressed in Hydro's next general rate application. In 2023, Hydro has deferred $4.4 million (2022 - $0.5 million) in contribution activity resulting in a total balance of $4.9 million (2022 - $0.5 million).

11.(k) Deferred Foreign Exchange on Fuel

Hydro purchases fuel for Holyrood TGS in USD. There are regulatory mechanisms that allow Hydro to defer variances in fuel prices (including foreign exchange fluctuations). During 2023, Hydro recognized a decrease to regulatory assets due to foreign exchange gains on fuel purchases of $0.2 million (2022 - increase to regulatory assets due to foreign exchange losses on fuel purchases of $0.4 million).

11.(l) Phase Two Hearing Costs

Pursuant to Board Order No. P.U. 13 (2016), Hydro received approval to defer consulting fees and salary related costs relating to Phase Two of the investigation into the reliability and adequacy of power on the Island Interconnected system after the interconnection with the Muskrat Falls generating station. In 2019, Phase Two of the Board's investigation was concluded with recovery to be addressed in a future Board Order. There were no additions in 2023 or 2022. The total deferred balance is $1.4 million (2022 - $1.4 million).

11.(m) Asset Disposal

As per Board Order No. P.U. 49 (2016), the Board ordered that Hydro recognize a regulatory asset of $0.4 million related to the Sunnyside transformer that was disposed of in 2014. Hydro is required to recover the deferred asset in rate base and amortize the asset for 22.4 years commencing in 2015. Hydro is required to exclude the new Sunnyside transformer from rate base until the Sunnyside transformer original asset deferral has been fully amortized.

11.(n) Non-Customer Contributions in Aid of Construction

Pursuant to Board Order No. P.U. 1 (2017), Hydro recognized amortization of deferred contributions in aid of construction (CIAC) from entities which are non-customer related parties in profit or loss. During 2023, Hydro recorded $1.2 million (2022 - $1.2 million) in non-customer CIAC amortization as a regulatory adjustment. In the absence of rate regulation, IFRS requires these non-customer CIACs to be recorded as contributed capital with no corresponding amortization. As a result, during 2023 Hydro also recorded a decrease of $1.2 million (2022 - $1.2 million) to contributed capital to recognize the amount that was reclassified to profit or loss.

11.(o) Employee Future Benefits Actuarial Loss

Pursuant to Board Order No. P.U. 36 (2015), Hydro has recognized the amortization of employee future benefit actuarial gains and losses in net income. During 2023 Hydro recorded $2.0 million (2022 - $nil) employee future benefits losses as a regulatory adjustment. In the absence of rate regulation, IFRS would require Hydro to include employee future benefits actuarial gains and losses in other comprehensive income. As a result, during 2023 Hydro also recorded a decrease of $2.0 million (2022 - $nil) to other comprehensive income to recognize the amount that was reclassified to profit or loss.

11.(p) Reliability and Resource Adequacy Study

Pursuant to Board Order No. P.U. 29 (2019), the Board approved the deferral of costs associated with the Reliability and Resource Adequacy proceeding. Hydro deferred $0.3 million in 2023 (2022 - $0.3 million) resulting in a regulatory asset of $2.7 million (2022 - $2.4 million). The recovery of the balance is to be determined in a future Board Order.

11.(q) Removal Provision

As per Board Order No. P.U. 30 (2019), the Board approved Hydro's proposed depreciation methodology which includes the provision for removal costs. Hydro recorded a net increase to the provision relating to 2023 activity of $0.8 million (2022 - $5.0 million) resulting in a total balance of $22.8 million (2022 - $21.9 million). The increase was driven by removal depreciation of $5.5 million (2022 - $5.5 million) which was partially offset by removal costs of $4.7 million (2022 - $0.5 million).

11.(r) Holyrood TGS Accelerated Depreciation Deferral Account

In Board Order No's. P.U. 33 (2021) and P.U. 4 (2022), the PUB approved Hydro's proposal to establish an account to defer, for future recovery, any difference in excess of ±$2.5 million, between the accelerated depreciation expense for Holyrood TGS in 2022 and 2023 and the accelerated depreciation expense included in the approved 2019 Test Year. For the year ended December 31, 2023, the Holyrood accelerated depreciation expense was $12.3 million lower (2022 - $0.2 million lower) than the 2019 Test Year depreciation resulting in a regulatory liability of $9.8 million (2022 - $nil). The disposition of the balance of this account is subject to a further Board Order from the PUB.

11.(s) Insurance Amortization and Proceeds

Pursuant to Board Order No. P.U. 13 (2012), Hydro records net insurance proceeds against the capital costs and amortizes the balance over the life of the asset. Under IFRS, Hydro is required to recognize the insurance proceeds and corresponding amortization in regulatory liabilities. During 2023, Hydro recorded a net decrease of $0.1 million (2022 - $2.8 million) to the regulatory liability. The decrease was driven by insurance amortization of $0.1 million (2022 - $0.2 million).

11.(t) Frequency Converter Revenue Deferral Account

In Board Order No. P.U. 35 (2020), the PUB approved the deferral of the cumulative revenue requirement impact associated with the loss on the sale of a frequency converter, commencing December, 2019. The disposition of the cumulative revenue requirement impact included in the deferral account balance will be addressed as part of Hydro's next general rate application. During 2023, Hydro deferred $0.2 million as a regulatory liability (2022 - $0.2 million).

11.(u) Hydraulic Resources Optimization Deferral Account

In Board Order No. P.U. 49 (2018), a deferral account to capture the revenues and costs associated with the hydraulic optimization activities was approved. For the year ended December 31, 2023, the balance of hydraulic optimization activities is $nil (2022 - $3.2 million net gain) resulting in a total balance of $5.7 million (2022 - $5.7 million) recorded as a deferred liability.

11.(v) Deferred Purchased Power Savings

In 1997, the PUB ordered Hydro to defer $1.1 million related to reduced purchased power rates resulting from the interconnection of communities in the area of L'Anse au Clair to Red Bay to the Hydro-Québec system and amortize the balance over a 30 year period. The remaining unamortized savings in the amount of $0.1 million (2022 - $0.1 million) are deferred as a regulatory liability.

11.(w) Electrification Cost Deferral Account

In Board Order No. P.U. 33 (2023), the PUB approved Hydro's proposal to establish an account to defer costs related to electrification initiatives. In 2023, Hydro recorded $0.1 million in the account relating to the net of 2023 depreciation expense of the electric vehicle charging stations and the amortization of contributions in aid of construction.

12. TRADE AND OTHER PAYABLES

As at December 31 (millions of Canadian dollars)	Note	**2023**	2022
Trade payables		**93**	82
Due to related parties	25	**35**	42
Accrued interest payable		**17**	17
Other payables		**22**	20
		167	161

13. DEBT

13.1 Short-term Borrowings

Hydro has a $300.0 million government guaranteed promissory note program to fulfil its short-term funding requirements. As at December 31, 2023, there were two promissory notes outstanding for a total of $230.0 million with a maturity date of January 2, 2024 bearing interest rates ranging from 5.15% to 5.17% (2022 - $131.0 million maturing January 3, 2023 bearing an interest rate of 4.27%). Upon maturity, the promissory notes were reissued.

Hydro maintains a $500.0 million CAD or USD equivalent committed revolving term facility with a maturity date of July 31, 2024. As at December 31, 2023, there were no amounts drawn on the facility (2022 - $nil). Borrowings in CAD may take the form of Prime Rate Advances, Bankers' Acceptances (BAs), and letters of credit, with interest calculated at the Prime Rate or BA fee. Borrowings in USD may take the form of Base Rate Advances, Secured Overnight Financing Rate (SOFR) Advances and letters of credit. The facility also provides coverage for overdrafts on Hydro's bank accounts, with interest calculated at the Prime Rate.

13.2 Long-term Debt

The following table represents the value of long-term debt measured at amortized cost:

As at December 31 (millions of Canadian dollars)	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	**December 31 2023**	December 31 2022
Hydro						
Y *	300	8.40	1996	2026	**298**	298
AB *	300	6.65	2001	2031	**304**	304
AD *	125	5.70	2003	2033	**124**	124
AF	500	3.60	2014/2017	2045	**483**	482
1A	600	3.70	2017/2018	2048	**636**	637
2A	300	1.75	2021	2030	**290**	288
Total	2,125				**2,135**	2,133
Less: Sinking fund investments in own debentures					**111**	94
					2,024	2,039
Less: Sinking fund payments due within one year					**7**	7
					2,017	2,032

*Sinking funds have been established for these issues.

Hydro's promissory notes and debentures are unsecured and unconditionally guaranteed as to principal and interest and, where applicable, sinking fund payments, by the Province with the exception of Series 1A and 2A. The Province charges Hydro a guarantee fee of 25 basis points annually on the total debt (net of sinking funds) with a remaining term to maturity of less than or equal to 10 years and 50 basis points annually on total debt (net of sinking funds) with a remaining term to maturity greater than 10 years for debt outstanding as of December 31, 2010. For debt issued subsequent to December 31, 2010, the guarantee rate is 25 basis points annually on the total debt (net of sinking funds) with an original term to maturity of less than or equal to 10 years and 50 basis points annually on total debt (net of sinking funds) with an original term to maturity greater than 10 years. The guarantee fee recorded for the year ended December 31, 2023 was $8.8 million (2022 - $8.7 million).

14. DEFERRED CONTRIBUTIONS

Hydro has received contributions in aid of construction of property, plant and equipment. These contributions are deferred and amortized to other revenue over the life of the related property, plant and equipment asset.

As at December 31 (millions of Canadian dollars)	**2023**	2022
Deferred contributions, beginning of the year	**36**	26
Additions	**4**	11
Amortization	**(1)**	(1)
Deferred contributions, end of the year	**39**	36
Less: current portion	**(1)**	(1)
	38	35

15. DECOMMISSIONING LIABILITIES

Hydro has recognized liabilities associated with the retirement of portions of the Holyrood TGS and the disposal of Polychlorinated Biphenyls (PCB).

The reconciliation of the beginning and ending carrying amounts of decommissioning liabilities for December 31, 2023 and 2022 are as follows:

As at December 31 (millions of Canadian dollars)	**2023**	2022
Decommissioning liabilities, beginning of the year	**17**	15
Accretion	**1**	-
Revisions	**9**	2
Decommissioning liabilities, end of the year	**27**	17
Less: current portion	**-**	(1)
	27	16

The total estimated undiscounted cash flows required to settle the Holyrood TGS obligations at December 31, 2023 are $34.8 million (2022 - $25.0 million). Payments to settle the liability are expected to occur between 2027 and 2033. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at Hydro's credit adjusted risk free rate of 3.8% (2022 - 4.3%). Hydro has recorded $26.4 million (2022 - $17.0 million) related to Holyrood TGS obligations.

The total estimated undiscounted cash flows required to settle the PCB obligations at December 31, 2023 are $0.3 million (2022 - $0.2 million). Payments to settle the liability are expected to occur between 2024 and 2025. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at Hydro's credit adjusted risk free rate of 4.2% (2022 - 4.3%). Hydro has recorded $0.2 million (2022 - $0.2 million) related to PCB obligations.

Hydro's assets include generation plants, transmission assets and distribution systems. These assets can continue to run indefinitely with ongoing maintenance activities. As it is expected that Hydro's assets will be used for an indefinite period, no removal date can be determined and consequently, a reasonable estimate of the fair value of any related decommissioning liability cannot be determined at this time. If it becomes possible to estimate the fair value of the cost of removing assets that Hydro is required to remove, a decommissioning liability for those assets will be recognized at that time.

16. LEASES

Amounts Recognized in the Non-Consolidated Statement of Profit and Comprehensive Income

For the year ended December 31 (millions of Canadian dollars)		**2023**	2022
Variable lease payments not included in the measurement of leases	(a)	30	29

(a) Variable lease payments not included in the measurement of leases include payments made to Nalcor for power generated from assets which are owned by the Province. These variable lease payments are included in power purchased in the Non-Consolidated Statement of Profit and Comprehensive Income.

The total cash outflow for leases for the year ended December 31, 2023 amount to $29.8 million (2022 - $28.8 million).

17. EMPLOYEE FUTURE BENEFITS

17.1 Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions for the year ended December 31, 2023 of $8.3 million (2022 - $8.1 million) are expensed as incurred.

17.2 Other Benefits

Hydro provides group life insurance and health care benefits on a cost shared basis to retired employees, and in certain cases their surviving spouses, in addition to a retirement allowance. In 2023, cash payments to beneficiaries for its unfunded other employee future benefits were $3.0 million (2022 - $2.9 million). An actuarial valuation was performed as at December 31, 2023.

As at December 31 (millions of Canadian dollars)	**2023**	2022
Accrued benefit obligation, beginning of the year	**71**	98
Current service cost	**2**	4
Interest cost	**3**	3
Benefits paid	**(3)**	(3)
Actuarial loss (gain) (a)	**9**	(32)
Transfers (b)	**-**	1
Accrued benefit obligation, end of the year	**82**	71

(a) Pursuant to Board Order No. P.U. 36 (2015), Hydro recorded $2.0 million (2022 - $nil) of employee future benefits losses as a regulatory adjustment to decrease other comprehensive income and recognize the amount in profit or loss.

(b) When an employee transfers to a related party, the associated accrued benefit obligation is allocated to each respective party based upon years of service.

For the year ended December 31 (millions of Canadian dollars)	**2023**	2022
Component of benefit cost		
Current service cost	**2**	4
Interest cost	**3**	3
Total benefit expense for the year	**5**	7

The significant actuarial assumptions used in measuring the accrued benefit obligations and benefit expenses are as follows:

	2023	2022
Discount rate - benefit cost	**5.20%**	3.35%
Discount rate - accrued benefit obligation	**4.65%**	5.20%
Rate of compensation increase	**3.50%**	3.50%

Assumed healthcare trend rates:

	2023	2022
Initial health care expense trend rate	**6.00%**	5.42%
Cost trend decline to	**3.60%**	3.60%

Current rate 6.0%, reducing linearly to 3.6% in 2040 and thereafter.

A 1% change in assumed health care trend rates would have had the following effects:

Increase (millions of Canadian dollars)	**2023**	2022
Current service and interest cost	**1**	1
Accrued benefit obligation	**10**	8

Decrease (millions of Canadian dollars)	**2023**	2022
Current service and interest cost	**(1)**	(1)
Accrued benefit obligation	**(8)**	(7)

18. SHAREHOLDER'S EQUITY

18.1 Share Capital

As at December 31 (millions of Canadian dollars)	**2023**	2022
Common shares of par value of $1 each		
Authorized: 25,000,000		
Issued, paid and outstanding: 22,503,942	**23**	23

18.2 Contributed Capital

As at December 31 (millions of Canadian dollars)	**2023**	2022
Contributed capital for the year	**150**	150
Regulatory adjustment, beginning of the year	**(6)**	(5)
Amortization recognized as a regulatory adjustment	**(1)**	(1)
	143	144

During 2023, Lower Churchill Management Corporation contributed $0.2 million (2022 - $0.2 million) in additions to property, plant and equipment. Pursuant to Board Order No. P.U. 1 (2017), Hydro recognized $1.2 million (2022 - $1.2 million) in amortization as a regulatory adjustment.

18.3 Dividends

For the year ended December 31 (millions of Canadian dollars)	**2023**	2022
Declared during the year		
Final dividend for prior year: $nil per share (2022 - $0.04)	**-**	1
Dividend for current year: $0.24 per share (2022 - $0.91)	**5**	20
	5	21

19. OTHER REVENUE

For the year ended December 31 (millions of Canadian dollars)		**2023**	2022
Government grant	(a)	**335**	-
Transmission tariff revenue		**36**	25
Greenhouse Gas performance credit sales		**23**	9
Recovery of supply power		**9**	7
Other		**4**	6
		407	47

(a) The Province provided a grant of $190.4 million for the purpose of mitigating future customer rate increases to recover net supply costs incurred to the end of 2022. For the year ended December 31, 2023, Hydro recognized other revenue relating to the grant of $190.4 million (2022 - $nil). This grant is recognized in the Supply Cost Variance Deferral account as described in Note 11.

In August 2023, the first drawing on the convertible debenture of $144.7 million was received by LIL (2021) Limited Partnership, and the funds were transferred to Hydro for the purpose of mitigating projected future customer rate increases that would be required to recover net supply costs. For the year ended December 31, 2023, Hydro recognized other revenue relating to the grant of $144.7 million (2022 - $nil). This grant is recognized in the Supply Cost Variance Deferral account as described in Note 11.

20. POWER PURCHASED

The supply period and contractual payments of the PPA with Muskrat Falls, the PPA for Labrador Residual Block Use and the Labrador-Island Link TFA commenced in November 2021, February 2022 and April 2023, respectively. For the year ended December 31, 2023, Hydro recognized power purchase expense of $866.3 million (2022 - $411.6 million) associated with these agreements. These power purchase expenses are deferred in either the Supply Cost Variance Deferral account or the Power Purchase Expense Recognition account as described in Note 11.

21. OPERATING COSTS

For the year ended December 31 (millions of Canadian dollars)	**2023**	2022
Salaries and benefits	**90**	87
Maintenance and materials	**31**	23
Professional services	**11**	9
Insurance	**5**	5
Travel and transportation	**5**	4
Bad debt expense	**5**	-
Other operating costs	**5**	8
	152	136

22. NET FINANCE EXPENSE

For the year ended December 31 (millions of Canadian dollars)	**2023**	2022
Finance income		
Sinking fund	**14**	14
Other	**4**	2
	18	16
Finance expense		
Long-term debt	**98**	98
Debt guarantee fee	**9**	9
Other	**8**	4
	115	111
Interest capitalized during construction	**(2)**	(1)
	113	110
Net finance expense	**95**	94

23. OTHER EXPENSE

For the year ended December 31 (millions of Canadian dollars)	**2023**	2022
Loss on disposal of property, plant and equipment	**5**	19
Other	**4**	5
	9	24

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

24.1 Fair Value

The estimated fair values of financial instruments as at December 31, 2023 and 2022 are based on relevant market prices and information available at the time. Fair value estimates are based on valuation techniques which are significantly affected by the assumptions used including the amount and timing of future cash flows and discount rates reflecting various degrees of risk. As such, the fair value estimates below are not necessarily indicative of the amounts that Hydro might receive or incur in actual market transactions.

As a significant number of Hydro's assets and liabilities do not meet the definition of a financial instrument, the fair value estimates below do not reflect the fair value of Hydro as a whole.

Establishing Fair Value

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the nature of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. For assets and liabilities that are recognized at fair value on a recurring basis, Hydro determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There were no transfers between Level 1, 2 and 3 fair value measurement for the years ended December 31, 2023 and 2022.

	Level	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
As at (millions of Canadian dollars)		**December 31, 2023**		December 31, 2022	
Financial assets					
Sinking funds - investments in Hydro debt issue	**2**	**111**	**111**	94	93
Sinking funds - other investments	**2**	**206**	**214**	202	209
Financial liabilities					
Derivative liability	**3**	**68**	**68**	86	86
Long-term debt (including amount due within one year before sinking funds)	**2**	**2,135**	**2,066**	2,133	2,017

The fair value of cash, trade and other receivables, related party loan receivable, short-term borrowings and trade and other payables approximates their carrying values due to their short-term maturity.

The fair values of Level 2 financial instruments are determined using quoted prices in active markets, which in some cases are adjusted for factors specific to the asset or liability. Level 2 derivative instruments are valued based on observable commodity future curves, broker quotes or other publicly available data. Level 2 fair values of other risk management assets and liabilities and long-term debt are determined using observable inputs other than unadjusted quoted prices, such as interest rate yield curves and currency rates.

Level 3 financial instruments include the derivative liability relating to the PPA with Energy Marketing and represents the future value provided to Energy Marketing through the contract.

The following table summarizes quantitative information about the valuation techniques and unobservable inputs used in the fair value measurement of Level 3 financial instruments as at December 31, 2023:

(millions of Canadian dollars)	Carrying Value	Valuation Techniques	Significant Unobservable Input(s)	Range
Derivative liability (PPA)	68	Modelled pricing	Volumes (MWh)	37%-42% of available generation

The derivative liability arising under the PPA with Energy Marketing is designated as a Level 3 instrument as certain forward market prices and related volumes are not readily determinable to estimate a portion of the fair value of the derivative liability. Hence, fair value measurement of this instrument is based upon a combination of internal and external pricing and volume estimates. As at December 31, 2023, the effect of using reasonably possible alternative assumptions for volume inputs to valuation techniques may have resulted in a +$1.0 million to +$4.8 million change in the carrying value of the derivative liability.

The components of the change impacting the carrying value of the derivative liability for the years ended December 31, 2023 and 2022 are as follows:

(millions of Canadian dollars)	**(Level 3)**
Balance at January 1, 2023	**(86)**
Purchases	**(68)**
Changes in profit or loss	
Mark-to-market	**23**
Settlements	**63**
Total	**86**
Balance at December 31, 2023	**(68)**

(millions of Canadian dollars)	(Level 3)
Balance at January 1, 2022	(56)
Purchases	(86)
Changes in profit or loss	
Mark-to-market	(34)
Settlements	90
Total	56
Balance at December 31, 2022	(86)

24.2 Risk Management

Hydro is exposed to certain credit, liquidity and market risks through its operating, investing and financing activities. Financial risk is managed in accordance with Hydro's Board approved Financial Risk Management Policy, which outlines the objectives and strategies for the management of financial risk, including the use of derivative contracts. Permitted financial risk management strategies are aimed at minimizing the volatility of Hydro's expected future cash flows.

Credit Risk

Hydro's expected future cash flow is exposed to credit risk through its operating activities, primarily due to the potential for non-performance by its customers, and through its financing and investing activities, based on the risk of non-performance by counterparties to its financial instruments. The degree of exposure to credit risk on cash and cash equivalents and derivative assets as well as from the sale of electricity to customers, including the associated accounts receivable, is determined by the financial capacity and stability of those customers and counterparties. The maximum exposure to credit risk on these financial instruments is represented by their carrying values on the Non-Consolidated Statement of Financial Position at the reporting date.

Credit risk on cash is minimal, as Hydro's cash deposits are held by a Schedule 1 Canadian Chartered Bank with a rating of A+ (Standard and Poor's).

Credit exposure on Hydro's sinking funds is limited by restricting the holdings to long-term debt instruments issued by the Government of Canada or any province of Canada, Crown corporations and Schedule 1 Canadian Chartered Banks. The following credit risk table provides information on credit exposures according to issuer type and credit rating for the remainder of the sinking funds portfolio:

	Issuer Credit Rating	**Fair Value of Portfolio (%)**	Issuer Credit Rating	Fair Value of Portfolio (%)
	2023		2022	
Provincial Governments	**AA- to AAA**	**14.09%**	AA- to AAA	16.03%
Provincial Governments	**A- to A+**	**24.27%**	A- to A+	25.41%
Provincially owned utilities	**AA- to AAA**	**24.13%**	AA- to AAA	24.28%
Provincially owned utilities	**A- to A+**	**37.51%**	A- to A+	34.28%
		100.00%		100.00%

Hydro's exposure to credit risk on its energy sales and associated accounts receivable is determined by the credit quality of its customers. Hydro's three largest customers account for 80.8% (2022 - 78.9%) of total energy sales and 64.3% (2022 - 68.5%) of accounts receivable.

Liquidity Risk

Hydro is exposed to liquidity risk with respect to its contractual obligations and financial liabilities. Liquidity risk management is aimed at ensuring cash is available to meet those obligations as they become due.

Short-term liquidity is mainly provided through cash on hand, funds from operations and a $300.0 million promissory note program. In addition, Hydro maintains a $500.0 million (2022 - $500.0 million) committed revolving term credit facility with a maturity date of July 31, 2024. Long-term liquidity risk is managed by the issuance of a portfolio of debentures with maturity dates ranging from 2026 to 2048. Sinking funds have been established for these issues, with the exception of the issues maturing in 2030, 2045 and 2048.

The following are the contractual maturities of Hydro's financial liabilities, including principal and interest, as at December 31, 2023:

(millions of Canadian dollars)	< 1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Trade and other payables	167	-	-	-	167
Short-term borrowings	230	-	-	-	230
Derivative liability	68	-	-	-	68
Debt guarantee fee	9	18	16	120	163
Long-term debt including sinking funds	7	129	8	1,601	1,745
Interest	98	183	145	853	1,279
	579	330	169	2,574	3,652

Market Risk

In the course of carrying out its operating, financing and investing activities, Hydro is exposed to possible market price movements that could impact expected future cash flow and the carrying value of certain financial assets and liabilities. Market price movements to which Hydro has significant exposure include those relating to prevailing interest rates, foreign exchange rates, most notably the USD/CAD, and current commodity prices, most notably the spot prices for fuel and electricity.

The derivative liability relates to the PPA with Energy Marketing and represents the future value provided to Energy Marketing through the contract. On September 14, 2016, the terms of the PPA were amended. Under the amendment, the PPA can be terminated by either party with notice provided 60 days prior to the intended termination date.

Interest Rates
Changes in prevailing interest rates will impact the fair value of financial assets and liabilities, which includes Hydro's cash and sinking funds. Expected future cash flows associated with those financial instruments can also be impacted. The impact of a 0.5% change in interest rates on net income and other comprehensive income associated with cash and short-term debt was negligible throughout 2023 due to the short time period to maturity. Hydro is not exposed to interest rate risk on its long-term debt as all of Hydro's long-term debt has fixed interest rates.

Foreign Currency and Commodity Exposure
Hydro is exposed to USD foreign exchange and commodity price risk arising from its purchases of No. 6 fuel for consumption at the Holyrood TGS. Hydro is also exposed to commodity price risk associated with electricity prices. These risks are mitigated through the operation of the regulatory mechanisms.

25. RELATED PARTY TRANSACTIONS

Hydro enters into various transactions with its parent and other related parties. Unless otherwise noted, these transactions occur within the normal course of operations and are measured at the exchange amount, which is the amount of consideration agreed to by the related parties. Outstanding balances due to or from related parties are non-interest bearing with settlement normally within 30 days.

Related parties with which Hydro transacts are as follows:

Related Party	Relationship
Nalcor	100% shareholder of Hydro
The Province	100% shareholder of Nalcor
Churchill Falls	Joint arrangement of Hydro
Energy Marketing	Wholly-owned subsidiary of Nalcor
Lower Churchill Management Corporation (LCMC)	Wholly-owned subsidiary of Nalcor
Labrador-Island Link Operating Corporation (LIL Opco)	Wholly-owned subsidiary of Nalcor
Muskrat Falls Corporation (Muskrat Falls)	Wholly-owned subsidiary of Nalcor
Nalcor Energy – Oil and Gas Inc.	Wholly-owned subsidiary of Nalcor
Labrador Transmission Corporation	Wholly-owned subsidiary of Nalcor
Board of Commissioners of Public Utilities (PUB)	Agency of the Province
Labrador-Island Link Limited Partnership	Limited partnership between a wholly-owned subsidiary of Nalcor and Emera Newfoundland and Labrador Island Link Inc.

Significant related party transactions, which are not otherwise disclosed separately in the financial statements, are summarized below:

As at December 31 (millions of Canadian dollars)	Notes	**2023**	2022
Trade and other receivables:			
Other related parties	5	**4**	6
Related party loan receivable:			
Other related parties	(a)	**-**	30
Contract receivable:			
Other related parties	(b)	**13**	-
Trade and other payables:	12		
Parent		**7**	4
Joint operation		**4**	4
The Province		**9**	9
Other related parties		**15**	25
Contract payable:			
Other related parties	(c)	**452**	165
Long-term debt:			
The Province		**926**	925

For the year ended December 31 (millions of Canadian dollars)	**2023**	2022
Energy sales:		
Other related parties	**17**	24
Other revenue:		
The Province	**190**	-
Parent	**153**	6
Other related parties	**36**	25
Power purchases:		
Joint operation	**52**	50
Parent	**30**	29
Other related parties	**866**	412
Net operating recoveries (expenses):		
Parent	**23**	20
Other related parties	**(3)**	(2)
Net finance expense:		
The Province	**36**	36

(a) Hydro had a related party loan receivable from Muskrat Falls which included interest charged at 5.43%. The balance of the loan was repaid in 2023.

(b) Payments under the Labrador-Island Link TFA commenced in April 2023. The contract receivable balance represents the timing difference between the expense recognition of the value of the service delivered to Hydro and the contractual payments made under the agreement.

(c) Hydro entered into a PPA with Muskrat Falls for the purchase of energy and capacity from the Muskrat Falls Plant. The contract payable balance represents the timing difference between the value of the energy and capacity delivered to Hydro and the contractual payments made under the PPA.

25.1 Key Management Personnel Compensation

Compensation for key management personnel, which Hydro defines as its executives who have the primary authority and responsibility in planning, directing and controlling the activities of the entity, includes compensation for senior executives. Salaries and employee benefits include costs such as base salaries and contributions to employee benefit plans. Post-employment benefits include contributions to the Province's Public Service Pension Plan.

For the year ended December 31 (millions of Canadian dollars)	**2023**	2022
Salaries and employee benefits	**2**	2

26. COMMITMENTS AND CONTINGENCIES

(a) Hydro is subject to various legal proceedings and claims in the normal course of business. Although the outcomes of such actions cannot be predicted with certainty, Management believes the Company's exposure to such claims and litigation will not materially affect its financial position or results of operations.

(b) Outstanding commitments for capital projects total approximately $35.0 million as at December 31, 2023 (2022 - $36.5 million).

(c) Hydro has entered into a number of long-term power purchase agreements as follows:

Type	**Rating**	**Effective Date**	**Term**
Hydroelectric	6.5 MW	2021	24 years
Hydroelectric	4 MW	2023	3 years
Hydroelectric	300 MW	1998	43 years
Hydroelectric	225 MW	2015	25 years
Hydroelectric	824 MW	2021	50 years
Cogeneration	15 MW	2023	10 years
Wind	390 kW	2004	Continual
Wind	27 MW	2008	20 years
Wind	27 MW	2009	20 years
Hydroelectric, Solar, Battery	240 kW Hydro 189 kW Solar 334.5 kW Battery	2019	15 years
Solar	103 kW	2022	Continual
Biomass	450 kW	2018	1 year post in-service of Lower Churchill Project

Estimated payments due in each of the next five years are as follows:

(millions of Canadian dollars)	2024	2025	2026	2027	2028
Power purchases	820	834	849	862	875

(d) Through a power purchase agreement signed October 1, 2015, with Energy Marketing, Hydro maintains the transmission services contract it entered into with Hydro-Québec TransÉnergie which concludes in 2029.

The transmission rental payments for the next five years are estimated to be as follows:

(millions of Canadian dollars)	2024	2025	2026	2027	2028
Transmission rental payments	19	19	19	19	20

(e) In May 2021, Hydro entered into an amended Capacity Assistance Agreement with Corner Brook Pulp and Paper (CBPP) for the purchase of relief power during the winter period. Hydro and CBPP have agreed to extend the terms of that agreement until a new agreement is executed. Payment for services will be dependent on the successful provision of capacity assistance for the winter period by CBPP.

27. CAPITAL MANAGEMENT

Hydro's principal business requires ongoing access to capital in order to maintain assets to ensure the continued delivery of safe and reliable service to its customers. Therefore, Hydro's primary objective when managing capital is to ensure ready access to capital at a reasonable cost, to minimize its cost of capital within the confines of established risk parameters, and to safeguard Hydro's ability to continue as a going concern.

The capital managed by Hydro is comprised of debt (long-term debentures, short-term borrowings, bank credit facilities and bank indebtedness) and equity (share capital, shareholder contributions, reserves and retained earnings).

A summary of the capital structure is outlined below:

(millions of Canadian dollars)	**2023**		2022	
Debt				
Sinking funds	**(206)**		(202)	
Short-term borrowings	**230**		131	
Current portion of long-term debt	**7**		7	
Long-term debt	**2,017**		2,032	
	2,048	**60.4%**	1,968	60.4%
Equity				
Share capital	**23**		23	
Contributed capital	**143**		144	
Reserves	**19**		31	
Retained earnings	**1,159**		1,094	
	1,344	**39.6%**	1,292	39.6%
Total Debt and Equity	**3,392**	**100.0%**	3,260	100.0%

Hydro's approach to capital management encompasses various factors including monitoring the percentage of floating rate debt in the total debt portfolio, the weighted average term to maturity of its overall debt portfolio, its percentage of debt to debt plus equity, and its interest coverage.

For the regulated portion of Hydro's operations, Management targets a capital structure comprised of 75% debt and 25% equity, a ratio which Management believes to be optimal with respect to its cost of capital. This capital structure is maintained by a combination of dividend policy, shareholder contributions and debt issuance. The issuance of any new debt with a term greater than one year requires prior approval of the PUB. Hydro's committed operating facility has a covenant requiring Hydro to ensure that its consolidated debt to total capitalization ratio does not exceed 85%. As at December 31, 2023 and 2022, Hydro was in compliance with this covenant.

Legislation stipulates that the total of the short-term loans issued by Hydro and outstanding at any time shall not exceed a limit as fixed by the Lieutenant-Governor in Council. Short-term loans are those loans issued with a term not exceeding two years. On December 15, 2023, the Lieutenant-Governor in Council issued Order in Council OC2023-272 to increase the level of short-term borrowings permitted by Hydro to $700.0 million, effective until January 1, 2026 at which time the level will decrease to $500.0 million. As at December 31, 2023, there were two promissory notes outstanding for a total of $230.0 million.

The Hydro Corporation Act, 2007 (the Act) limits Hydro's total borrowings outstanding at any point in time, which includes both short-term borrowings and long-term debt to $2.6 billion.

Historically, Hydro addressed longer-term capital funding requirements by issuing government guaranteed long-term debt in the domestic capital markets. Beginning in December 2017, the Province now issues debt in the domestic capital markets, on Hydro's behalf, and in turn loans the funds to Hydro on a cost recovery basis. Any additional funding to address long-term capital funding requirements requires approval from the Province and the PUB.

28. SUPPLEMENTARY CASH FLOW INFORMATION

For the year ended December 31 (millions of Canadian dollars)	**2023**	2022
Trade and other receivables	**(4)**	11
Inventories	**(2)**	(15)
Prepayments	**-**	1
Trade and other payables	**1**	47
Changes in non-cash working capital balances	**(5)**	44
Related to:		
Operating activities	**(10)**	56
Investing activities	**10**	(4)
Financing activities	**(5)**	(8)
	(5)	44

29. SEGMENT INFORMATION

Hydro operates in three business segments. The designation of segments is based on a combination of regulatory status and management accountability.

Hydro Regulated activities encompass sales of electricity to customers within the Province that are regulated by the PUB and export markets. Hydro Non-Regulated activities include the sale of energy to mining operations in Labrador West and for export markets as well as Hydro's costs that are excluded from the determination of customer rates. Energy Marketing activities includes the sale of electricity and transmission to Hydro's affiliate, Energy Marketing.

	Hydro Regulated	Non-Regulated Activities	Energy Marketing	Total
(millions of Canadian dollars)	For the year ended December 31, 2023			
Energy sales	**740**	**52**	**5**	**797**
Other revenue	**388**	**-**	**19**	**407**
Revenue	**1,128**	**52**	**24**	**1,204**
Fuels	**187**	**-**	**-**	**187**
Power purchased	**926**	**47**	**5**	**978**
Operating costs	**148**	**4**	**-**	**152**
Transmission rental	**-**	**-**	**19**	**19**
Depreciation and amortization	**73**	**-**	**-**	**73**
Net finance expense	**94**	**1**	**-**	**95**
Other expense	**9**	**-**	**-**	**9**
Expenses	**1,437**	**52**	**24**	**1,513**
(Loss) profit for the year from operations	**(309)**	**-**	**-**	**(309)**
Share of profit of joint arrangement	**-**	**30**	**-**	**30**
Preferred dividends	**-**	**7**	**-**	**7**
(Loss) profit for the year before regulatory adjustments	**(309)**	**37**	**-**	**(272)**
Regulatory adjustments	**(342)**	**-**	**-**	**(342)**
Profit for the year	**33**	**37**	**-**	**70**
Capital expenditures*	**150**	**-**	**-**	**150**
Total assets	**3,659**	**752**	**72**	**4,483**

***Capital expenditures include non-cash additions of $0.2 million contributed by Lower Churchill Management Corporation and $1.9 million of interest capitalized during construction.**

(millions of Canadian dollars)	Hydro Regulated	Non-Regulated Activities	Energy Marketing	Total
	For the year ended December 31, 2022			
Energy sales	649	56	4	709
Other revenue	31	-	16	47
Revenue	680	56	20	756
Fuels	188	-	-	188
Power purchased	473	47	4	524
Operating costs	135	1	-	136
Transmission rental	3	-	16	19
Depreciation and amortization	80	-	-	80
Net finance expense	94	-	-	94
Other expense	23	1	-	24
Expenses	996	49	20	1,065
(Loss) profit for the year from operations	(316)	7	-	(309)
Share of profit of joint arrangement	-	44	-	44
Preferred dividends	-	13	-	13
(Loss) profit for the year before regulatory adjustments	(316)	64	-	(252)
Regulatory adjustments	(352)	-	-	(352)
Profit for the year	36	64	-	100
Capital expenditures*	104	-	-	104
Total assets	3,237	709	92	4,038

*Capital expenditures include non-cash additions of $0.2 million contributed by Lower Churchill Management Corporation and $0.9 million of interest capitalized during construction.

Newfoundland and Labrador Hydro[1]

Directors	Officers
Albert Williams[2] Chairperson Retired Engineer	**John Green** Chairperson (Acting) Retired Lawyer, McInnes Cooper
John Green Chairperson (Acting) Retired Lawyer, McInnes Cooper	**Jennifer Williams** President and Chief Executive Officer
Donna Brewer Retired Deputy Minister of Finance	**Lisa Hutchens** Vice President, Chief Financial Officer
Chris Loomis Retired Professor Memorial University of Newfoundland and Labrador	**Dana Pope** Vice President, Regulatory and Stakeholder Relations (Acting)
Jennifer Williams President and Chief Executive Officer	**Robert Collett** Vice President, Hydro Engineering and NLSO
David Oake President, Invenio Consulting Inc.	**Gerard Dunphy** Vice President, Churchill Falls and Muskrat Falls
Fraser Edison President and CEO, Rutter Inc.	**Gail Collins** Vice President, People and Corporate Affairs
John Mallam Retired Hydro Executive	**Scott Crosbie** Vice President, Hydro Operations
Brian Walsh Retired FortisTCI Executive	**Walter Parsons** Vice President, Transmission Interconnections and Business Development
Trina Troke Project Manager, Cahill Group	**Michael Ladha** Vice President, Chief Legal Officer and Corporate Secretary
James Haynes Retired Hydro Executive	**Meredith Baker** Assistant Corporate Secretary
Bob Barnes Retired Hydro Manager	

Head Office
Newfoundland and Labrador Hydro
PO Box 12400
Hydro Place, 500 Columbus Drive
St. John's, NL A1B 4K7
Canada

[1] Newfoundland and Labrador Hydro ("Hydro") Board of Directors and Officers as at December 31, 2023.
[2] Albert Williams temporarily on leave of absence as of June 22, 2023.

Newfoundland and Labrador Hydro
Computation of Average Rate Base
Year Ended December 31, 2023
($000)

	2023	Revised 2022
Capital Assets - Return 4	2,972,380	2,869,697
Work in Progress[1]	59,596	22,755
	3,031,976	2,892,452
Deduct:		
Accumulated Depreciation - Return 6[2]	(713,461)	(654,859)
Contributions in Aid of Construction - Return 7[1]	(50,154)	(50,987)
Total Capital Assets	2,268,361	2,186,606
Deduct Items Excluded from Rate Base:		
Work in Progress[1]	(59,596)	(22,755)
Asset Retirement Obligations (Net of Amortization)	(11,237)	(2,734)
Electric Vehicle Charger Elimination[3]	(639)	-
Net Capital Assets[4]	2,196,889	2,161,118
Net Capital Assets, Previous Year	2,161,118	2,165,756
Unadjusted Average Capital Assets	2,179,004	2,163,437
Deduct:		
Average Net Capital Assets Excluded from Rate Base	(7,811)	(8,628)
Average Capital Assets	**2,171,193**	**2,154,809**
Working Capital Allowance - Return 8[5]	**702**	**1,276**
Fuel Inventory - Return 10	**57,802**	**70,512**
Supplies Inventory - Return 10	**41,349**	**38,856**
Average Deferred Charges for Rate Base - Return 11	**58,306**	**59,632**
Average Rate Base at Year End - Return 12[5]	**2,329,352**	**2,325,085**

[1] In 2023, contributions of $16.3 million (2022: $13.7 million) related to Capital Assets not in service have been net in Work in Progress. In addition, insurance proceeds of $1.0 million (2022: $1.0 million) related to Capital Assets not in service have been net in Work in Progress.

[2] Accumulated Amortization is net of the Retirement Asset Pool and Removal Provision. Please refer to Return 6 for further details.

[3] As per Board Order No. P.U. 33(2023), electric vehicle chargers were excluded from Capital Assets and included in Regulatory Assets. The total is comprised of $0.9 million (2022: $ nil) related to Capital Assets and $(0.3) million (2022: $ nil) related to Deferred Contributions.

[4] Numbers may not add due to rounding.

[5] Please refer to Return 8 for the revised 2022 Working Capital Allowance.

Newfoundland and Labrador Hydro
Capital Assets - Original Cost
Year Ended December 31, 2023
($000)

	Balance 31-Dec-2022	Adjustments During 2023	Additions During 2023	Retirements During 2023	Balance 31-Dec-2023
Power Generation					
Thermal	217,751	8,846	14,913	(2,711)	238,799
Hydroelectric	910,423	(634)	24,892	(1,999)	932,682
Diesel	118,275	62	7,662	(1,668)	124,332
Gas Turbine	193,185	(17)	2,159	(159)	195,168
	1,439,634	8,257	49,626	(6,537)	1,490,981
Substations	416,201	191	23,045	(776)	438,661
Transmission	555,635	15	5,295	(26)	560,919
Distribution	288,448	(102)	17,140	(1,214)	304,272
General Plant	88,647	19	10,967	(4,222)	95,411
Telecontrol	55,302	(93)	2,474	(3,259)	54,424
Total Depreciable Plant	**2,843,867**	**8,287**	**108,547**	**(16,034)**	**2,944,668**
Non-Depreciable Land	5,073	-	-	-	5,073
Plant Investment	2,848,940	8,287	108,547	(16,034)	2,949,741
Intangible	20,757	(27)	1,915	(6)	22,639
Total Capital Assets - Return 3[1]	**2,869,697**	**8,260**	**110,462**	**(16,040)**	**2,972,380**

[1] Numbers may not add due to rounding.

Newfoundland and Labrador Hydro
Capital Expenditures
Year Ended December 31, 2023
($000)

	Total Board Approved Expenditures 2023	Total Actual Expenditures 2023	Variance From 2023 Budget
Access	13,533	13,847	(314)
General Plant	15,807	13,183	2,624
Mandatory	323	389	(66)
Renewal	87,859	96,150	(8,291)
Service Enhancement	14,780	12,840	1,940
System Growth	13,101	12,467	634
Allowance for Unforeseen	1,000	-	1,000
Total Capital Budget	**146,403**	**148,876**	**(2,473)**

2023 Capital Budget Approved by Board Order No. P.U. 2(2023)	90,829
New Project Approved by Board Order No. P.U. 27(2021)	586
New Project Approved by Board Order No. P.U. 28(2021)	118
New Project Approved by Board Order No. P.U. 12(2022)	457
New Project Approved by Board Order No. P.U. 14(2022)	138
New Project Approved by Board Order No. P.U. 17(2022)	1,561
New Project Approved by Board Order No. P.U. 18(2022)	3,040
New Project Approved by Board Order No. P.U. 30(2022)	3,386
New Project Approved by Board Order No. P.U. 32(2022)	45
New Project Approved by Board Order No. P.U. 6(2023)	2,105
New Project Approved by Board Order No. P.U. 12(2023)	3,597
New Project Approved by Board Order No. P.U. 21(2023)	63
New Project Approved by Board Order No. P.U. 28(2023)	40
2023 New Projects under $750,000 Approved by Hydro	449
Total Approved Capital Budget Before Carryovers[1]	**106,412**
Carryover Projects 2022–2023[2]	39,991
Total Approved Capital Budget[1]	**146,403**
Deduct:	
Carryover CIACs[2]	(3,097)
Supplemental CIACs	(1,089)
Net Capital Expenditures[3]	**142,217**

[1] Numbers may not add due to rounding.

[2] The 2022 carryover is $36.894 million net of CIACs of $3.097 million ($39.991 – $3.097 = $36.894).

[3] In the Quarterly Regulatory Report for the Quarter Ended December 31, 2023, Newfoundland and Labrador Hydro ("Hydro") reported a total of $3 million CIACs resulting in a capital budget net of CIACs of $143 million in error. Hydro will include this revision within its financial update to the Quarterly Regulatory Report for the Quarter Ended December 31, 2023.

Newfoundland and Labrador Hydro
Accumulated Depreciation
Year Ended December 31, 2023
($000)

	Property, Plant, and Equipment	Intangible	Total
Balance, December 31, 2022	653,250	14,949	**668,199**
Add:			
Depreciation	71,104	1,609	**72,713**
Deduct:			
Retirements, Transfers, and Adjustments	(10,090)	(6)	**(10,096)**
Accumulated Amortization Balance, December 31, 2023	714,264	16,552	**730,816**
Retirement Asset Pool			
Balance, December 31, 2022	(35,404)	95	**(35,309)**
Add:			
Net Loss on Retirement	(5,878)	-	**(5,878)**
Disposal Proceeds	1,041	-	**1,041**
	(40,241)	95	**(40,146)**
Removal Provision			
Balance, December 31, 2022	21,968	-	**21,968**
Add:			
Removal Depreciation	5,551	-	**5,551**
Deduct:			
Removal Costs	(4,728)	-	**(4,728)**
	22,791	-	**22,791**
Total Accumulated Amortization Balance, December 31, 2023 - Return 3	**696,814**	**16,647**	**713,461**

Depreciation Rates

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Generation Plant	
Hydroelectric	25 to 110 years
Thermal	20 to 70 years
Diesel	3 to 70 years
Transmission	
Lines	26 to 65 years
Terminal Stations	20 to 60 years
Distribution System	20 to 60 years
Other Assets	3 to 70 years

Newfoundland and Labrador Hydro
Contributions in Aid of Construction
Year Ended December 31, 2023
($000)

	Customers	Government/ Hydro Corporate[1]	Total
Gross Contributions to December 31, 2022	23,707	40,305	**64,012**
2023 Additions	956	403	**1,359**
2023 Disposals	-	-	**-**
Gross Contributions to December 31, 2023	24,663	40,708	**65,371**
Deduct:			
Accumulated Amortization			**(15,217)**
Net Balance December 31, 2023 - Return 3[2]			**50,154**

[1] The Government of Newfoundland and Labrador ("Government")/Newfoundland and Labrador Hydro ("Hydro") Corporate includes Hydro's other lines of business including, but not limited to, the Lower Churchill Project as well as Government Contributions in Aid of Construction.

[2] In 2023, contributions of $16.3 million (2022: $13.7 million) related to Capital Assets not in service have been net in Work in Progress. In addition, insurance proceeds of $1.0 million (2022: $1.0 million) related to Capital Assets not in service have been net in Work in Progress. Please refer to Return 3 for further information.

Newfoundland and Labrador Hydro
Working Capital Allowance
Year Ended December 31, 2023
($000)

	2023	Revised 2022
Operating Expenses for the Year - Return 9	142,759	130,494
Add:		
Power Purchases[1]	61,643	64,144
Transmission[2]	-	-
Total Operating Expenses for the Year	**204,402**	**194,638**
Net Lag %[3]	2.26%	2.38%
Working Capital Allowance[4]	4,619	4,632
Deduct:		
HST Adjustment[5]	3,917	3,356
Total Working Capital Allowance - Return 3[4]	**702**	**1,276**

[1] The power purchases of $324.5 million were incorrectly reported in Newfoundland and Labrador Hydro's ("Hydro") 2022 Annual Return as it included $260.3 million of power purchases that were deferred in the Supply Cost Variance Deferral Account, resulting in an overstatement of the power purchases.

[2] The transmission costs of $2.9 million were incorrectly reported in Hydro's 2022 Annual Return as they were deferred in the Supply Cost Variance Deferral Account.

[3] Net Lag % is calculated as Net Lag Days (Revenue Lag less Expense Lag) divided by 365 days. In 2023, Hydro's Revenue Lag was 36 days (2022: 36 days) and the Expense Lag was 28 days (2022: 27 days) resulting in a Net Lag of 8 days (2022: 9 days).

[4] The working capital allowance of $10.3 million was incorrectly reported in Hydro's 2022 Annual Return as it included $260.3 million of power purchases and $2.9 million of transmission costs that were both deferred in the Supply Cost Variance Deferral Account, resulting in an overstatement of the working capital allowance by $6.3 million.

[5] The HST adjustment of $0.6 million in Hydro's 2022 Annual Return incorrectly included $2.8 million of related party power purchases that qualified for an HST exemption.

Newfoundland and Labrador Hydro
Statement of Operating Costs
Year Ended December 31, 2023
($000)

	2023	2022
Salaries and Benefits	83,217	82,437
System Equipment Maintenance	30,060	22,299
Office Supplies and Expenses	2,225	2,315
Professional Services	10,043	8,279
Insurance	4,973	4,703
Equipment Rentals	2,546	2,255
Travel	2,836	2,037
Miscellaneous Expenses	5,131	5,011
Building Rental and Safety	1,053	972
Transportation	2,446	2,358
Customer Costs (Recoveries)	2,137	(511)
Cost (Recoveries) Charges	(3,908)	(1,661)
Total Operating Costs - Return 8	**142,759**	**130,494**

Newfoundland and Labrador Hydro
Significant Operating Expense Variance
Year Ended December 31, 2023
($000)

	2023	2022	Increase (Decrease)	
Salaries and Benefits	83,217	82,437	780	[1]
System Equipment Maintenance	30,060	22,299	7,761	[2]
Professional Services	10,043	8,279	1,764	[3]
Insurance	4,973	4,703	270	[4]
Equipment Rentals	2,546	2,255	291	[5]
Travel	2,836	2,037	799	[6]
Customer Costs (Recoveries)	2,137	(511)	2,648	[7]
Cost (Recoveries) Charges	(3,908)	(1,661)	(2,247)	[8]

[1] Variance primarily due to increased salary and benefit costs, partially offset by higher capital recharge and lower Employee Future Benefits expense.

[2] Variance primarily due to normal fluctuations in operating projects year-over-year, as well as an increase in removal costs ($4.0 million) which is offset in Cost (Recoveries) Charges.

[3] Variance primarily due to increased regulatory requirements and Board of Commissioners of Public Utilities related costs, increased consulting related to market analysis/modelling, transmission line inspections/assessments, and other operational requirements. There were also increases in software maintenance and subscription costs over the prior year.

[4] Premium increase due to market rate increases.

[5] Variance primarily due to equipment rentals required to replace failed equipment in isolated communities.

[6] Variance primarily due to additional travel costs as a result of staffing vacancies and increased operational requirements.

[7] Higher Customer Costs (Recoveries) in 2023 is primarily associated with bad debt expense related to a General Service customer.

[8] Variance primarily due to the recovery of removal costs, partially offset by lower external cost recoveries, as well as increases in Intercompany Administrative Fees.

Newfoundland and Labrador Hydro
Inventory
Year Ended December 31, 2023
($000)

	Fuel		Supplies	
	2023	**2022**	**2023**	**2022**
Opening Balance	59,623	46,103	39,369	38,051
January	54,693	47,349	39,850	38,415
February	54,203	47,589	40,377	38,452
March	48,932	49,788	41,119	39,181
April	58,017	66,587	41,699	38,899
May	51,659	89,080	41,314	38,918
June	52,858	93,460	42,295	39,059
July	54,469	87,874	41,764	39,143
August	53,109	91,953	41,860	38,878
September	79,674	91,108	41,967	38,843
October	70,704	85,481	41,718	38,841
November	55,067	60,662	41,912	39,073
December	58,414	59,623	42,292	39,369
13-Month Average - Return 3	**57,802**	**70,512**	**41,349**	**38,856**

Newfoundland and Labrador Hydro
Deferred Charges
Year Ended December 31, 2023
($000)

	Board Order No.	2023	2022
Foreign Exchange Losses	P.U. 7(2002–2003)	38,825	40,982
Foreign Exchange on Fuel	P.U. 30(2019)	(218)	401
Conservation Demand Management	P.U. 30(2019)	7,329	7,527
Phase II Hearing Costs	P.U. 13(2016)	1,364	1,364
Asset Disposal	P.U. 13(2016)	254	273
Supply Deferral	P.U. 30(2019)	12,059	8,955
Deferred Power Purchases	P.U. 5(1996–1997)	(104)	(140)
2018 Revenue Deficiency	P.U. 30(2019)	(1)	(1)
2019 Revenue Deficiency	P.U. 30(2019)	77	77
Business Systems Transformation Program	P.U. 16(2019)	2,538	1,027
Business Systems Transformation Program (Approved for Recovery)	P.U. 27(2022)	6,687	6,687
Reliability and Resource Adequacy	P.U. 29(2019)	2,639	2,343
Hydraulic Resource Optimization	P.U. 49(2018)	(5,712)	(5,712)
Frequency Converter	P.U. 35(2020)	(931)	(702)
Power Purchase Expense Recognition	P.U. 9(2021) and P.U. 33(2021)	440,288	165,728
Muskrat Falls Export Revenue Recognition Deferral	P.U. 33(2021) and P.U. 4(2022)	13,279	25,757
Muskrat Falls Power Purchase Agreement Sustaining Capital	P.U. 33(2021) and P.U. 4(2022)	4,979	536
Holyrood Thermal Generating Station Accelerated Depreciation	P.U. 33(2021) and P.U. 4(2022)	(9,843)	-
Electrification Cost Deferral	P.U. 33(2023)	704	-
Deferred Charges		514,213	255,102
Deduct Deferred Charges Excluded from Rate Base:			
Phase II Hearing Costs[1]		(1,364)	(1,364)
Business Systems Transformation Program[1]		(2,538)	(1,027)
Muskrat Falls Power Purchase Agreement Sustaining Capital[1]		(4,979)	(536)
Reliability and Resource Adequacy[1]		(2,639)	(2,343)
Holyrood Thermal Generating Station Accelerated Depreciation[1]		9,843	-
Electrification Cost Deferral[1]		(704)	-
Power Purchase Expense Recognition[2]		(440,288)	(165,728)
Muskrat Falls Export Revenue Recognition Deferral[3]		(13,279)	(25,757)
		(455,948)	(196,755)
Deferred Charges, End of Current Year		**58,265**	**58,347**
Deferred Charges, End of Prior Year		58,347	60,916
Average Deferred Charges for Rate Base - Return 3		**58,306**	**59,632**

[1] Recovery of these expenditures is subject to approval by the Board of Commissioners of Public Utilities and has been excluded from the rate base.
[2] This deferral represents timing differences in expense recognition and is excluded from the rate base as per Board Order Nos. P.U. 9(2021), and P.U. 33(2021).
[3] This deferral represents a timing difference in revenue recognition and is excluded from the rate base as per Board Order No. P.U. 33(2021).

Newfoundland and Labrador Hydro
Return on Rate Base
Year Ended December 31, 2023
($000)

	2023	Revised 2022
Corporate Net Income - Return 1	70,280	99,981
Deduct:		
Unregulated Earnings[1]	(38,295)	(63,668)
Regulated Net Income	31,985	36,313
Add:		
Compliance Adjustments	-	-
Cost of Service Exclusions[2]	7,129	7,620
Regulated Net Interest - Return 16	77,801	81,686
Regulated Return	116,915	125,619
Average Rate Base at Year End - Return 3[3]	2,329,352	2,325,085
Rate of Return on Average Rate Base[4]	**5.02%**	**5.40%**
Lower End of Approved Range - 0.20	5.23%	5.23%
Higher End of Approved Range + 0.20	5.63%	5.63%

[1] Difference to Return 1 is due to rounding.

[2] The Cost of Service exclusions are comprised of the disallowed portion of the Debt Guarantee Fee of $6.7 million (2022: $6.7 million) and depreciation on assets excluded from rate base of $0.4 million (2022: $0.9 million).

[3] Please refer to Return 3 for the revised 2022 Average Rate Base.

[4] The 2022 Rate of Return on Average Rate Base has been revised based on adjustments to the Average Rate Base as per Return 3.

Newfoundland and Labrador Hydro
Return on Regulated Average Retained Earnings
Year Ended December 31, 2023
($000)

		2023		2022
Regulated Average Equity				
Total Equity - Return 1[1]		1,343,057		1,291,795
Add:				
Compliance Adjustments		-		-
		1,343,057		1,291,795
Deduct:				
Share Capital		22,504		22,504
Contributed Surplus		143,251		144,261
Accumulated Other Comprehensive Income		18,737		31,267
Ending Retained Earnings as per Balance Sheet		1,158,565		1,093,763
Deduct Non-Regulated Retained Earnings:				
Beginning Non-Regulated Retained Earnings	645,844		603,497	
Non-Regulated Net Income for the Year[1]	38,295		63,668	
Non-Regulated Dividends for the Year	(5,478)		(21,321)	
Ending Non-Regulated Retained Earnings		678,661		645,844
Regulated Retained Earnings, End of Year[1]		479,904		447,919
Add:				
Regulated Contributed Surplus		100,000		100,000
Retained Earnings Cost of Service Exclusions		64,969		57,840
Total Regulated Equity, End of Year[2]		644,873		605,760
Regulated Equity, Beginning of Year		605,760		561,826
Regulated Average Equity		**625,316**		**583,793**
Regulated Earnings				
Net Income - Return 1		70,280		99,981
Add:				
Compliance Adjustments		-		-
Deduct:				
Non-Regulated Net Income		38,295		63,668
Hydro Regulated Earnings		31,985		36,313
Cost of Service Exclusions		7,129		7,620
Regulated Earnings		**39,114**		**43,933**
Rate of Return on Regulated Equity		**6.26%**		**7.53%**

[1] Difference to Return 1 is due to rounding.
[2] Numbers may not add due to rounding.

Newfoundland and Labrador Hydro
Capital Structure
Year Ended December 31, 2023[1]
($000)

	2023		2022		Average	
	Amount	Percent	Amount	Percent	Amount	Percent
Hydro						
Debt - Return 15	2,047,675	60.4%	1,968,390	60.4%	2,008,033	60.4%
Equity - Return 13	1,343,057	39.6%	1,291,795	39.6%	1,317,426	39.6%
	3,390,732	**100.0%**	**3,260,185**	**100.0%**	**3,325,459**	**100.0%**
Hydro Regulated						
Debt - Return 15	2,061,165	73.3%	1,965,679	73.4%	2,013,422	73.3%
Funded Employee Future Benefits	91,513	3.3%	91,509	3.4%	91,511	3.3%
Funded Asset Retirement Obligation	15,369	0.5%	14,344	0.5%	14,856	0.5%
Equity - Return 13	644,873	22.9%	605,760	22.6%	625,316	22.8%
	2,812,920	**100.0%**	**2,677,292**	**100.0%**	**2,745,105**	**100.0%**

[1] Numbers may not add due to rounding.

Newfoundland and Labrador Hydro
Cost of Debt
Year Ended December 31, 2023
($000)

	2023	2022	Average
Long-Term Debt	2,023,540	2,039,320	2,031,430
Promissory Notes	230,000	131,000	180,500
Sinking Funds	(205,865)	(201,930)	(203,898)
Total Debt - Return 14	2,047,675	1,968,390	2,008,033
Add:			
Mark to Market Value	-	-	-
Net Debt	2,047,675	1,968,390	2,008,033
Non-Regulated Debt Pool	13,490	(2,711)	5,389
Total Regulated Debt - Return 14	**2,061,165**	**1,965,679**	**2,013,422**
Current Year Interest Expense - Return 16			**91,033**
Cost of Debt			**4.52%**

Newfoundland and Labrador Hydro
Interest Expense
Year Ended December 31, 2023
($000)

	2023	2022
Gross Interest		
Long-Term Debt	97,725	97,749
Promissory Notes and Short Term	6,312	2,320
	104,037	100,069
Amortization of Debt Discount and Financing Expenses	1,394	1,339
Provision for Foreign Exchange	2,157	2,157
Interest Earned	(18,679)	(15,635)
Debt Guarantee Fee - Hydro[1]	8,794	8,703
Other	91	184
	97,794	96,817
Deduct:		
Cost of Service Exclusions[1]	(6,761)	(6,724)
Non-Regulated Interest	-	(97)
Interest for Cost of Debt - Return 15	**91,033**	**89,996**
Deduct:		
Interest Capitalized During Construction	(1,854)	(882)
Interest Earned on Supply Cost Variance Deferral Account	(8,320)	(4,603)
Interest Earned on Lower Churchill Project Sustaining Capital IDC[2]	(68)	(22)
Interest Charged on Rate Stabilization Plan	(2,990)	(2,803)
Regulated Net Interest - Return 12	**77,801**	**81,686**
Deduct:		
Provision for Foreign Exchange	(2,157)	(2,157)
Add:		
Cost of Service Exclusions[1]	6,761	6,724
Accretion of Asset Retirement Obligations	737	186
Regulated Interest (PUB Quarterly)	83,142	86,439
Add:		
Interest Earned on Supply Cost Variance Deferral Account	8,320	4,603
Interest Earned on Lower Churchill Project Sustaining Capital IDC[2,3]	68	22
Interest Charged on Rate Stabilization Plan	2,990	2,803
Add:		
Non-Regulated Interest	-	97
Total Interest - Return 1[3]	**94,520**	**93,964**

[1] As per Board Order No. P.U. 49(2016), Newfoundland and Labrador Hydro has excluded the disallowed portion of the Debt Guarantee Fee.

[2] Interest during construction ("IDC").

[3] Excluded in error on the 2022 Annual Return resulting in a revision to total interest.

Newfoundland and Labrador Hydro
Rate Stabilization Plan - Activity
Year Ended December 31, 2023
($000)

	Utility							Industrial					
	Load Variation	Allocation Fuel Variation	Allocation Rural Rate Alteration	Financing Charges	Adjustment	Transfers[1]	Cumulative Net Balance	Load Variation	Allocation Fuel Variation	Financing Charges	Adjustment	Transfers[1]	Cumulative Net Balance
Opening Balance							16,964						5,550
January	-	-	-	75	148	-	17,187	-	-	25	(474)	-	5,100
February	-	-	-	76	158	-	17,420	-	-	23	(498)	-	4,624
March	-	-	-	77	154	8,685	26,337	-	-	20	(503)	-	4,142
April	-	-	-	116	125	-	26,578	-	-	18	(487)	-	3,674
May	-	-	-	117	104	-	26,799	-	-	16	(247)	-	3,443
June	-	-	-	118	85	-	27,002	-	-	15	(109)	-	3,349
July	-	-	-	119	(1,523)	-	25,599	-	-	15	(272)	-	3,092
August	-	-	-	113	(1,492)	-	24,219	-	-	14	(453)	-	2,653
September	-	-	-	107	(1,533)	-	22,793	-	-	12	(477)	-	2,188
October	-	-	-	101	(1,923)	-	20,971	-	-	10	(427)	-	1,770
November	-	-	-	93	(2,750)	-	18,314	-	-	8	(503)	-	1,275
December	-	-	-	81	(3,166)	-	15,229	-	-	6	(485)	-	796
Total Year-to-Date	**-**	**-**	**-**	**1,193**	**(11,614)**	**8,685**	**(1,735)**	**-**	**-**	**180**	**(4,934)**	**-**	**(4,754)**
Hydraulic Allocation							15,343						1,117
Total							**30,571**						**1,913**
							To Return 18						**To Return 18**

[1] Recovery of the Supply Deferral was approved in Board Order No. P.U. 7(2023).

Newfoundland and Labrador Hydro
Rate Stabilization Plan - Balances
Year Ended December 31, 2023
($000)

	Hydraulic				From Return 17		
	Net Hydraulic Production Variation	Financing Charges	Transfers	Cumulative Variation and Financing Charges	Utility Balance	Industrial Balanace	Cumulative Net Balance
Opening Balance				29,777	16,964	5,550	52,290
January	-	131	-	29,908	17,187	5,100	52,195
February	-	132	-	30,040	17,420	4,624	52,085
March	-	133	-	30,173	26,337	4,142	60,652
April	-	133	-	30,306	26,578	3,674	60,558
May	-	134	-	30,440	26,799	3,443	60,682
June	-	134	-	30,574	27,002	3,349	60,925
July	-	135	-	30,709	25,599	3,092	59,400
August	-	136	-	30,845	24,219	2,653	57,717
September	-	136	-	30,981	22,793	2,188	55,962
October	-	137	-	31,118	20,971	1,770	53,859
November	-	137	-	31,256	18,314	1,275	50,845
December	-	138	-	31,394	15,229	796	47,418
Total Year-to-Date[1]	**-**	**1,617**	**-**	**1,617**	**(1,735)**	**(4,754)**	**(4,872)**
Hydraulic Allocation	(14,888)	(1,617)	-	(16,505)	15,343	1,117	(45)
Total[1]	**(14,888)**	**-**	**-**	**14,888**	**30,571**	**1,913**	**47,373**

[1] Numbers may not add due to rounding.

Newfoundland and Labrador Hydro
Assessable Revenue
Year Ended December 31, 2023
($000)

	2023	2022
Electricity Sales	732,457	668,768
Rate Stabilization[1]	16,548	19,121
Conservation and Demand Management Rider	1,582	1,855
Supply Cost Variance Deferral Utility Rate Rider	46,749	18,942
Energy Sales - Return 1	797,336	708,685
Other Revenue[2,3]	407,069	46,588
Total Revenue - Return 1	**1,204,405**	**755,274**
Deduct/(Add) Regulated Hydro Revenue that is Not Assessable:		
Input Tax Credits	148	133
Contributions in Aid of Construction	981	993
Rural Rate Alteration	6,412	5,095
Corner Brook Pulp and Paper Frequency Converter	229	229
Ponding Revenue	-	3,224
Export Revenue	36,316	32,299
Greenhouse Gas Credits	23,082	9,316
Transmission Tariff Revenue	16,668	9,413
Rate Mitigation	335,104	-
Electrification Cost Deferral	26	-
Deduct Non-Regulated Revenue:		
Legacy Recapture	5,293	3,654
Incremental Recapture	1,216	3,831
Iron Ore Company of Canada	41,050	43,573
Tacora/Wabush Mines	9,410	8,944
Other Revenue	18,855	15,645
	494,791	136,349
Assessable Revenue	**709,614**	**618,925**

[1] 2022 Revenue adjusted for items included in the Isolated Systems Supply Cost Variance Deferral.

[2] In March 2023, the Government of Newfoundland and Labrador ("Government") provided $190.4 million for the purpose of mitigating projected future customer rate increases that would be required to recover net supply costs incurred.

[3] In 2022, as part of the Government's rate mitigation plan, Newfoundland and Labrador Hydro ("Hydro"), the Government, and the Government of Canada signed term sheets enabling access, upon commissioning of the Labrador-Island Link ("LIL"), to a $1.0 billion investment by the Government of Canada in the LIL in the form of a convertible debenture. On August 15, 2023, the first drawing on the convertible debenture of $144.7 million was received by LIL (2021) Limited Partnership and on August 28, 2023, the funds were transferred to Hydro for the purpose of rate mitigation.

Newfoundland and Labrador Hydro
2023 Annual Report on the Rural Deficit[1]

	2023[2]			
Rural Deficit Areas	**Revenues ($)**	**Cost of Service Before Deficit and Revenue Allocation ($)**	**Revenue Credits ($)**	**Deficit[3] ($)**
Island Interconnected	55,945,182	98,972,858	-	(43,027,676)
Island Isolated	1,482,558	11,755,279	-	(10,272,721)
Labrador Isolated	8,804,554	45,106,617	-	(36,302,064)
L'Anse-au-Loup	3,339,070	10,855,293	-	(7,516,223)
Total	**69,571,364**	**166,690,047**	**-**	**(97,118,683)**

	2023				
Rural Deficit Areas	**Number of Communities[4]**	**Number of Customers**	**Cost per kWh ($)**	**Deficit per Customer ($)**	**Cost Recovery Ratio**
Island Interconnected	146	23,312	0.24	(1,846)	0.57
Island Isolated	6	646	2.02	(15,902)	0.13
Labrador Isolated	15	2,746	1.10	(13,220)	0.20
L'Anse-au-Loup	8	1,067	0.45	(7,044)	0.31
Total	**175**	**27,771**	**0.34**	**(3,497)**	**0.42**

[1] Newfoundland and Labrador Hydro ("Hydro") has not provided forecast deficit figures for 2024–2028 due to the uncertainty of future rate increases pending finalization of the Government of Newfoundland and Labrador's ("Government") rate mitigation plan.

[2] The 2023 Rural Deficit calculation is based on pro forma Cost of Service studies.

[3] In March 2023, the Government paid down the 2022 balance of approximately $190.4 million in the Supply Cost Variance Deferral Account. In 2022, as part of the Government's rate mitigation plan, Hydro, the Government, and the Government of Canada signed term sheets enabling access, upon commissioning of the Labrador-Island Link ("LIL"), to a $1.0 billion investment in the LIL by the Government of Canada in the form of a convertible debenture. On August 15, 2023, the first drawing on the convertible debenture of $144.7 million was received by LIL (2021) Limited Partnership; on August 28, 2023, the funds were transferred to Hydro for the purpose of rate mitigation. This funding was credited to the Rate Mitigation Fund component of the Supply Cost Variance Deferral Account, further reducing the balance. As there is currently no methodology approved for allocation amongst customer classes, the Rural Deficit amounts provided have not yet been updated to reflect this reduction.

[4] Hydro's definition of Community corresponds to the "Town Code" in its customer information system. Some smaller communities may be combined if they share a single postal code.

Newfoundland and Labrador Hydro
Supply Cost Variance Deferral Account - Activity
Year Ended December 31, 2023
($000)

	Muskrat Falls Project Cost Variance[2] ($)	Rate Mitigation Fund[3,4] ($)	Project Cost Recovery Rider: Utility[5] ($)	Project Cost Recovery Rider: Industrial ($)	Holyrood TGS[6] Fuel Cost Variance[7] ($)	Other IIS[8] Supply Cost Variance[7] ($)	Net Revenue From Exports Variance ($)	Transmission Tariff Revenue Variance[9] ($)	Load Variation: Utility ($)	Load Variation: Industrial ($)	Greenhouse Gas Credit Revenue Variance[10] ($)	Subtotal Monthly Variances ($)	Financing Charges[1]: Utility ($)	Financing Charges[1]: Other ($)	Transfers ($)	Cumulative Net Balance ($)
Opening Balance	277,547	-	(18,942)	-	(65,302)	(28,115)	(33,076)	(10,113)	63,551	18,295	(12,413)	191,432	(134)	4,887	-	196,185
January	19,795	-	(5,134)	-	(16,203)	(813)	(500)	(862)	13,086	1,367	4	10,741	(88)	1,000	-	207,838
February	19,400	-	(5,471)	-	(17,752)	(4,644)	(386)	(1,179)	(6,743)	1,080	(235)	(15,930)	(112)	1,077	-	192,873
March	20,390	(190,404)	(5,339)	-	11,674	(5,026)	(343)	(1,107)	(4,180)	1,296	(1)	(173,040)	(137)	1,033	-	20,729
April	40,844	-	(4,336)	-	2,992	(951)	(147)	(1,535)	(2,841)	1,264	-	35,291	(162)	258	-	56,117
May	59,641	-	(3,591)	-	(1,096)	(726)	(110)	(1,498)	(5,144)	2,050	-	49,525	(182)	443	-	105,902
June	60,819	-	(2,949)	-	(3,103)	(72)	(41)	(1,498)	(4,434)	2,369	(181)	50,910	(199)	691	-	157,304
July	61,225	-	(2,450)	-	(138)	(392)	(69)	(1,498)	162	1,948	-	58,788	(213)	943	-	216,823
August	56,198	(144,700)	(2,401)	-	(1)	(475)	(72)	(1,498)	(59)	1,415	2	(91,591)	(224)	1,231	-	126,240
September	60,909	-	(2,467)	-	(6,541)	(1,107)	(82)	(1,498)	969	1,272	(22,509)	28,947	(235)	822	-	155,773
October	60,823	-	(3,093)	-	(4,255)	(2,164)	(110)	(1,498)	4,740	1,509	0	55,952	(247)	970	-	212,448
November	59,216	-	(4,424)	-	(5,333)	(1,728)	(464)	(1,498)	(10,697)	1,181	(166)	36,087	(261)	1,248	-	249,523
December[11]	58,227	-	(5,094)	-	(9,137)	(2,356)	(13,172)	(1,498)	4,688	1,372	4	33,034	(282)	1,441	-	283,716
Year-to-Date[12]	**577,490**	**(335,104)**	**(46,749)**	**-**	**(48,891)**	**(20,453)**	**(15,495)**	**(16,668)**	**(10,454)**	**18,121**	**(23,082)**	**78,714**	**(2,341)**	**11,158**	**-**	**87,531**
Total[12]	**855,037**	**(335,104)**	**(65,691)**	**-**	**(114,193)**	**(48,568)**	**(48,571)**	**(26,781)**	**53,096**	**36,416**	**(35,494)**	**270,146**	**(2,475)**	**16,045**	**-**	**283,716**

To Return 22

[1] For the period January to November 2023, the interest rate applied to the Supply Cost Variance Deferral Account balance was 4.32%, based on the prior year-end rate. In December 2023, the interest expense was trued-up for the year, based on the short-term interest rate for 2023 of 5.72%. Please refer to the "Quarterly Regulatory Report - Quarter Ended December 31, 2023," Newfoundland and Labrador Hydro, rev. March 12, 2024 (orginally filed February 14, 2024), tab 1, att. 2, p. 16 of 31 for a detailed calculation of the short-term interest rate and further information.

[2] The Labrador-Island Link ("LIL") was commissioned on April 14, 2023, and Newfoundland and Labrador Hydro ("Hydro") began making payments under the Transmission Funding Agreement ("TFA").

[3] In March 2023, the Government of Newfoundland and Labrador ("Government") provided $190.4 million for the purpose of mitigating projected future customer rate increases that would be required to recover net supply costs incurred.

[4] In 2022, as part of the Government's rate mitigation plan, Hydro, the Government, and the Government of Canada signed term sheets enabling access, upon commissioning of the LIL, to a $1.0 billion investment by the Government of Canada in the LIL in the form of a convertible debenture. On August 15, 2023, the first drawing on the convertible debenture of $144.7 million was received by LIL (2021) Limited Partnership and on August 28, 2023, the funds were transferred to Hydro for the purpose of rate mitigation, reducing the balance in the Supply Cost Variance Deferral Account.

[5] As per Board Order No. P.U. 19(2022), the Board approved a Project Cost Recovery Rider of 0.798 cents per kWh that became effective as of July 1, 2022. There is no change to the Project Cost Recovery Rider effective July 1, 2023, as per Board Order No. P.U. 15(2023).

[6] Holyrood Thermal Generating Station ("Holyrood TGS").

[7] In 2021, Nalcor Energy ("Nalcor") commenced delivery of the Nova Scotia Block that, combined with limited LIL capacity, meant Hydro could not be delivered as much energy from the Muskrat Falls Hydroelectric Generating Facility as it would otherwise. Nalcor committed to indemnify Hydro for any damages suffered as a result of this reduction in deliveries, including compensating Hydro for incremental costs of fuel and/or imports over the Maritime Link. The 2023 balances reflect adjustments to the calculation to eliminate incremental costs incurred by Hydro as a result of reduced deliveries. The balances in this report reflect the true-up of initial estimates of incremental costs made throughout the year. All balances reported as at December 31, 2023 reflect final actual incremental cost eliminations.

[8] Island Interconnected System ("IIS").

[9] Effective June 1, 2023, Hydro assigned its long-term transmission rights, including associated payment obligations, to Energy Marketing for a period of ten years. Energy Marketing has been paying all costs associated with these rights under an interim agreement for the month of May 2023, since Hydro's long-term rights commenced on May 1, 2023, following commissioning of the LIL in April 2023.

[10] In September 2023, Hydro sold 493,536 Greenhouse Gas Performance Credits within the province for $22.5 million through a request for bids.

[11] In December 2023, the account included a true-up of the actual settlement of 2022 net export sales under the Muskrat Falls Power Purchase Agreement as compared to the estimate included in December 2022. Also included in December 2023, is an estimate of net export sales that occurred during 2023; the actual settlement value will not be finalized until the first quarter of 2024.

[12] Numbers may not add due to rounding.

Newfoundland and Labrador Hydro
Supply Cost Variance Deferral Account - Balances
Year Ended December 31, 2023
($000)

	From Return 21			
	Supply Cost Variance Deferral Account Balance[1,2,3,4]	Utility Balance[4]	Industrial Balance	Total to Date
Opening Balance	196,185	(5,784)	-	190,401
January	207,838	(6,394)	-	201,443
February	192,873	(7,483)	-	185,390
March	20,729	(8,242)	-	12,487
April	56,117	(8,651)	-	47,466
May	105,902	(8,988)	-	96,915
June	157,304	(9,325)	-	147,979
July	216,823	(9,599)	-	207,224
August	126,240	(10,013)	-	116,227
September	155,773	(10,312)	-	145,460
October	212,448	(10,668)	-	201,780
November	249,523	(11,617)	-	237,905
December	283,716	(12,444)	-	271,272

[1] In March 2023, the Government of Newfoundland and Labrador ("Government") provided $190.4 million for the purpose of mitigating projected future customer rate increases that would be required to recover net supply costs incurred.

[2] In 2022, as part of the Government's rate mitigation plan, Newfoundland and Labrador Hydro ("Hydro"), the Government, and the Government of Canada signed term sheets enabling access, upon commissioning of the Labrador-Island Link ("LIL"), to a $1.0 billion investment by the Government of Canada in the LIL in the form of a convertible debenture. On August 15, 2023, the first drawing on the convertible debenture of $144.7 million was received by LIL (2021) Limited Partnership, and on August 28, 2023, the funds were transferred to Hydro for the purpose of rate mitigation, reducing the balance in the Supply Cost Variance Deferral Account.

[3] In 2021, Nalcor Energy ("Nalcor") commenced delivery of the Nova Scotia Block that, combined with limited LIL capacity, meant Hydro could not be delivered as much energy from the Muskrat Falls Hydroelectric Generating Facility as it would otherwise. Nalcor committed to indemnify Hydro for any damages suffered as a result of this reduction in deliveries, including compensating Hydro for incremental costs of fuel and/or imports over the Maritime Link. All balances reported as at December 31, 2023 reflect final actual incremental cost eliminations.

[4] For the period January to November 2023, the interest rate applied to the deferral account balance was 4.32%, based on the prior year-end rate. In December 2023, the interest expense was trued-up for the year, based on the short-term interest rate for 2023 of 5.72%.

2023 Report on the Rural Deficit

Summary of Specific Initiatives

April 2, 2024

A report to the Board of Commissioners of Public Utilities

Contents

1.0 Introduction

Newfoundland and Labrador Hydro ("Hydro") provides electrical service to approximately 27,700 customers on the Hydro Rural Interconnected System and Hydro Rural Diesel Systems. As a result of policy set out by the Government of Newfoundland and Labrador ("Government"), these customers are served at an operating loss ("Rural Deficit") as the electricity rates in these areas do not recover Hydro's full cost of providing service. Additionally, Hydro serves approximately 11,500 rural customers on the Labrador Interconnected System, whose rates recover the cost to serve as well as a contribution to funding a portion of the Rural Deficit. Over 96%[1] of the Rural Deficit funding is provided through the Utility Rate charged to Newfoundland Power Inc. ("Newfoundland Power").

This report provides an overview of Hydro's Rural Deficit, as well as the direct operating and capital initiatives undertaken by Hydro to manage costs associated with serving customers in rural areas, thereby mitigating the Rural Deficit.

2.0 Rural Deficit Overview

Table 1 provides the estimated annual Rural Deficit for 2019–2023, as well as year-over-year variances. The Rural Deficit for 2023 was calculated using actual revenues and expenses allocated to Hydro's Rural Deficit areas based on the 2019 Test Year Cost of Service Study allocations.

Table 1: Hydro Rural Deficit Estimates ($ Millions)

	Annual Amounts					**Year-Over-Year**			
	2019	**2020**	**2021**	**2022**	**2023**	**2020/19**	**2021/20**	**2022/21**	**2023/22**
Revenues (A)	67.2	68.3	67.4	69.3	69.6	1.1	(0.9)	1.9	0.3
Costs[2]									
Operating Expenses	44.8	44.0	40.8	41.0	42.0	(0.8)	(3.2)	0.2	1.0
Fuel	29.3	21.8	19.5	34.1	38.3	(7.5)	(2.3)	14.6	4.2
Purchased Power	9.1	7.8	10.1	22.4	43.5	(1.3)	2.3	12.3	21.1
Depreciation	19.3	18.7	19.6	18.9	19.7	(0.6)	0.9	(0.7)	0.8
Return	23.4	25.1	25.1	24.9	23.2	1.7	-	(0.2)	(1.7)
Total Costs (B)	**125.9**	**117.4**	**115.1**	**141.3**	**166.7**	**(8.5)**	**(2.3)**	**26.2**	**25.4**
Rural Deficit (B-A)	58.7	49.1	47.7	72.0	97.1	(9.6)	(1.4)	24.3	25.1

[1] In accordance with the 2019 Test Year Cost of Service Study, allocation is 96.1% for Newfoundland Power and 3.9% for customers on the Hydro Rural Labrador Interconnected System.

[2] Table 1 does not include the costs incurred for Conservation and Demand Management ("CDM") programs offered in rural communities as they are captured in Hydro's CDM Cost Deferral Account, approved in the Board of Commissioners of Public Utilities ("Board") Order Nos. P.U. 49(2016), P.U. 22(2017), and P.U. 37(2022).

The $97.1 million Rural Deficit in 2023 represents an increase of approximately $25.1 million, or 34.9%, from 2022. The primary drivers of the change are as follows:

- Purchased power costs increased primarily as a result of the Labrador-Island Link ("LIL") being commissioned on April 14, 2023 and payments commencing under the Transmission Funding Agreement ("TFA"); and
- Fuel costs increased mainly as a result of an average 1.1 cents per kWh increase in No. 6 fuel[3] price, an increase in rural sales, and an increase of 1.7 cents per kWh in diesel fuel used to serve isolated customers in 2023 relative to 2022.[4]

One of the main drivers in the increase in the Rural Deficit is the increase in Muskrat Falls Project costs reflected in power purchases. This additional purchased power expense is reflected in the balance of the Supply Cost Variance Deferral Account. In March 2023, Government paid the remaining 2022 balance of approximately $190.4 million in the Supply Cost Variance Deferral Account.[5] In August 2023, $144.7 million was received by the LIL (2021) Limited Partnership as a result of the first drawing of the $1 billion investment by the Government of Canada;[6] the funds were transferred to Hydro for the purpose of rate mitigation. This funding was credited to the Rate Mitigation Fund component of the Supply Cost Variance Deferral Account, further reducing the balance. As there is currently no methodology approved for allocation amongst customer classes, the Rural Deficit amounts provided in this report have not yet been updated to reflect this reduction.

Chart 1 shows the annual Rural Deficit including and excluding the fuel costs, Muskrat Falls Project power purchases, exports, and tariff revenue.[7] With the commencement of Hydro's payments under the Muskrat Falls Power Purchase Agreement ("Muskrat Falls PPA") in November 2021[8] and the TFA in April

[3] A portion of Holyrood No. 6 fuel costs are allocated to rural customers on the Island Interconnected System.
[4] Changes in the price of diesel directly impact the purchase price that Hydro pays to serve customers on the L'Anse-au-Loup System, and for wind generation purchases supplying Ramea.
[5] "Implementing Initial Steps of Rate Mitigation," Government of Newfoundland and Labrador, Industry, Energy and Technology, March 31, 2023, <https://www.gov.nl.ca/releases/2023/iet/0331n03/%3e./>.
[6] In 2022, as part of the Government's rate mitigation plan, Hydro, the Government, and the Government of Canada signed term sheets enabling access, upon commissioning of the LIL, to a $1.0 billion investment in the LIL by the Government of Canada in the form of a convertible debenture.
[7] A portion of the Muskrat Falls Project supply costs less export and tariff revenues are allocated to the rural customers on the Island Interconnected System. The costs included do not reflect the rate mitigation funding provided to offset the balance of the Supply Cost Variance Deferral Account.
[8] "Muskrat Falls Project Asset Update," Newfoundland and Labrador Hydro, November 29, 2021.

2023,[9] the total Rural Deficit is impacted by the Muskrat Falls Project supply costs and does not reflect the rate mitigation funding provided to offset the balance of the Supply Cost Variance Deferral Account.

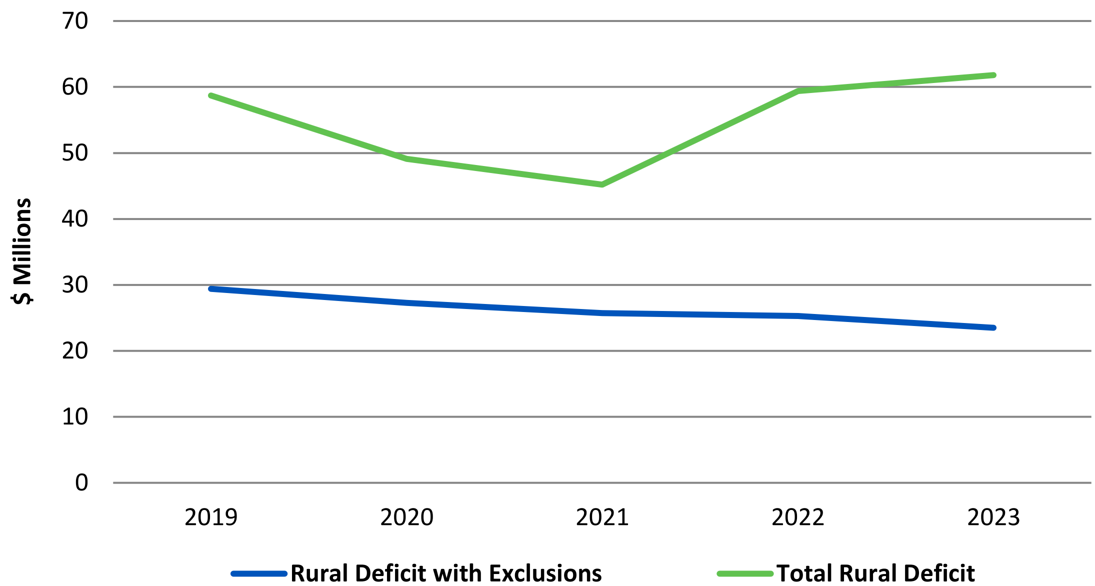

Chart 1: Five-Year Rural Deficit[10]

Chart 1 demonstrates that, excluding the cost of fuel and the Muskrat Falls Project power purchase costs, Hydro's costs are typically stable. Although there has been an increase in the Rural Deficit in 2023, the supply cost increase was outside of Hydro's control.

3.0 Operating Initiatives

3.1 Internal Energy Efficiency Initiatives

Hydro continued its internal energy efficiency efforts in 2023 with programs that aim to achieve reductions in energy usage in all facilities within the areas contributing to the Rural Deficit, including diesel generating stations, offices, and line depots. Initiatives for 2023 included a LED[11] lighting upgrade for the Buchan's Terminal Station that yielded 20 MWh of annual energy savings. Since it began in 2008, the program has provided cumulative energy savings of 17,963 MWh.

[9] "*Reliability and Resource Adequacy Study Review* – Labrador-Island Link Update," Newfoundland and Labrador Hydro, April 18, 2023.
[10] Exclusions include fuel costs, Muskrat Falls Project power purchase costs, exports, and tariff revenue.
[11] Light-emitting diode ("LED").

In 2023, Hydro continued the following initiatives to support its management of the Rural Deficit:[12]

- Capturing waste heat in several of Hydro's diesel generating stations to heat Hydro premises;
- Planning the sizes of replacement units at Hydro's diesel generating stations to optimize fuel efficiency;
- Monitoring diesel system fuel efficiency to identify poor performers so that corrective action may be taken; and
- Choosing the most fuel-efficient combination of engines, where possible,[13] to supply community loads.

3.2 Conservation and Demand Management Program Initiatives

The high cost of generation in isolated diesel communities and the increased system load in the L'Anse-au-Loup area continues to support the need for effective delivery of energy-efficiency programs in these areas. In 2012, two programs were launched to offer energy-efficiency incentives for residential and commercial customers located in Hydro's isolated diesel communities. These programs continued through 2023 and are further detailed in the sections that follow:

- The Isolated Communities Energy Efficiency Program ("ICEEP") is a program specifically targeted to residential and commercial customers in Hydro's Isolated Diesel Systems. In 2023, residential ICEEP offerings included direct install, smart and programmable thermostat installations, shifted energy smart water heater installations, heat pump installations, and offering the federal government's Greener Homes Grant Program. Commercial offerings for ICEEP included lighting upgrades, energy audits, and piloting cost-shared commercial building upgrades. From 2012 to 2023, the program installed 157,741 energy-efficient products, saving a total of over 12.5 GWh of electricity (807 MWh[14] in 2023).
- The Isolated Systems Business Efficiency Program is a program that provides rebates and technical assistance for commercial customers in isolated diesel communities in Newfoundland and Labrador. In 2023, one energy efficiency project was completed under this program

[12] Savings achieved through this initiative are primarily through avoided costs or productivity improvements; therefore, Hydro is not able to quantify the exact impact on the Rural Deficit.
[13] Completed automatically in some diesel generating stations.
[14] These savings may be updated if further audit in 2023 indicates adjustments are required.

involving a building insulation upgrade in Hydro's isolated areas. Since 2012, it has achieved 947 MWh of annual energy savings, 57 MWh of which were achieved in 2023.

These programs continued throughout 2023 and will be further detailed in the 2023 CDM Report.[15]

3.3 Hydro-Québec Power Purchase Contract Renewal

On September 1, 2021, Hydro executed a Power Purchase Agreement with Hydro-Québec for the L'Anse-au-Loup System. This agreement enables Hydro to continue to purchase surplus hydroelectric energy from Hydro-Québec's Lac-Robertson Generating Station to supply Hydro's customers in the L'Anse-au-Loup area. The terms and conditions of the new agreement are similar to the original and will continue to enable Hydro to supply the majority of customer load in L'Anse-au-Loup with deliveries from Hydro-Québec at approximately 50% of the cost of diesel generation. The approximate savings in 2023 were $3.8 million.[16]

3.4 Cost Effective Renewables

Hydro is actively engaged with Indigenous groups and stakeholders, with a particular focus on communities served primarily by diesel powered generation, to foster development of cost-effective renewables. The standard model for such developments involve a third party developing and operating the renewables, with Hydro purchasing the output at a cost below that which would be incurred to generate equivalent energy in Hydro's diesel generating stations.

3.4.1 Mary's Harbour Mini Hydro Facility

The Mary's Harbour Mini Hydro Facility began operations in September 2019. The photovoltaic and battery energy storage facility began operations in November 2021. Together they generated approximately 938 MWh in 2023, displacing diesel fuel generation. The purchase of energy from this facility resulted in net savings of approximately $40,000 in 2023.

3.4.2 Net Metering

Net metering initiatives are undertaken by customers, not by Hydro directly; however, there is an impact on Hydro's system as a result of net metering activity. Hydro currently has one net metering

[15] Hydro's CDM Report for the Year Ended December 31, 2023 will be filed with the Board on or before April 10, 2024.
[16] Compared to supplying the service area with diesel generators.

customer in an isolated diesel community under Hydro's net metering service option.[17] In 2023, this customer's net metering resulted in the displacement of approximately 43 MWh of diesel generation.

3.4.3 Solar Photovoltaic

In addition to the four solar photovoltaic projects that were put into service in Hopedale, Rigolet, Nain, and Postville during 2022, two new projects were put into service in St. Lewis, and one new project in Black Tickle in 2023. The new projects resulted in the displacement of approximately 68 MWh of diesel generation. Hydro continues to work with renewable energy developers to enable further renewable energy integration and anticipates additional projects to be developed in the coming year.

3.5 Long-Term Supply for Southern Labrador

Currently, Charlottetown and Pinsent's Arm, Mary's Harbour and Lodge Bay, Port Hope Simpson, and St. Lewis ("Southern Labrador Communities") are served individually by four separate isolated diesel systems (13 engines total).

The communities of Charlottetown and Pinsent's Arm were previously served by the Charlottetown Diesel Generating Station until a fire occurred in 2019. Since the fire, a temporary configuration was enacted with mobile generation to serve as an interim solution.

Hydro remains committed to the safety of the residents of Charlottetown and Pinsent's Arm, and to ensuring a long-term solution to address reliability, safety, and environmental concerns associated with the long-term use of mobile generation as a primary source of power. In Hydro's initial Long-Term Supply for Southern Labrador Application,[18] Hydro proposed the construction of a regional diesel generating station in Port Hope Simpson with four diesel gensets and the construction of 50 kilometres of 25 kV distribution line to connect the existing Charlottetown distribution system. The proposed centralized diesel generating station will provide a stable, reliable source of supply for the region. Based on the recommendation of an external consultant, Hydro has revised its application on May 31, 2023 to reflect full interconnection immediately rather than a phased implementation, as the lowest possible cost alternative, consistent with reliable service, and in an environmentally responsible manner. On October 5, 2023, Hydro provided a second revision to its application, which reflected a new in-service date of 2028 and updated costs associated with construction schedule changes as a result of the

[17] The customer is located in Makkovik, Labrador and has a 48 kW solar energy generator.
[18] "Long-Term Supply for Southern Labrador," Newfoundland and Labrador Hydro, rev. October 5, 2023 (originally filed July 16, 2021).

ongoing regulatory proceeding. On December 18, 2023, Hydro requested that the Board approve the application, conditional on fulfilment of the duty to consult and receipt of environmental approval. The regulatory proceeding is ongoing.

The proposed interconnection of the Southern Labrador Communities' will result in eight fewer diesel units (i.e., a reduction from 13 units to 4) and three fewer diesel generating stations (i.e., individual diesel generating station in each of the four communities versus one regional diesel generating station). This reduction in diesel units and generating stations will result in more efficient operations and is anticipated to reduce fuel consumption by approximately 600,000 litres annually and contribute to a projected reduction of approximately $70 million in the Rural Deficit over a 25-year period.[19] It would also significantly increase the potential for renewable energy penetration on the system.

3.6 Other Cost Management Initiatives

During 2023, Hydro continued to manage its operating costs in an effort to minimize its impact on the Rural Deficit. Examples of such initiatives are as follows:

- Utilizing cost-effective commercial air flights during regular work hours, where practical, rather than helicopter use;
- Having running maintenance (e.g., oil changes) completed by diesel system representatives rather than deploying maintenance crews to diesel communities;
- Participating in the Off-Grid Utility Association to work with other utilities with diesel generating stations for comparison of operating procedures and new technology to enhance efficiency in operations and maintenance; and
- Focusing on identifying planning and scheduling efficiencies, including a significant coordination effort to ensure that delays and duplicate asset outages are minimized.

4.0 Capital Initiatives

4.1 Replace Metering System

In Board Order No. P.U. 37(2021), as part of its 2022 Capital Budget Application ("CBA"), Hydro received approval for replacement of approximately 31,000[20] manually-read meters and TS1 AMI[21] meters.

[19] Compared to continued islanded operation of diesel generating stations in each community.
[20] 28,056 energy-only meters and 3,131 demand and energy meters.
[21] Automated Metering Infrastructure ("AMI").

Completion of this project is projected to result in average annual Rural Deficit savings of approximately $765,000 when compared to continuing with manually-read meters. All meters have been received from the vendor and are stored in company warehouses awaiting installation. In 2023, Hydro installed 30% of the meters planned for completion in its Replace Metering System Project. Hardware and software for this project has been received and installed for use by meter readers. Training with users has been completed and work continues on some software issues that were identified. Full implementation of meters is expected to be completed in early 2025.

4.2 Diesel Asset Management Strategy

Hydro has continued to evolve its asset management strategy, resulting in Isolated System cost savings. Hydro has changed its approach to its diesel unit overhauls for 1,200 RPM units,[22] running the units for 30,000 hours between overhauls and replacing them at 120,000 hours instead of 100,000 hours, thereby extending the useful life of the units.

Hydro has also continued to replace engines rather than overhaul them when it is cost effective to do so and when engines are available. As prices fluctuate from year-to-year, this approach will continue to be evaluated on a case-by-case basis to ensure that Hydro is availing of the least-cost alternative in the provision of reliable service.

4.3 Diesel Unit Sizes

In response to increasing loads in certain isolated diesel communities, Hydro has been replacing some of its 1,800 RPM diesel units with larger, slower turning 1,200 RPM units. This has resulted in lower operating costs in isolated systems as a result of material reductions in labour costs and travel associated with corrective maintenance,[23] as well as increased reliability.

4.4 LED Street Lights

The Nain LED Street Light Pilot Project,[24] implemented in 2015, provided direct cost savings as a result of the displacement of fuel costs. As a result, Hydro converted the street lights in the community of Ramea to LED street lights in 2018 and submitted a two-year capital proposal in its 2019 CBA to convert street

[22] Hydro has seven 1,200 RPM units.

[23] Savings achieved through this initiative are primarily through avoided costs or productivity improvements; therefore, Hydro is not able to quantify the exact impact on the Rural Deficit.

[24] Hydro initiated a pilot LED street light replacement project for the Town of Nain with a total of 125 HPS street light fixtures replaced with LED street light fixtures. The street light retrofit yields savings of approximately 45 MWh annually, which offsets approximately 12,000 litres of fuel consumption.

lights to LED in the remaining diesel systems. The proposal was approved and execution began in 2019 with the conversion of street lights in the community of Cartwright. In 2020, all remaining isolated Labrador communities' street lights were converted to LED. This project produces annual energy savings of approximately 120 MWh. LED street lights are also expected to contribute to lower operating and maintenance costs than high-pressure sodium ("HPS") street lights due to the elimination of relamping requirements and longer life.

Hydro submitted a capital proposal in its 2021 Capital Budget Application to replace all HPS street lights by 2026 for both the Island and Labrador. In 2023, an estimated 1,986 HPS street lights were replaced, resulting in approximate annual savings of 652 MWh.

4.5 Diesel Generating Station Communication Upgrades

In 2022, Hydro completed an upgrade to the communications technology at Cartwright Diesel Generating Station through a conversion from service provided over copper cable-based Digital Subscriber Line to a fibre-optic based Ethernet service. The copper-based service provided very low bandwidth which was also shared with other users in the community; as a result, it provided poor performance and was prone to network congestion-related outages. The fiber-optic based Ethernet service provides approximately 20 times more bandwidth which is also dedicated to Hydro. As a result, more bandwidth-intensive applications can be used at the diesel generating stations, such as secure remote access to equipment which allows operations personnel to provide support and troubleshooting remotely, instead of travelling to the site. Further, the upgraded communications with diesel generating stations will improve the ability to monitor diesel generating stations loads and may provide opportunities to implement demand management initiatives in diesel areas that can contribute to deferral of capacity additions on isolated diesel systems. Additional conversions to fibre-optic technology were completed at St. Lewis and Hopedale Diesel Generating Stations in 2023.

5.0 Conclusion

Hydro continues to pursue initiatives and activities to manage the Rural Deficit, including cost reduction and energy conservation initiatives. Management of the Rural Deficit is challenging as it is impacted by government policy initiatives resulting in energy pricing in diesel areas that can be lower than the energy pricing on the Island Interconnected System (i.e., as a result of the Northern Strategic Plan Billing Credit provided in Labrador diesel communities). These pricing signals can promote load growth and result in higher fuel usage and capacity requirements that can lead to additional capital investments and higher cost to provide service.

Prior to 2021, variability in the Rural Deficit over recent years has primarily been the result of changes in fuel cost. Since 2021, in addition to fuel cost changes, the Rural Deficit has increased further as a result of Hydro's commencement of payments under the Muskrat Falls PPA and TFA in November 2021 and April 2023, respectively. This additional purchased power expense is reflected in the balance of the Supply Cost Variance Deferral Account. In 2023, a total of approximately $335.1 million of funding has been provided for the purpose of rate mitigation, reducing the balance due from customers in the Supply Cost Variance Deferral Account. As there is currently no methodology approved for allocation amongst customer classes, the Rural Deficit amounts provided in this report have not yet been updated to reflect this reduction. Hydro's costs, excluding supply cost variability, have been stable over the period 2019–2023 demonstrating Hydro's ongoing effort to limit growth in the Rural Deficit.

Affidavit

IN THE MATTER OF the *Public Utilities Act*, ("*Act*"), and

IN THE MATTER OF Newfoundland and Labrador Hydro's Annual Return for 2023 filed in pursuant to Section 59(2) of the *Act*.

AFFIDAVIT

I, Carol Anne Lutz, Certified Professional Accountant, of St. John's in the province of Newfoundland and Labrador, make oath and say as follows:

1) I am the Controller for Newfoundland and Labrador Hydro, and as such I either have personal knowledge of, or I have been so informed and verily believe, the matters and things contained within the Newfoundland and Labrador Hydro 2023 Annual Return.
2) I have read the contents of the 2023 Annual Return and they are true to the best of my knowledge, information, and belief.

SWORN at St. John's in the province of Newfoundland and Labrador this 25th day of July 2024, before me:

SWalsh

Witnessed through the use of audio-visual technology in accordance with the *Commissioners for Oaths Act* and *Commissioners for Oaths Regulations*

Carol Anne Lutz, CMA, CPA, MBA