

NEWFOUNDLAND AND LABRADOR HYDRO

2020 Annual Performance Report
Transparency and Accountability

June 2021



Message from the Board of Directors

In accordance with the **Transparency and Accountability Act**, I am pleased to provide the 2020 Annual Performance Report for Newfoundland and Labrador Hydro (Hydro) on behalf of the Board of Directors.

The 2020-2022 Strategic Plan for Hydro outlined how the corporation would address the applicable strategic directions of the Provincial Government in relation to Hydro's role in the energy sector as communicated by the Minister of Industry, Energy and Technology.

As the Board of Directors of Hydro, we are accountable for the preparation of this report and are accountable for the results.



John Green, QC
Chair
Newfoundland and Labrador Hydro Board of Directors

Table of Contents

Message from the Board of Directors	i
1. Overview	1
2. Highlights and Partnerships	7
3. Issues	11
4. Outcomes	12
5. Opportunities and Challenges	36

Appendices

Appendix 1: Provincial Electricity Generation and Transmission System

Appendix 2: Newfoundland and Labrador Hydro Consolidated Financial Statements

1. Overview

As the main generator and transmitter of electricity for use in the province, Newfoundland and Labrador Hydro (Hydro) is focused on providing a safe, reliable and least-cost electricity supply to meet the current energy demands and future growth of its customers. Hydro is a wholly owned subsidiary of Nalcor Energy.

The majority of Hydro's activities are regulated by the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) and its electricity rates are set through periodic general rate applications. The regulated portion of the corporation includes the generation, transmission and distribution of electrical power and energy to utility, residential and commercial customers, as well as island industrial customers. The non-regulated activities of Hydro include electricity sales to industrial customers in Labrador west.

Hydro's electricity production assets include nine hydroelectric plants, one oil-fired plant, four gas turbines, and 24 diesel plants¹. These assets, along with a network of transmission and distribution lines, bring electricity to communities throughout Newfoundland and Labrador (see Appendix 1).

Hydro also holds a 65.8 percent interest in Churchill Falls (Labrador) Corporation Limited. The operations of Churchill Falls are managed by Nalcor's Power Supply division and included in the 2020-2022 Nalcor Strategic Plan and 2020 Nalcor Annual Performance Report.

Mandate

The **Hydro Corporation Act, 2007** mandates Hydro to be responsible for:

- Developing and purchasing power and energy on an economic and efficient basis.

¹ With the relocation of the town of Little Bay Islands on December 31, 2019, the diesel plant in the community ceased operations.

- Engaging within the province and elsewhere in the development, generation, production, transmission, distribution, delivery, supply, sale, purchase and use of power from water, steam, gas, coal, oil, wind, hydrogen and other products.
- Supplying power, at rates consistent with sound financial administration, for domestic, commercial, industrial or other uses in the province and subject to the prior approval of the Lieutenant-Governor in Council, outside of the province.

Lines of Business

Hydro delivers power to utility, industrial, residential and commercial customers in more than 200 communities in the province at the lowest possible cost consistent with reliable service.

Hydro activities can be grouped as follows:

- Electricity production – Hydro has an installed generating capacity of 1,763 megawatts (MW) which includes the operations of nine hydroelectric generating stations, one oil-fired plant, four gas turbines, and 24 diesel plants, including 19 isolated diesel generating and distribution systems.
- Transmission and distribution – Hydro operates and maintains over 4,400 kilometres of transmission lines and 69 terminal stations which connect to generation and delivery points for Newfoundland Power on the island, industrial customers, and Hydro’s rural distribution systems province-wide. Hydro also operates and maintains approximately 2,700 kilometres of distribution lines throughout the province.
- The Newfoundland and Labrador System Operator (NLSO) acts as the independent operator to manage the provincial electricity system in real-time. The NLSO also provides open access to the provincial transmission network, which means providing transmission service to users like Hydro and other qualified customers, in an open, non-discriminatory and non-preferential manner.
- Customer service activities address the electricity requirements of Newfoundland Power, industrial customers and over 38,800 direct residential and commercial customers in rural Newfoundland and all of Labrador.
- Electricity system planning involves forecasting short and long-term electricity

requirements in the province and advancing options to ensure adequate supply of generation resources and transmission and distribution infrastructure to reliably meet forecasted demand. Planning for supply adequacy requires the critically important activities of oversight of fuel and water management

Values

Employees of Hydro recognize that electricity is essential to social well-being and economic prosperity in Newfoundland and Labrador. In fulfilling Hydro's mandate, employees are unified by the following core values:

- Safety – relentless commitment to protecting ourselves, our colleagues, and our community.
- Open Communication – fostering an environment where information moves freely in a timely manner.
- Accountability – holding ourselves responsible for our actions and performance.
- Honesty and Trust – being sincere in everything we say and do.
- Teamwork – sharing our ideas in an open and supportive manner to achieve excellence.
- Respect and Dignity – appreciating the individuality of others by our words and actions.
- Leadership – empowering individuals to help guide and inspire others.

Primary Clients

Hydro sells electricity to three primary customer groups:

- Newfoundland Power - an investor-owned utility which distributes electrical power to over 269,000 customers on the island portion of the province, with Hydro supplying over 90 percent of its energy requirements.
- Industrial customers – On the Island, regulated sales to NARL Refining Limited Partnership, Vale Newfoundland and Labrador, Praxair Canada Inc., Teck Resources Limited, and Corner Brook Pulp and Paper Limited. In Labrador, regulated transmission service and unregulated generation service to the Iron Ore Company of Canada and Tacora Resources Incorporated.

- Over 38,800 residential and commercial customers in rural Newfoundland and all of Labrador.

Vision

Providing electricity to enable social well-being and economic prosperity for the people of Newfoundland and Labrador.

Number of Employees, Physical Location and Other Key Statistics

Headquartered in St. John’s with assets and offices throughout the province, Hydro directly employed 906 people in permanent, term and temporary capacities as of December 31, 2020². The location of these employees reflects Hydro’s service area and the location of the corporation’s electricity assets, with 66 percent of employees located in rural areas. The gender composition of Hydro’s employee group is 78 percent male and 22 percent female. In 2020, Hydro advanced its commitment to diversity and inclusion and hired six of 16 (38 percent) new hire apprentices, co-operative education students and engineers in training from under-represented groups including four women. In addition, seven of the 32 new managers/supervisors and engineers hired were women.

Gender	Rural	Urban	Total	Percent
Female	73	124	197	22%
Male	525	184	709	78%
Total	598	308	906	
Percent	66%	34%		

Board of Directors

As of December 31, 2020, the Hydro Board of Directors comprised:

- John Green, QC (Chair)
- Donna Brewer
- Fraser H. Edison
- Chris Loomis

² This approach counts the number of employees on payroll for the last pay period of 2020 in order to support the analysis of employee location and gender required; this number is not full-time equivalents.

- John Mallam
- Stan Marshall
- William Nippard (resigned effective December 31, 2020)
- David Oake
- Brendan Paddick (on leave of absence as of September 4, 2020)
- Brian Walsh

2020 Consolidated Revenues and Expenses

In 2020, Hydro had revenues of \$ 702 million. The majority of Hydro's revenues are from regulated energy sales to utility, rural and industrial customers with other revenues including preferred dividends from Hydro's subsidiary Churchill Falls. Consolidated energy sales also include Hydro's share of Churchill Falls sales to Hydro Québec as well as sales of recall power. In 2020, Hydro's total comprehensive income for the year was \$75 million. This consisted of \$36 million from Hydro Regulated, \$33 million from Churchill Falls, and \$6 million from non-regulated activities. The following table summarizes the 2020 consolidated revenue and expenses for Hydro:

<i>For the year ended December 31 (millions of dollars)</i>	(\$)	%
Energy sales	673	95.9
Other revenue	29	4.1
Revenue	702	
Fuels	158	24.6
Power purchased	90	14
Operating costs	175	27.3
Transmission rental	21	3.3
Depreciation and amortization	101	15.7
Net finance expense	88	13.7
Other expense	9	1.4
Expenses	642	
Profit before regulatory adjustments	60	
Regulatory adjustments	(15)	
Total profit and other comprehensive income for the year	75	
Items related to employee future benefits	(1)	
Share of other comprehensive income gain (loss) for the year	1	
Other comprehensive income (loss) for the year	-	
Total comprehensive income for the year	75	

The 2020 Consolidated Financial Statements for Hydro are appended to this document (see Appendix 2).

2. Highlights and Partnerships

Hydro works with several provincial government departments and the regulator to execute its mandate in the electricity sector in support of the strategic directions of the Provincial Government.

In 2020, Hydro continued to support the efforts of the Government of Newfoundland and Labrador and Nalcor to identify and evaluate options to mitigate projected customer rate increases associated with the Muskrat Falls Project. These efforts will continue to advance over the balance of the planning period.

In response to the impact of COVID-19 on electricity customers, Hydro worked with the province to provide a one time bill credit to customers. This assistance, which would normally have provided the benefit of a rate reduction due to fuel savings to customers over the year ahead, provided an up-front bill credit in July 2020. Hydro and Newfoundland Power also delivered the provincially funded program to waive interest on overdue accounts for customers requiring flexible bill payment arrangements as a result of the economic impact of COVID-19.

Department of Industry, Energy and Technology

In 2020, Hydro continued to work with the Department of Industry, Energy and Technology to advance electricity sector priorities. There was progress in 2020 towards a transfer of the Exploits Generation assets from Government ownership to Hydro. Hydro is working with the Department prior to proceeding with an application to the PUB to propose the asset acquisition by Hydro. In addition, Hydro supported the efforts of the Department to progress consideration of renewable generation options for remote communities.

Hydro also supported the efforts of the Department to identify initiatives to support electricity customers impacted by COVID-19. As noted, Hydro delivered the one-time electricity bill credit

and interest relief assistance to its customers.

Hydro also advanced opportunities to further electrify the system that would have the benefit of supporting lower rates. Support was also provided on the development of a potential approach to increase usage of surplus energy from the Muskrat Falls project within Newfoundland and Labrador. Initiatives included the installation of phase one of an electric vehicle fast charging network across the province and advancement of other electrification initiatives such as the development of the Five-year plan for Electrification, Conservation and Demand Management.

On behalf of the Department, Hydro also delivered the Northern Strategic Plan rebate to residential customers in isolated diesel systems in Labrador through a monthly credit on their electricity bills. Hydro has frequent discussions with the Department in the provision of information related to electricity rates, updates on the progress of the Network Additions Policy and the Department is copied on all applications filed with the PUB

Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB)

The PUB is responsible for regulatory oversight of Hydro's regulated utility activities. This responsibility covers a wide range of activities including approval of: revenue requirements and the allocation of the revenue requirements among customer classes; rates; open access transmission tariffs and policies; rate structures; collection policies; policies on customer contribution requirements for the provision of service; long term debt financing; system planning criteria; capital expenditures and capital application guidelines program. The role of the PUB is detailed in the **Public Utilities Act** which can be found at <https://www.assembly.nl.ca/legislation/sr/statutes/p47.htm> .

Regulatory activity in 2020 included continued preparation for the integration of the Muskrat Falls Project assets. In addition, Hydro received approval for full recovery of approximately \$20 million in deferred 2019 supply costs. Hydro also worked with the provincial government and

Newfoundland Power to achieve PUB approval to provide Island Interconnected customers with the one-time bill credit (referenced above). Hydro advanced its regulatory proceedings related to supply adequacy for the provincial electricity system and the policy that will guide the process for allocating costs associated with transmission investments which will allow Hydro to deal with a significant volume of new customer request on the Labrador Interconnected System. A settlement agreement on the latter with the Labrador Interconnected Group of customers was reached toward the end of 2020 which has since been provided to the PUB for their acceptance³. Other 2020 regulatory activity included: Hydro's participation in the Board's review of Capital Budget Guidelines, which will impact regulatory requirements for Hydro's future Capital Budget Applications; approval to issue long term debt; the advancement of Hydro's Efficiency and Effectiveness Program, which Hydro intends to use as a means to achieve long-term, sustainable cost savings through productivity gains; and activity supporting electrification, such as the installation of a fast-charging network for electric vehicles across the Island and development (in partnership with Newfoundland Power) of the Five-Year Plan for Electrification and Conservation and Demand Management; amendments to Transmission Policies and Procedures and transmission tariffs; as well as a significant volume of ongoing reporting.

Department of Finance

The Department of Finance works with Hydro to address requirements related to financial policy including capital structure, dividend policy and legislative debt caps as well as the corporation's debt financing activities. During 2020, Hydro worked with the Province to increase its existing debt caps to permit access to adequate borrowing facilities. This resulted in an increase to the level of short-term borrowings permitted by Hydro from \$300 million to \$500 million, effective until March 31, 2022. Also effective March 26, 2020 Bill 33, the COVID-19 Pandemic Response Act, increased the limit of Hydro's total borrowings, including both short

³ PUB approval of the Network Additions Policy for the Labrador Interconnected System was received on March 17, 2021.

and long term debt, from \$2.1 billion to \$2.6 billion and in December 2020, the Province was authorized to advance up to \$300 million of long term debt to Hydro.

Other Departments/Public Bodies

Hydro interacts with the Departments of Environment and Climate Change, Department of Municipal and Provincial Affairs, (formerly Municipal Affairs and Environment), Fisheries, Forestry and Agriculture (formerly Fisheries and Land Resources), Tourism, Culture, Arts and Recreation (formerly Tourism, Culture, Industry and Innovation), Digital Government and Service NL (formerly Service NL), and the Office of Indigenous Affairs and Reconciliation (formerly Intergovernmental and Indigenous Affairs) in relation to environmental aspects of the corporation's activities.

In 2020, Hydro interacted with the Department of Environment and Climate Change and the Department of Municipal and Provincial Affairs on the air emissions and greenhouse gas files, watercourse crossings associated with operation and maintenance of transmission line corridors, variance requests associated with fuel storage tank systems and the Department's review of Hydro's integrated vegetation management program. The Environmental Assessment division and Natural Areas division were engaged in resolving the post construction monitoring requirements associated with the transmission line from Bay D'Espoir to the western Avalon. Indigenous Affairs and Reconciliation were consulted regarding work requiring environmental approvals in Labrador. Hydro also engaged with Environmental Assessment division in discussions regarding the registration of planned work on the transmission line from Star Lake to Valentine Lake as well as project updates related to Noel Paul's Brook bridge installation, Holyrood Thermal Station diesel generator modifications , and Grand Falls main dam rehabilitation. Hydro also managed the Home Heat Rebate Program, the Low Carbon Economy Leadership Funding Program, and the Three-Year Energy Efficiency Loan Program on behalf of the Department of Environment and Climate Change. Hydro also worked with this Department in the delivery of the electric vehicle charging network.

3. Issues

The strategic issues outlined below will be addressed by Hydro in order to realize its mandate and vision. Consistent with the underlying philosophy of the multi-year performance-based planning required under the provisions of **Transparency and Accountability Act**, these issues are at a governance level and reflect the priorities of the Hydro board and support the Provincial Government's strategic directions for the electricity sector. These themes are:

- A Better Economy
- Healthier People
- Better Living
- A Bright Future
- A More Efficient Public Sector

Issue 1: Electricity Rate Affordability

Issue 2: Reliability and Supply Adequacy

Issue 3: Safety, Health and Environment

4. Outcomes

In February 2020, Nalcor Energy initiated its Pandemic Response Plan due to the outbreak of COVID-19, a newly discovered infectious disease caused by a novel type of coronavirus. Hydro has been fully engaged in pandemic planning and response and the corporation's main focus was ensuring people's safety while delivering on safe, reliable electricity to customers.

The pandemic response included measures to ensure the continuation of essential services/functions during the pandemic and to prevent/reduce the spread of the COVID-19 virus. These measures evolved with public health information released, and included:

- Business Continuity Plans were developed and implemented to identify essential functions/services.
- A communication strategy was deployed to ensure employees and stakeholders were properly and adequately informed at all stages of the response plan.
- Field operations continued with revised schedules and enhanced operational and safety protocols to limit possible exposure.
- Workplace quiet mode was invoked resulting in non-field employees working from home.
- Other control measures implemented to ensure the health and safety of workers included:
 - (i) a risk assessment/safe work procedure to address situations where physical distancing can not be maintained;
 - (ii) daily health screening questionnaire and temperature checks
 - (iii) Infection control practices were put in place in buildings and work sites including cleaning and disinfection protocols; an interim testing policy was implemented to test employees and contractors who travel between regions of the province for work related purposes.
- A process was developed for the management and approval of personal protective equipment (PPE) and supplies, inventories were assembled, specified items quarantined to prevent unnecessary consumption of these items, and additional equipment and supplies were obtained as required.

The Newfoundland and Labrador Hydro Strategic Plan 2020-2022 was finalized in September

2020. This timing allowed Hydro to outline goals, objectives and indicators in the plan that reflected the priority placed on the pandemic response and the significant allocation of Hydro resources to maintain essential service delivery during the ongoing pandemic.

Issue 1: Electricity Rate Affordability

As the primary generator of electricity in the province, Hydro has a significant impact on social well-being and economic prosperity in the province. This section outlines Hydro achievements during 2020 related to the affordability of electricity rates.

To help electricity customers deal with the financial impacts of COVID-19, Hydro and Newfoundland Power established policies, with government alignment, to ensure that residential and business customers having challenges paying their electricity bills would not be disconnected and provided options for flexible bill payments to help keep accounts in good standing. In May 2020, the Government of Newfoundland and Labrador also announced two initiatives to support electricity customers. Hydro delivered these initiatives to its customers and Newfoundland Power did so for its customers.

- **One-Time Electricity Bill Credit:** Residential and general service customers, including businesses and other organizations whose rates are based on Holyrood fuel costs, received a one-time credit on their bill in July 2020. This credit reflected the value of the rate change that would have occurred had the Rate Stabilization Program operated normally to provide fuel savings to customers. Rather than spread forecast fuel savings monthly over the next year in the usual manner, government requested that the PUB adopt a policy to disburse the credit up front to help people and businesses. The one-time bill credit resulted in approximately \$50.6 million being credited to Newfoundland Power and approximately \$4.0 million being credited to Hydro Rural customer bills during July 2020.
- **Interest Relief:** Interest on overdue accounts was waived (for up to 15 months) for eligible electricity customers throughout the province who entered into and adhered to payment plan agreements. This program was funded by the Government and was available to residents, businesses and other organizations struggling as a result of COVID-19. For the

June to December 2020 period, interest was waived on approximately 15,500 bills of Hydro's customers providing \$71,000 in interest relief.

In addition to the immediate affordability issues related to COVID-19 impacts, Hydro recognizes that electricity rates are a concern for customers and is committed to helping ensure the right balance between reliability and cost for customers. Electricity rates are impacted by a number of factors including capital investments in the electricity system, power purchases, fuel costs and the overall cost of operations. During 2020, Hydro continued its efforts to balance electricity rates and customer reliability. This commitment is reflected in Hydro's prudent approach to capital investment and completing the required maintenance of assets while managing costs. The PUB holds full authority to regulate electric utilities in the province including approval of capital expenditures, long-term borrowings, and rates paid by customers.

A key driver of future electricity rates is the cost of the Muskrat Falls Project. While considerable uncertainty exists regarding the timing and nature of rate mitigation directions, Hydro provided input and advice to the Government of Newfoundland and Labrador and Labrador and Nalcor regarding rate mitigation during 2020 and this will continue in 2021.

In September 2019 as part of the PUB reference questions process⁴, Hydro identified areas of strategic focus through which cost savings and efficiency improvements to be pursued over the 2020-2022 planning period and beyond. During 2020, Hydro worked to advance its efficiency and effectiveness efforts and identified operational cost savings targets totalling \$9.0 million by 2024 relative to the 2019 Test Year⁵. Hydro also developed an approach for the sale of surplus energy from the Muskrat Falls Project within Newfoundland and Labrador for consideration and completed the sale of performance credits related to greenhouse gas reductions.

⁴ On September 5, 2018, the Government of Newfoundland and Labrador released the terms of reference for Rate Mitigation Options and Impacts Related to the Muskrat Falls Project Costs and requested the PUB consider a series of questions. The final report was submitted to the Government on February 7, 2020.

⁵ The test year is the fiscal year for which a utility estimates its expenses and revenues for the purpose of setting rates through the regulatory process.

Issue 1: Electricity Rate Affordability	
<p>Goal By December 31, 2022, Hydro will have progressed efficiency and effectiveness commitments to achieve savings and advanced the processes required to implement rate mitigation outcomes.</p>	
<p>Objective By December 31, 2020, Hydro will have completed planned efficiency and effectiveness deliverables and identified processes required to implement rate mitigation outcomes.</p>	
Indicators	2020 Accomplishments
<p>Completed planned deliverables related to 2020 areas of focus for efficiency and efficiency savings⁶.</p>	<p>Hydro’s approach to identifying efficiency and effectiveness savings was advanced in 2020 with the completion of planned deliverables. These deliverables related to areas of focus including work management and execution, technology planning, capital planning, Exploits operations, contracting and procurement, and human resource management.</p> <p>In a November 2020 report to the PUB, Hydro committed to total cumulative operating and maintenance cost savings of \$9.0 million by 2024⁷ related to the corporation’s efficiency and effectiveness activities.</p>
<p>Supported efforts of the Government of Newfoundland and Labrador and Nalcor, as required, to assess measures to mitigate the impact of Muskrat Falls costs on rates.</p>	<p>In 2020, Hydro provided input and advice to support the efforts of the Government of Newfoundland and Labrador and Nalcor related to rate mitigation.</p> <p>Hydro also worked with the Government to implement one-time bill credit in July 2020 (through PUB approval). This approach provided an up front credit to customers during the COVID-19 pandemic and also contributed to customer rate stability in advance of Muskrat Falls Project commissioning.</p> <p>Other specific 2020 accomplishments supporting rate mitigation including electrification planning, adding value to surplus energy, and sale of performance credits for greenhouse gas reductions are outlined in indicators below.</p>
<p>Advanced potential revenue generation opportunities including adding value to</p>	<p>In 2020, Hydro worked with the Department of Industry, Energy, and Technology on various initiatives to increase the value of surplus energy from the Muskrat Falls Project within</p>

⁶ In the 2020-2021 Strategic Plan this indicator was worded as “areas of focus for efficiency and **efficiency** savings” in error; it should have stated “areas of focus for efficiency and **effectiveness** savings”.

⁷ These cost savings are benchmarked against the 2019 Test Year. Savings targets may not result in an absolute reduction in future test year costs due to potential offsets (prudent cost increases, inflation and other cost changes).

Issue 1: Electricity Rate Affordability	
<p>surplus energy and performance credits for greenhouse gas reductions.</p>	<p>Newfoundland and Labrador such as the installation of a fast charging network for electric vehicles and informing opportunities for large government building electrification.</p> <p>As well, in 2020 Hydro was able to generate revenues from the sale of performance credits for greenhouse gas reductions⁸. In 2020 Hydro earned 169,724 performance credits as a result of the Holyrood Thermal Generating Station using less fuel and decreasing greenhouse gas emissions in comparison to a baseline forecast for reporting year 2019.</p> <p>In November, Hydro issued a Request for Bids and received two bids in response to the request for a total of 55,000 performance credits and \$1.06 Million. Hydro also used 303 credits for compliance obligations with respect to the Holyrood Gas Turbine. The transactions were concluded by December 15, 2020, the provincial deadline to meet compliance obligations. The remaining 114,431 performance credits will be carried forward to apply to future compliance requirements or to be sold in future auctions as credits expire seven years after creation.</p> <p>Note: This indicator was included in the 2020-2022 Strategic Plan in error as the indicator below encompasses these planned activities therefore, the 2020 accomplishments for both indicators are the same.</p>
<p>Progressed Hydro activities related to Muskrat Falls rate mitigation measures including adding value to surplus energy from the Muskrat Falls Project and performance credits for greenhouse gas reductions.</p>	<p>In 2020, Hydro worked with the Department of Industry, Energy, and Technology on various initiatives to increase the value of surplus energy from the Muskrat Falls Project within Newfoundland and Labrador such as the installation of a fast charging network for electric vehicles and informing opportunities for large government building electrification.</p> <p>As outlined above, in 2020 Hydro also earned 169,724 performance credits as a result of the Holyrood Thermal Generating Station using less fuel and decreasing greenhouse gas emissions. The November 2020 Request for Bids resulted in</p>

⁸ In 2016 the Federal Government announced plans to implement carbon pricing to help Canada meet its greenhouse gas emission targets and in October 2018 the Provincial Government released its approach to carbon pricing. The plan came into effect on January 1, 2019 and provides Hydro with an opportunity to receive performance credits as the Holyrood Thermal Generating Station uses less fuel and decreases greenhouse gas emissions. Under the **Management of Greenhouse Gases Act**, Hydro may sell these performance credits to other regulated facilities in the Province, of which there are fourteen.

Issue 1: Electricity Rate Affordability	
	two bids requesting a total of 55,000 performance credits with a value of \$1.06 million.
Assessed the requirement for new or updated commercial, legal, financial and regulatory processes to implement rate mitigation outcomes and where possible, implemented required activities.	<p>On February 10, 2020 the provincial and federal governments announced a plan to negotiate a financial restructuring of the Lower Churchill Project, including a change to the Muskrat Falls/Labrador Transmission Assets revenue model. A formal agreement between both levels of government is anticipated to be implemented by project commissioning in 2021. In 2020, Hydro continued with the Government of Newfoundland and Labrador’s rate mitigation work. This included participation in committees dealing with financial, legal, cost of service, load forecasting and commissioning issues.</p> <p>On September 25, 2020, the Province announced a change in leadership of the Rate Mitigation Team and released the related Terms of Reference. Hydro continues to support this team through the provision of information and advice, however, there were no specific rate mitigation directions that impacted Hydro processes.</p>

The objective and indicators for 2021 are consistent with the direction outlined in the 2020-2022 Strategic Plan.

Issue 1: Electricity Rate Affordability	
Objective By December 31, 2021, Hydro will have further progressed efficiency and effectiveness initiatives and updated processes to implement rate mitigation.	
Indicators	<ul style="list-style-type: none"> ▪ Advanced efficiency and effectiveness activities to deliver planned cost savings. ▪ Supported efforts of the Government of Newfoundland and Labrador as required, to assess and implement measures to mitigate the impact of Muskrat Falls costs on rates. ▪ Continued to progress the monetization of provincial greenhouse gas performance credits. ▪ Advanced electrification initiatives as outlined in the Electrification, Conservation and Demand Management Plan, once approved. ▪ Supported any Government of Newfoundland and Labrador electrification initiatives. ▪ Advanced commercial, legal, financial and regulatory

Issue 1: Electricity Rate Affordability

	processes to implement rate mitigation outcomes, including filing a General Rate Application that will incorporate Muskrat Falls cost in rates.
--	---

Issue 2: Reliability and Supply Adequacy

Hydro ensures there is a safe, reliable and least-cost electricity supply available to meet the needs of customers now and in the future. During 2020, Hydro maintained and renewed existing assets, reviewed the requirement to add new resources, and worked with Nalcor to integrate Muskrat Falls assets in order to reliably meet customers' electricity requirements.

The provision of a safe, reliable, least-cost supply of electricity requires that Hydro continuously maintain, refurbish, renew and expand its generation, transmission and distribution assets and the other infrastructure that supports those assets. Hydro must also address changing environmental and regulatory requirements and challenges that may require the development and integration of new assets or improvements to existing.

The majority of Hydro's electricity system assets, including the hydroelectric installation in Bay d'Espoir, the Holyrood Thermal Generating Station, the Stephenville Gas Turbine, the Hardwoods Gas Turbine, and much of Hydro's transmission and distribution systems, are more than 40-50 years old. Maintaining the electricity system in reliable operating condition is accomplished through a combination of planned maintenance, rehabilitation of existing assets, and replacement of assets that have reached the end of their useful lives. Replacement of assets may also occur to lower lifecycle costs, improve operational characteristics, or increase capacity for load growth.

From 2005-2019, Hydro invested over \$1.5 billion in capital expenditures to upgrade or replace its assets, contributing to the provision of safe, reliable, least-cost electricity to customers. During 2020, Hydro invested \$87.6 million for the execution of capital projects. Additional capital investment of \$225 million is currently budgeted for the balance of the planning period (2021, 2022) and will be updated annually with the PUB through the capital budget approval process.

Hydro's capital investment philosophy is founded in its obligation to responsibly steward the management of its electrical system and investments therein on behalf of customers. Hydro is committed to investing in capital in a manner which meets its obligation to provide reliable service at the lowest possible cost. To balance the provision of reliable service with cost management, Hydro focuses on sound utility asset management practices, condition based

investments (versus age based) where appropriate, and the use of operational and system requirements to inform the necessary level of capital investment required.

The provincial electricity system will change significantly with the commissioning of the Muskrat Falls generation project and associated transmission facilities including interconnection to Labrador through the Labrador-Island Link and to the North American electricity grid through the Maritime link. During 2020, Hydro worked with Nalcor to complete the activities required for the integration of Muskrat Falls assets.

In addition to meeting current needs, Hydro has a responsibility to assess future electricity requirements in the province and identify options to address these requirements. In 2018, Hydro completed a Reliability and Resource Adequacy Study and filed it with the PUB. A component of the Study includes assessing system risks and mitigating measures to ensure that Hydro can reliably meet the needs of customers through the transition to fully reliable service from Muskrat Falls. In 2020, Hydro participated in PUB proceedings to review the conclusions and recommendations of the Study with a focus on near term adequacy, status of the Labrador Island Link and part 1 of Hydro's reliability assessment of the Labrador Island Link. This regulatory review is ongoing with 2021 activity to focus on the status of the Labrador Island Link, near-term adequacy for winters 2021-2024 and assessment of options for improving suitability of the Holyrood Thermal Generating Station as a backup facility.

With respect to near-term reliability, system reliability in advance of reliable deliveries from the Muskrat Falls Generation Station is a key priority. Hydro filed a near-term reliability assessments with the regulator in November 2020 and will continue to do so semi-annually.

Hydro also monitored and responded to the power requirements in isolated diesel communities and the needs of potential new industrial customers, including mining developments and data centre growth in Labrador. As outlined below, in 2020 Hydro advanced the Network Additions Policy that will guide the process for allocating costs associated with transmission investments which will allow Hydro to deal with a significant volume of new customer request on the Labrador Interconnected System. A settlement agreement on the latter with the Labrador Interconnected Group of customers was reached toward the end of 2020 and the policy was approved by the PUB in March 2021.

Issue 2: Reliability and Supply Adequacy

Goal

By December 31, 2022, Hydro will have advanced initiatives to support electricity system reliability and adequate supply.

Objective

By December 31, 2020, Hydro will have developed and executed plans to reliably meet customers' electricity requirements and advanced activities to integrate Muskrat Falls.

Indicators	2020 Accomplishments
<p>Completed priority maintenance work and capital projects.</p>	<p>Hydro has an Integrated Annual Work Plan consisting of capital and maintenance work for its generation, transmission and distribution and other associated assets. Due to the COVID-19 pandemic, Hydro augmented its work planning process to include current risk and criticality ranking for all work in the Integrated Annual Work Plan. Hydro used these rankings to adjust the Annual Work Plan activities to prioritize 2020 work and completed nearly 99 percent compared to the target of 90 percent.</p> <p>Hydro's 2020 approved capital budget included \$108 million and \$19 million carried forward from its 2019 capital program. Additionally, supplemental capital of \$8 million was approved for 2020 which is primarily comprised of projects for the continued operation of the Holyrood Thermal Generating Station.</p> <p>The 2020 capital program was established prior to the emergence of the COVID-19 pandemic. In response to the pandemic, Hydro implemented business continuity plans and protocols for work execution to maintain its ability to complete essential work to ensure service reliability throughout the remainder of the year. Late in the first quarter of 2020, Hydro reviewed and prioritized all planned capital projects to support completion of all essential work in light of the pandemic. As the pandemic continued to evolve through the year, the review and prioritization process continued. In some cases, Hydro rescheduled work to ensure effective execution at a later time in 2020 than originally planned or carried work over into future years. Despite the challenges, Hydro successfully completed the essential capital work prioritized for completion in 2020.</p> <p>Highlights from the 2020 capital program include:</p> <ul style="list-style-type: none"> ▪ Expenditures related to hydraulic generation equipment and infrastructure across the province totalled \$10.6

Issue 2: Reliability and Supply Adequacy	
	<p>million, including \$7.4 million for year one in the Hydraulic Generation Refurbishment and Modernization (2020–2021) project.</p> <ul style="list-style-type: none"> ▪ The thermal generation equipment and infrastructure at the Holyrood Thermal Generating Station required expenditures totalling \$12.6 million including \$8.2 million incurred in four supplemental capital projects that were required following Hydro’s extension of the Holyrood operations to March 31, 2022 . ▪ Gas turbines required \$1.9 million in expenditures, of which \$1.2 million was invested in the Holyrood Gas Turbine. ▪ Sustaining capital for terminal station infrastructure totalled \$23.1 million including \$11.0 million in the Terminal Station Refurbishment and Modernization (2019–2020) project and \$4.3 million in the Upgrade Circuit Breakers project. ▪ In transmission, the Wood Pole Line Management Program continued in 2020, with \$2.9 million invested. <p>Actual expenditures in Hydro’s overall capital program for 2020 were below budget by \$47.2 million. Three main causes were identified: (1) work delayed due to the COVID-19 pandemic; (2) work completed for less than the budget estimates; and (3) work cancelled as it was no longer required.</p>
Finalized Hydro’s 2021 plan for capital investments balancing reliability and cost of investments for customers.	<p>Hydro’s 2021 Capital Budget Application (CBA) was finalized in August 2020 and requested approval for \$107.5 million of capital investment⁹. Approximately 30 per cent of the proposed 2021 investment is related to continuation of projects that were previously approved to commence prior to 2021 and approximately 70 per cent related to new projects.</p> <p>The Capital Plan proposed for 2021, is primarily driven by the following¹⁰:</p> <ul style="list-style-type: none"> ▪ Refurbishment required to support the reliable operation of aging assets; ▪ Accommodation of load growth in Labrador West;

⁹ The 2021 CBA was approved by the PUB on January 15, 2021.

¹⁰ Identification and costing of a solution to address the Charlottetown plant fire and 2021 expenditures related to the installation of fire protection in the Port Hope Simpson diesel plant required further analysis and these projects were not reflected in the 2021 CBA.

Issue 2: Reliability and Supply Adequacy	
	<ul style="list-style-type: none"> ▪ Extension of the service life of the Holyrood Thermal Generating Station ; and, ▪ Legislative compliance (i.e., safety and environmental). <p>The proposed plan reflects Hydro’s commitment to reducing investment to the minimum capital level prudent so as to not compromise customer reliability, safety, or the environment.</p>
<p>Participated in PUB proceedings to review the conclusions and recommendations of Reliability and Resource Adequacy Study, developed an implementation plan, and completed required actions based on the direction received.</p>	<p>The 2018 Reliability and Resource Adequacy Study filed with the PUB was updated in 2019 to address the requirements of the PUB arising from its review. In 2020, the regulatory review of the Study commenced in earnest with a technical conference held in June 2020, followed by requests for information on this file. This round of requests for information included 220 questions received from the regulator and parties. The regulatory process for this file will continue into 2021.</p> <p>With respect to the near-term, Hydro recognizes that system reliability is top of mind for stakeholders in advance of reliable deliveries from the Muskrat Falls generation station. Hydro provides regular updates to the regulator regarding the schedule and status of the Lower Churchill Project assets, progress in integrating these assets in to the island electricity system, and Hydro preparations for winter. Near-term reliability reports are filed semi-annually with the most recent filed with the PUB on November 18, 2020. Subsequently, a second technical conference was held with the Board and stakeholders on November 30, 2020. The technical conference included an update on the Labrador Island Link and Muskrat Falls progress, the results of Hydro's near-term adequacy assessment, and an update on the viability of possible extension of the Holyrood thermal generating station.</p> <p>Hydro intended to file a 2020 update to the Reliability and Resource Adequacy study, however the completion of the report Assessment of Labrador Island Link reliability Considering Climatological Loads was delayed until March 2021. Hydro’s assessment of long-term resource adequacy requirements is now expected to be completed in March 2021.</p>
<p>Supported the PUB review of initiatives relating to transmission system</p>	<p>In 2018, Hydro completed the Labrador Interconnected System Transmission Expansion Study and filed the results with the PUB. The study included consideration for a range of load</p>

Issue 2: Reliability and Supply Adequacy	
<p>expansion in western Labrador and advanced any related orders from the regulator.</p>	<p>forecasts with the objective of identifying least-cost, reliable electricity transmission system additions required for both eastern and western Labrador. In 2019, Hydro completed additional studies to support the review of short-term Labrador transmission supply options as well as forecasted load.</p> <p>In 2020, Hydro submitted project proposals for transmission system upgrades at Wabush Terminal Station and Wabush Substation as part of the 2021 Capital Budget Application. These upgrades were defined in consultation with Industrial and Rural customer to ensure reliable supply. (The projects were approved in January 2021.)</p> <p>As directed by the PUB, Hydro also continued to advance the Network Addition Policy. In 2020, Hydro participated in a technical conference with the Board and intervenors and provided responses to requests for information and reached a settlement agreement that, if approved by the PUB, will allow for advancement of Hydro’s Labrador transmission system expansion and establishes a process to deal with new customer additions. Hydro also participated in consultation sessions with stakeholders with the objective of reaching a settlement agreement.</p> <p>Other initiatives undertaken by Hydro included consultation with Labrador west industrial customers to assess further reliability improvements that could be achieved through station reconfigurations. Analysis was performed and meetings were held with industrial customers in this area.</p>
<p>Completed required activities to prepare for integration of Muskrat Falls power and assets.</p>	<p>In 2020, Hydro completed critical activities related to inter-provincial flow of electricity and the integration of Muskrat Falls power and assets. These activities included:</p> <ul style="list-style-type: none"> ▪ Further advanced negotiation and implementation of potential commercial arrangements to enable Nalcor to fulfil obligations made to Nova Scotia in relation to the Lower Churchill Project. ▪ Received Public Utilities Board (PUB) approval to extend the term of the Pilot Agreement for the Optimization of Hydraulic Resources, which enables Hydro and Nalcor Energy Marketing to realize incremental value as a result of markets accessible via the Maritime Link.

Issue 2: Reliability and Supply Adequacy	
	<ul style="list-style-type: none"> ▪ Requirements of the Newfoundland and Labrador System Operator with respect to Muskrat Falls Unit 1 were met, and the unit was released for service. ▪ Newfoundland and Labrador System Operator completed, and filed with the PUB, a revised set of documents and transmission service rates to better reflect system capabilities as well as relevant PUB orders received since the initial filing.

The objective and indicators for 2021 are consistent with the direction outlined in the 2020-2022 Strategic Plan.

Issue 2: Reliability and Supply Adequacy	
<p>Objective By December 31, 2021, Hydro will have progressed electricity system investments and developed and executed plans to reliably meet customers' electricity requirements.</p>	
Indicators	<ul style="list-style-type: none"> ▪ Completed 2021 priority maintenance work and capital projects. ▪ Finalized Hydro's 2022 plan for capital investments balancing reliability and cost of investments for customers ▪ Continued participation in PUB proceedings to review the conclusions and recommendations of Reliability and Resource Adequacy Study and advanced required actions based on the direction received. ▪ Advanced planned initiatives to reliably meet growing customer needs in Labrador. ▪ Completed priority Hydro activities to integrate Muskrat Falls power and assets.

Issue 3: Safety, Health and Environment

The safety of employees, customers and the public and being environmentally responsible are key commitments of Hydro.

Achieving excellence in safety is Hydro's first priority. As a result, Hydro has developed and continues to foster a safety culture in which all employees share a zero harm mindset. Hydro's framework for safety excellence includes a balanced focus on culture, people, and process as it evolves its safety program.

Achieving and maintaining excellent safety performance in all areas of the corporation is an ongoing challenge. During 2020, the COVID-19 pandemic compounded this challenge requiring additional measures to keep employees safe while delivering reliable electricity to customers. Hydro was fully engaged in the Corporate Pandemic Plan and business continuity planning process coordinated by Nalcor. The plan focused on ensuring the safety of Hydro's staff, contractors, and the general public while also continuing to execute critical field work.

During 2020, Hydro continued to implement initiatives to move the corporation forward on its journey to safety excellence. Consistent with its multi-year safety plans, these initiatives involved procedures for completing high-risk work, electrical safety training to maintain employee competence, and employee injury prevention communication. As well, new COVID-19 safety protocols and guidelines were developed, communicated and implemented. Engaging and communicating to employees was also a critical element of the pandemic response. The execution of an employee health and wellness communications campaign related to COVID-19 provided general information about COVID-19, how to self isolate, advice on how to keep safe, and facts and supportive information about mental health and wellness, and ergonomic guidelines for working at home. This campaign also included emails and video messages from the Hydro President and regular emails and updates to all Nalcor employees from the safety and health team.

Customer safety and public safety around electrical equipment and water management structures are also key elements of Hydro's safety commitment. In 2020, power line safety, power outage safety and winter preparedness along with safety around hydroelectric dams and other electrical equipment were key themes for Hydro's safety communications to customers and the public.

Hydro is also focused on managing risk and minimizing the impact of operations on the environment. The corporation maintains a high level of environmental responsibility and compliance through the ISO 14001:2015 registered Environmental Management System¹¹. In 2020, this system supported Hydro’s focus on continuous improvement with the completion of all planned environmental targets throughout the organization ranging from advancing Hydro’s waste management plan, improving fuel monitoring, and continuing the corporation’s strategy to identify and manage polychlorinated biphenyls (PCBs).

Hydro also promoted conservation and demand management by residential, commercial and industrial customers and supported Government of Newfoundland and Labrador environmental initiatives related to electric vehicle infrastructure, electrification opportunities, and the integration of renewables in communities that rely on diesel for electricity generation.

Issue 3: Safety, Health and Environment	
Goal By December 31, 2022, Hydro will have continued progress towards sustained safety excellence, enhanced employee health and wellness and environmental stewardship and sustainability.	
Objective By December 31, 2020, Hydro will have completed planned training, communication and other initiatives to support safety, employee health and well-being and environmental excellence.	
Indicators	2020 Accomplishments
Delivered safety training for new employees, employees taking on new roles and refresher training for existing employees.	<p>During 2020, Hydro delivered safety training for employees taking on new roles and refresher training for other employees. This training included technical training (e.g. work protection code refresher training for individuals working around electrical equipment), training required to meet legislative requirements (e.g. confined space entry) as well as safety coaching and safety incident investigation training.</p> <p>Some training was delayed as a result of the pandemic, however training resumed after appropriate protocols were established for COVID-19 with priority placed on training required by legislation (e.g. confined space, fall protection).</p> <p>Hydro also participated in the Nalcor-wide pandemic planning</p>

¹¹ ISO 14001 sets out the criteria for an environmental management system and can be certified to. It maps out a framework that an organization can follow to set up an effective environmental management system.

Issue 3: Safety, Health and Environment

and response. The response included developing and implementing safety guidelines, procedures and toolkits to support employees working safely during the COVID-19 pandemic.

COVID-19 related tools/training

During 2020, Hydro supported the development and delivery of COVID-19 related safety tools and training as part of the pandemic response. New safety protocols and guidelines were developed to assist employees in working safely including:

- Daily Health Screening Tool;
- Critical personal protective equipment (PPE) kits;
- Risk Assessment and Safe Work Practice for performing critical work;
- Corporate Sanitization and Disinfection Guidelines;
- Employee Medical Declaration Form released to monitor for employees who have travelled or who are symptomatic;
- Remote Site Travel Guidelines for Asymptomatic Employees;
- Critical PPE management and reporting; and,
- Resources Toolkit for Supervisors and Managers.

A Returning to the Workplace Orientation program was also developed and delivered to employees. The orientation outlined protocols for employees working in Hydro offices and facilities.

Work protection code, confined space entry, and working at heights training

During 2020, required training for new Hydro employees, employees taking on new roles and responsibilities and employees needing refresher training was completed. In total, 359 employees completed 767 safety related training courses.

Workplace Hazardous Materials

The Workplace Hazardous Materials Information System (WHMIS) is a workplace hazard communication standard. WHMIS requires recertification every three years and in 2020, 114 Hydro employees were recertified or initially trained.

Electrical Safety

A revision of the grounding and bonding protocols was completed early in 2020 and over 90 percent of Hydro's power

Issue 3: Safety, Health and Environment	
	<p>line technicians were trained. In addition, 79 employees completed arc flash awareness training in 2020</p> <p>Safety coaching training Safety coaching training helps build the skills required to take action relating to at-risk behaviours by outlining a consistent approach to safety interactions and providing an opportunity to practice the approach. The majority of Hydro employees have completed safety coaching training but the training is offered periodically to new employees and others who have not completed the training. Safe work observation program (SWOP) training is also offered annually to new employees and employees taking on new roles. During 2020, 71 Hydro employees completed the safety coaching and SWOP training.</p> <p>Alcohol and Drug Program Hydro’s alcohol and drug training course teaches employees about the corporation’s policies and programs. In 2020, 59 employees completed this training.</p> <p>Hazard Recognition, Evaluation and Control The hazard recognition, evaluation and control training teaches employees to recognise and control hazards in the workplace. In 2020, 32 employees completed this training.</p>
Completed employee safety communication activities for the 2020 injury prevention campaign.	<p>During 2020, employee safety communications activities centered on pandemic education and awareness as part of the Corporate Pandemic Plan.</p> <p>The campaign focused on hygiene and social distancing when it launched in March and topics evolved throughout the year providing general information about COVID-19, how to self isolate, tips to keep safe, supportive information about mental health and wellness, as well as ergonomic guidance for working from home.</p>
Identified 2020 employee health and wellness initiatives and completed as planned.	Employee health and wellness initiatives were completed as planned during 2020. As with other safety initiatives, the pandemic shaped the health and wellness priorities for the year and approaches to engaging employees. For example information on ergonomics to safely work at home was provided through webinars and emails. In support of employees’ mental health during the pandemic, several

Issue 3: Safety, Health and Environment	
	<p>webinars and resources were promoted around coping and building resilience. Resources for internet based Cognitive Behavioral Therapy were provided to employees in support of individuals who are struggling with the pandemic, anxiety or other mental health conditions.</p> <p>In 2020, Hydro participated in ongoing implementation the Nalcor-wide Mental Health Strategy and Psychological Health and Safety Policy. Activities completed as planned included an updated harassment prevention policy, a trauma toolkit for managers, and the development of a draft protocol for well-being checks. Hydro also participated in annual events such as North American Occupational Safety and Health Week in May and the Nalcor Safety Summit in September.</p>
Completed safety-related communication activities for customers and the general public.	<p>In 2020, Hydro completed customer and public safety communication activities related to power line safety, safety around hydroelectric dams and reservoirs, and power outage safety.</p> <p>During the year, Hydro also undertook a number of customer communications activities in direct response to COVID-19 health and safety. This included:</p> <ul style="list-style-type: none"> ▪ Creating sections on its corporate website dedicated to COVID related information, updates, and frequently asked questions for customers; ▪ Messages to customers from Hydro’s President; ▪ Bill inserts with information on interest relief and flexible payment arrangements; ▪ Customer meter reading information (how to safely read and submit) while meter reading was suspended; and ▪ Social media content on electrical safety while working from home, how to keep each other safe during COVID, and updated information on utility scams. <p>Public safety activities in 2020 included planning and developing content on safety topics with a focus on creating and distributing digital content. Hydro’s website was updated with information about public safety around dams and Hydro's Twitter and Facebook channels were used regularly to share public safety information. For example,</p> <ul style="list-style-type: none"> ▪ Around harsh weather events, Hydro circulated timely informational content promoting preparedness and safety,

Issue 3: Safety, Health and Environment

	<p>e.g. how to stay safe and prepare for power outages and keeping away from downed power lines.</p> <ul style="list-style-type: none"> ▪ Snowmobiling safety, including staying clear of power lines, stations and hydroelectric reservoirs. ▪ Continued promotion of safety around hydroelectric dams and reservoirs, including highlighting Hydro’s work to install public safety features including fencing and signage at various sites. <p>To raise awareness of power line hazards and promote working safely around power lines and poles Hydro also developed and distributed a new informational brochure and vehicle decals aimed at small contractors.</p>														
<p>Delivered energy conservation programs to residential, commercial and industrial customers and advanced planning for future programs.</p>	<p>In 2020, Hydro delivered energy conservation programs for its customers and advanced planning for future conservation and demand management programs.</p> <p>Hydro and Newfoundland Power partner to deliver the takeCHARGE Program, offering rebate programs to assist residential and commercial customers in reducing their electricity usage. The takeCHARGE program combines the expertise and customer reach of utilities while delivering energy efficiency awareness and rebate programs to customers. Hydro also delivers an Isolated Systems Energy Efficiency Program to customers living in communities reliant on diesel generation.</p> <p>Residential Customers Hydro’s residential portfolio included four rebate programs and one bulb giveaway program offered jointly by Hydro and Newfoundland Power.</p> <table border="1" data-bbox="594 1465 1440 1780"> <thead> <tr> <th>Program</th> <th>2020 Energy Savings (MWh¹²)</th> </tr> </thead> <tbody> <tr> <td>Insulation</td> <td>156</td> </tr> <tr> <td>Thermostats</td> <td>60</td> </tr> <tr> <td>Heat Recovery Ventilators</td> <td>1</td> </tr> <tr> <td>Instant Rebates</td> <td>95</td> </tr> <tr> <td>Bulb giveaway</td> <td>26</td> </tr> <tr> <td>Total</td> <td>338</td> </tr> </tbody> </table>	Program	2020 Energy Savings (MWh ¹²)	Insulation	156	Thermostats	60	Heat Recovery Ventilators	1	Instant Rebates	95	Bulb giveaway	26	Total	338
Program	2020 Energy Savings (MWh ¹²)														
Insulation	156														
Thermostats	60														
Heat Recovery Ventilators	1														
Instant Rebates	95														
Bulb giveaway	26														
Total	338														

¹² Megawatt hours (MWh) is a measure of energy usage. A megawatt hour is equivalent to 1 million watts of electricity being used for an hour.

Issue 3: Safety, Health and Environment

Hydro customers achieved energy savings of 338 MWh in 2020 through these joint conservation programs.

In addition, Hydro delivers the Isolated Systems Energy Efficiency Program to its customers in the 42 remote diesel-system communities throughout Newfoundland and Labrador. This program provides outreach, education and energy efficient products to the home and business owners in free of charge. In 2020, the energy savings of 443 MWh resulted from the direct install of small energy efficient technologies.

takeCHARGE partnered with the Government of Newfoundland and Labrador under the Low Carbon Leadership Funding Agreement with the Government of Canada to deliver takeCHARGE's insulation and thermostat rebate program to oil heated customers on a full cost recovery basis. In 2020, 12 insulation and two thermostat rebates were approved for Hydro customers who use oil as a primary heat source.

The Heat Pump Rebate Program was fully funded by the Provincial Government and was administered by Hydro. The program ran from October 15, 2019 to March 15, 2020 and provided 848 customers a \$1,000 rebate to assist them with the cost of installing an energy efficient heat pump in their home.

Commercial Customers

Hydro's commercial portfolio includes the Business Efficiency Program and the Isolated System Business Efficiency Program (ISBEP) which are available to business customers in Hydro's interconnected system and isolated diesel service areas. These programs offer rebates on many energy efficient lighting technologies and heating and lighting controls. The custom component of the programs provides technical support to help commercial customers identify economical energy efficiency opportunities and provide financial support for capital upgrades.

In 2020, the Business Efficiency Program resulted in energy savings of 120 MWh and ISBEP totaled 49 MWh. The ISBEP also provided the direct install of select energy efficient lighting technologies to commercial customers in Hydro diesel

Issue 3: Safety, Health and Environment	
	<p>communities resulting in savings of 26 MWh.</p> <p>Industrial Customers Discussions were held in 2020 with all Hydro industrial customers to review energy efficiency rebate options. Due to restrictions related to the COVID-19 pandemic requiring them to prioritize core business activities, there were no industrial energy efficiency projects completed during the year.</p> <p>Electrification, Conservation and Demand Management Plan In addition to delivering energy conservation programs to customers, Hydro advanced planning for future programs. During the year, Hydro worked with Newfoundland Power to finalize a five-year Electrification, Conservation and Demand Management plan. The plan was developed in consultation with the provincial government and the application for approval was filed with the PUB in December 2020. The plan shifts the focus of programs from energy savings to managing peak demand while promoting customer electrification programs for the first time.</p> <p>Street Light Modernization Program In 2020, Hydro proposed and received approval of a Street Light Modernization Program as part of its 2021 CBA. The program involves the replacement of mercury vapor and high pressure sodium street lights with light emitting diode (LED) lights. In addition to long term cost savings and reliability benefits for customers, LED lights are more energy efficient.</p>
<p>Advanced initiatives to increase electrification on the interconnected electricity system and the integration of renewable generation in rural, off-grid communities.</p>	<p>In addition to supporting the Government of Newfoundland and Labrador electric vehicle (EV) initiative (see indicator below), Hydro advanced several initiatives to increase electrification on the interconnected electricity system and the integration of renewable generation in rural, off-grid communities.</p> <p>Electrification Initiatives</p> <ul style="list-style-type: none"> ▪ Five-year Plan: The Electrification, Conservation and Demand Management plan filed with the PUB in December 2020 included: customer programs to promote the adoption of electric vehicles and the electrification of other end uses; customer education and research; and, utility investment in electric vehicle charging infrastructure.

Issue 3: Safety, Health and Environment	
	<ul style="list-style-type: none"> ▪ Hydro Fleet: Hydro advanced the electrification of its fleet vehicles with the preparation of a 2021 capital budget application which included two fleet EVs and 18 fleet chargers. (This application was approved by the PUB in January 2021.) ▪ EV Education: Hydro also developed an education site dedicated to the provincial fast charging network and also worked with takeCHARGE on two EV education initiatives and helped secure \$100,000 in federal funding for the same. <p>Renewable Generation</p> <p>In 2019, the Provincial Government, in partnership with Newfoundland and Labrador Hydro, issued an Expression of Interest (EOI) for renewable energy solutions in the province’s regulated isolated diesel-powered electricity systems.</p> <p>In 2020, Hydro continued to support Government of Newfoundland and Labrador efforts to advance renewable generation in rural, off-grid communities. As most of these communities are located in southern Labrador, the NunatuKavut Community Council confirmed that Nunacor would take ownership of the selection of proponents responding to the EOI. Hydro developed supporting documents defining technical requirements and the interconnection process and will provide technical support, as required, for the integration of renewable generation. In northern Labrador, Hydro continued to support the Nunatsiavut Government’s Energy Security Plan as well as the Nain Wind Micro Grid project.</p> <p>Hydro also advanced several other initiatives related to renewables in rural, off-grid communities in 2020. Hydro led initiatives included advancing the Mary’s Harbour mini-hydro project – connection of solar energy and, completing a cost-benefit analysis related to the purchase of wind-turbines in Ramea.</p>
Supported Government of Newfoundland and Labrador initiative to install electric vehicle charging stations on the island.	In 2020, Hydro worked with the provincial and federal governments to build the province’s first EV fast-charging network on the island. The network includes 14 charging stations, located on average every 70 kilometres along the Trans Canada Highway from St. John’s to Port aux Basques, as well as one location in Gros Morne National Park.

Issue 3: Safety, Health and Environment

	<p>In 2020, Hydro designed the network, secured land leases and infrastructure, and secured federal funding for Phase 1 of the EV charging network. Hydro received approval from the PUB for its application regarding the regulation of charging services and the rates that can be charged to the public for these same services.</p> <p>All civil work was completed in 2020, and one charging site was placed into service. (The remaining 13 chargers are being placed into service in winter 2021.)</p>
--	---

The objective and indicators for 2021 are consistent with the direction outlined in the 2020-2022 Strategic Plan.

<p>Objective By December 31, 2021, Hydro will have further advanced its commitment to safety and environmental excellence, sustainability and employee well-being through completion of planned training, communications and related initiatives.</p>	
<p>Indicators</p>	<ul style="list-style-type: none"> ▪ Safety training for new employees, employees taking on new roles and refresher training for existing employees completed as required. ▪ Completed planned employee customer and public safety communications. ▪ Advanced conservation initiatives outlined in the approved Electrification, Conservation and Demand Management multi-year plan. ▪ Purchased two Hydro fleet electric vehicles and installed supporting Level 2 charging infrastructure at Hydro-owned sites as approved in the 2021 capital budget application. ▪ Delivered Street Light Modernization Program to replace existing lights with more energy efficient LED lights. ▪ Supported stakeholder led initiatives to integrate renewable generation in rural, off-grid communities.

5. Opportunities and Challenges

During the 2020-2022 planning period, Hydro will continue to build on accomplishments of the past and address future challenges and opportunities. The key challenges and opportunities that will be addressed reflect the next phase of Hydro's strategy execution.

Affordable Electricity Rates

A key driver of future electricity rates is the cost of the Muskrat Falls Project. Nalcor Energy's June 23, 2017 Muskrat Falls project update stated that average island residential electricity rates are expected to increase to 22.89 cents (¢) (plus HST) per kilowatt hour (kWh) in 2021 as a result of the project. During 2020-2022 planning period, Hydro will participate with Nalcor and the Government of Newfoundland and Labrador to evaluate and implement measures to mitigate the impact of Muskrat Falls on electricity rates and will monitor the outcomes of the PUB reference process. Hydro will also work to fulfill its commitments to enhance efficiency and effectiveness in its operations and investments.

Reliability and Supply Adequacy

In keeping with its mandate, Hydro ensures there is a reliable electricity supply available to meet current customer needs and future growth. Core to this is maintaining Hydro's systems in reliable operating condition through a combination of planned maintenance, rehabilitation of existing assets, and replacement of assets that have reached the end of their useful lives. In the 2020-2022 planning period and beyond Hydro will sustain its focus on the completion of required maintenance and the identification and completion of required capital projects. Hydro will continue to consult with customers for their input and will strive to strike a balance between cost and reliability when making the significant decisions required during the planning period. Hydro will also ensure new assets are in service and reliable before taking permanent decisions on the future of the Holyrood Thermal Generating Station and other key assets in the electricity system.

Safety, Health and Environment

Achieving and maintaining excellent safety, health and environmental performance is an ongoing challenge, particularly given the significant impact of COVID-19 on Hydro's operations. During this planning period and beyond, Hydro will implement initiatives to safely complete high-risk work, complete electrical safety training to maintain employee competence, and continue employee injury prevention communications and continue to ensure employees are equipped to manage the risk associated with COVID-19. In addition, Hydro will implement mental health initiatives and provide employees with access to tools and services to support health and wellness.

Customer safety and public safety around electrical equipment are also key elements of Hydro's safety commitment. Over the planning period, power line safety, power outage safety and winter preparedness along with safety around hydroelectric dams and other electrical equipment will continue to be key themes for Hydro's safety communications to customers and the public.

Hydro will also focus on managing risk and minimizing the impact of operations on the environment. Over the planning period, Hydro's ISO 14001:2015 registered Environmental Management System will be used to support Hydro's focus on continuous improvement. As well, Hydro will continue to promote demand management by residential, commercial and industrial customers. Hydro will also support Government of Newfoundland and Labrador environmental initiatives related to electric vehicle infrastructure, electrification opportunities, and the integration of renewables in communities that rely on diesel for electricity generation.

Appendix 1
Provincial Electricity Generation and Transmission System

LEGEND

- 735 kV
- 315 kV
- 230 kV
- 138 kV
- 69 kV
- LOW VOLTAGE
- 138kV CUSTOMER OWNED
- 69kV CUSTOMER OWNED
- HYDRO PLANT
- THERMAL PLANT
- TERMINAL STATION
- TERMINAL STATION & CONVERTER STATION
- FREQ. CONVERTOR
- NF. POWER
- CORNER BROOK PULP AND PAPER
- ALGONQUIN POWER
- MUSHUAU 1st NATION
- WIND GENERATION
- OPERATED BY NALCOR
- GAS TURBINE
- DIESEL PLANT

DC LEGEND

- ± 350 / ± 200kV HVdc
- SUBMARINE CABLE
- ELECTRODE LINE
- ELECTRODE STATION



Provincial Generation and Transmission Grid

Appendix 2
Newfoundland and Labrador Hydro Consolidated Financial Statements

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020

Independent Auditor's Report

To the Lieutenant-Governor in Council
Province of Newfoundland and Labrador

Opinion

We have audited the consolidated financial statements of Newfoundland and Labrador Hydro (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2020, and the 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 a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

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.

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 IFRS, 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 5, 2021

**NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

<i>As at December 31 (millions of Canadian dollars)</i>	Notes	2020	2019
ASSETS			
Current assets			
Cash		92	66
Trade and other receivables	5	108	146
Inventories	6	104	114
Current portion of other long-term assets	10	3	-
Prepayments		9	8
Deferred asset	7	23	9
Total current assets		339	343
Non-current assets			
Property, plant and equipment	8	2,757	2,731
Intangible assets	9	8	5
Other long-term assets	10	222	202
Total assets		3,326	3,281
Regulatory deferrals	11	172	123
Total assets and regulatory deferrals		3,498	3,404
LIABILITIES AND EQUITY			
Current liabilities			
Short-term borrowings	13	262	233
Trade and other payables	12	154	168
Current portion of long-term debt	13	7	7
Derivative liability	22	23	9
Other current liabilities		3	3
Total current liabilities		449	420
Non-current liabilities			
Long-term debt	13	1,765	1,776
Deferred contributions	14	26	25
Decommissioning liabilities	15	16	15
Employee future benefits	17	130	123
Other long-term liabilities		4	2
Total liabilities		2,390	2,361
Shareholder's equity			
Share capital	18	23	23
Contributed capital	18	151	152
Reserves		(22)	(22)
Retained earnings		939	877
Total equity		1,091	1,030
Total liabilities and equity		3,481	3,391
Regulatory deferrals	11	17	13
Total liabilities, equity and regulatory deferrals		3,498	3,404


Commitments and contingencies (Note 24)

See accompanying notes

On behalf of the Board:



DIRECTOR



DIRECTOR

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED STATEMENT OF PROFIT AND COMPREHENSIVE INCOME

<i>For the year ended December 31 (millions of Canadian dollars)</i>	Notes	2020	2019
Energy sales		673	720
Other revenue		29	28
Revenue		702	748
Fuels		158	217
Power purchased		90	99
Operating costs	19	175	180
Transmission rental		21	22
Depreciation and amortization		101	103
Net finance expense	20	88	89
Other expense	21	9	12
Expenses		642	722
Profit before regulatory adjustments		60	26
Regulatory adjustments	11	(15)	(37)
Total profit and other comprehensive income for the year		75	63
Items related to employee future benefits		(1)	(8)
Share of other comprehensive gain (loss) for the year		1	(1)
Other comprehensive income (loss) for the year		-	(9)
Total comprehensive income for the year		75	54

See accompanying notes

**NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

<i>(millions of Canadian dollars)</i>	Note	Share Capital	Contributed Capital	Reserves	Retained Earnings	Total
Balance at January 1, 2020		23	152	(22)	877	1,030
Profit for the year		-	-	-	75	75
Total comprehensive income for the year		-	-	-	75	75
Regulatory adjustment	18	-	(1)	-	-	(1)
Dividends	18	-	-	-	(13)	(13)
Balance at December 31, 2020		23	151	(22)	939	1,091
Balance at January 1, 2019		23	152	(13)	822	984
Profit for the year		-	-	-	63	63
Other comprehensive loss		-	-	(9)	-	(9)
Total comprehensive (loss) income for the year		-	-	(9)	63	54
Contributed capital	18	-	1	-	-	1
Regulatory adjustment	18	-	(1)	-	-	(1)
Dividends	18	-	-	-	(8)	(8)
Balance at December 31, 2019		23	152	(22)	877	1,030

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO CONSOLIDATED STATEMENT OF CASH FLOWS

<i>For the year ended December 31 (millions of Canadian dollars)</i>	Notes	2020	2019
Operating activities			
Profit for the year		75	63
Adjustments to reconcile profit to cash provided from operating activities:			
Depreciation and amortization		101	103
Regulatory adjustments	11	(15)	(37)
Amortization of rate stabilization plan fuel credit		24	-
Finance income	20	(14)	(14)
Finance expense	20	102	103
Other		7	16
		280	234
Changes in non-cash working capital balances	26	31	31
Interest received		3	1
Interest paid		(104)	(104)
Net cash provided from operating activities		210	162
Investing activities			
Additions to property, plant and equipment and intangible assets		(131)	(170)
Contributions to sinking funds	10	(7)	(7)
Decrease in short-term investment		-	34
Increase in reserve fund	10	(13)	(13)
Changes in non-cash working capital balances	26	2	(6)
Net cash used in investing activities		(149)	(162)
Financing activities			
Dividends paid	18	(13)	(8)
Increase in short-term borrowings		29	44
Rate stabilization plan fuel credit		(55)	-
Other		4	-
Net cash (used in) provided from financing activities		(35)	36
Net increase in cash		26	36
Cash, beginning of the year		66	30
Cash, end of the year		92	66

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance and Basis of Measurement

These annual audited 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).

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 5, 2021.

2.2 Basis of Consolidation

The financial statements include the financial statements of Hydro, its subsidiary companies, its proportionate share of investments in joint arrangements and its share of investments over which Hydro exercises significant influence using the equity method of accounting. In addition, the financial statements of all structured entities, for which Hydro has been determined the primary beneficiary, are included in these financial statements. Intercompany transactions and balances have been eliminated upon consolidation.

2.3 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.

2.4 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.

2.5 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 2.7. Costs capitalized with the related asset include all those costs directly attributable to bringing the asset into operation.

NEWFOUNDLAND AND LABRADOR HYDRO

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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	5 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.

Churchill Falls

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

Hydroelectric generation plant	7 to 100 years
Transmission and terminals	7 to 70 years
Service facilities and other	3 to 55 years

2.6 Intangible Assets

Intangible assets that are expected to generate future economic benefit and are measurable, including computer software costs, costs of technical services 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.

NEWFOUNDLAND AND LABRADOR HYDRO

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 to 10 years

2.7 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 Consolidated Statement of Profit and Comprehensive Income in the period in which they are incurred.

2.8 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 Consolidated Statement of Profit and Comprehensive Income.

2.9 Investment in Joint Arrangement

A joint arrangement is an arrangement in which two or more parties 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 accounts for its investment in Churchill Falls by recognizing its share of assets, liabilities and profit or loss in relation to its interest in the joint operation.

Churchill Falls, holds 33.33% of the equity share capital of Twin Falls and is a party with other shareholders in a participation agreement which gives Churchill Falls joint control of Twin Falls. This investment is accounted for using the equity method. Under the equity method, the interest in the joint venture is carried in the Statement of Financial Position at cost plus post acquisition changes in Churchill Falls' share of net assets of the joint venture. The Consolidated Statement of Profit and Comprehensive Income reflects the share of the profit or loss of the joint venture.

2.10 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.

NEWFOUNDLAND AND LABRADOR HYDRO

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(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 Consolidated Statement of Profit and Comprehensive Income as a regulatory adjustment.

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

2.11 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 Consolidated Statement of Financial Position date using the current discount rate.

2.12 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 Consolidated Statement of Profit and Comprehensive Income if the liability is short-term in nature.

2.13 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. Churchill Falls also recognizes revenue from contracts with customers related to the sale of electricity.

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Both Hydro and Churchill Falls recognize revenue when they transfer control of a product or service to a customer.

Revenue from the sale of energy is recognized when Hydro or Churchill Falls 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 and Churchill Falls recognize revenue at the amount to which they have the right to invoice, which corresponds directly to the value of Hydro's or Churchill Falls' performance to date.

Churchill Falls recognizes revenue from Hydro-Québec under a Guaranteed Winter Availability Contract (GWAC) through 2041. The GWAC was signed with Hydro-Québec in 1998 and provides for the sale of 682 MW of guaranteed seasonal availability to Hydro-Québec during the months of November through March in each year until 2041.

2.14 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.

NEWFOUNDLAND AND LABRADOR HYDRO

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.15 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 Consolidated Statement of Profit and Comprehensive Income as other expense.

2.16 Income Taxes

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

2.17 Financial Instruments

Classification and Initial Measurement

Financial assets and financial liabilities are recognized in the 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 and sinking fund investments.

Financial Assets at FVTOCI

Financial assets measured at FVTOCI are those that have contractual cash flows arising on specific dates, consisting solely of principal and interest, and that are held within a business model whose objective is to collect the contractual cash flows and to sell the financial asset. Any changes in the carrying amount of these assets other than foreign exchange gains and losses, impairment gains and losses, and interest income are recognized in other comprehensive income accumulated in the fair value reserve. When these assets are derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss.

Hydro's financial assets measured at FVTOCI include reserve 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 part of a designated hedging relationship.

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.

NEWFOUNDLAND AND LABRADOR HYDRO

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Derivative Instruments

Derivative instruments are utilized by Hydro to manage risk. Hydro's policy is not to utilize derivative instruments for speculative purposes. Derivatives are initially measured at fair value at the date the derivative contracts are entered into and are subsequently measured at their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designed and effective as a 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, sinking funds and the reserve fund.

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.

2.18 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 Consolidated Statement of Financial Position and transferred to the 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 Consolidated Statement of Profit and Comprehensive Income in the period in which they become receivable.

NEWFOUNDLAND AND LABRADOR HYDRO

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.19 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 2020 and 5.4% in 2019. 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, ESTIMATES AND ASSUMPTIONS

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.

The World Health Organization declared the Coronavirus disease (COVID-19) outbreak a Public Health Emergency of International Concern on January 30, 2020 and a pandemic on March 11, 2020. In order to mitigate the spread of COVID-19 there have been global restrictions on travel, quarantines, self-isolation, social and physical distancing and forced closure of certain types of public places and non-essential businesses. These actions have caused and continue to cause disruption to operations and economic uncertainty.

COVID-19 is an evolving situation that may have widespread implications for the Company's environment, operations and financial results. For the year ended December 31, 2020 COVID-19 did not have a significant impact on the Company's results of operations, but has resulted in delays in capital spending. At this time, Management cannot reasonably estimate the duration and magnitude of the COVID-19 impact on the economy and future effect on the Company.

3.1 Use of Judgments

(i) Property, Plant and Equipment

Hydro's accounting policy relating to property, plant and equipment is described in Note 2.5. 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 in Hydro Regulated, 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 Regulated's profit or loss in the year the order is received.

NEWFOUNDLAND AND LABRADOR HYDRO

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(iii) Determination of CGUs

Hydro's accounting policy relating to impairment of non-financial assets is described in Note 2.8. 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) Consolidation of Joint Arrangements

Management exercises judgment when applying the criteria outlined in IFRS 11 to determine whether joint arrangements constitute joint ventures or joint operations. Management has determined that its interest in Churchill Falls is considered a joint operation and its interest in Twin Falls is considered a joint venture.

(vi) Leases

Definition of a lease

At inception of a contract, Hydro assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, Hydro assesses whether the contract involves the use of an identified asset, Hydro has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use and Hydro has the right to direct the use of the asset.

Lease extension and termination options

In determining the lease term, Hydro considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. The assessment is reviewed if a significant event or a significant change in circumstances occurs within its control. The assessment requires the consideration of facts and circumstances such as contractual terms and conditions for option periods, significant leasehold improvements undertaken, costs to terminate the lease, the importance of the asset to the lessee's operations and past practice.

(vii) 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.

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(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 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) Revenue

In the absence of a signed agreement with Hydro-Québec regarding the Annual Energy Base (AEB) value, Churchill Falls and Hydro-Québec have been using the 2008 AEB value on an interim basis since September 1, 2016. Now that a final judgment has been received in the Declaratory Judgment Case, the Parties are in the process of finalizing the value of the final AEB that will establish the Continuous Energy for the term of the Renewed Power Contract.

(v) Leases incremental borrowing rate

Hydro uses its incremental borrowing rates in measuring its lease liabilities. The incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The determination of the incremental borrowing rate requires the consideration of different components, all of which are to incorporate a number of important lease characteristics.

3.3 Use of Assumptions

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 in export markets or through agreements with counterparties. 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. In September 2016, the terms of the PPA were amended to require a 60 day termination notice by either party. This replaced the previous termination clause of 90 days prior to the end of the operating year. Management's assumption is that the term of the PPA at December 31, 2020, will continue for at least the next 9 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. These derivative transactions are initially measured at fair value and the expected difference is deferred. Subsequently, the deferred difference is recognized in other comprehensive income (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.

NEWFOUNDLAND AND LABRADOR HYDRO

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 standards/interpretations that have been issued and are effective for accounting periods commencing on or after January 1, 2020, as specified.

- *IAS 1 – Presentation of Financial Statements*¹ and *IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors*¹ (Amendments to IAS 1 and IAS 8)
- *IFRS 16 – Leases – COVID-19 Related Rent Concessions (Amendment to IFRS 16)*²
- *IAS 16 – Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16)*³
- *IAS 37 – Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Costs of Fulfilling a Contract (Amendments to IAS 37)*³
- *IAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current (Amendments to IAS 15)*⁴

¹ Effective for annual periods beginning on or after January 1, 2020.

² Effective for annual periods beginning on or after June 1, 2020.

³ Effective for annual periods beginning on or after January 1, 2022, with earlier application permitted.

⁴ Effective for annual periods beginning on or after January 1, 2023, with earlier application permitted.

4.1 IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (Amendments to IAS 1 and IAS 8)

Effective January 1, 2020, Hydro adopted the amendments to IAS 1 and IAS 8 to align the definition of ‘material’ across the standards and to clarify certain aspects of the definition and to include the concept of ‘obscuring information’. The amendments are intended to improve the understanding of the existing requirements rather than to significantly impact Hydro’s materiality judgments.

4.2 IFRS 16 – Leases – COVID-19 Related Rent Concessions (Amendment to IFRS 16)

The IASB issued an amendment to IFRS 16 that provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. Since Hydro does not have any COVID-19 related rent concessions, the application of this amendment did not have an impact on Hydro’s financial statements.

4.3 IAS 16 – Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16)

The IASB issued amendments to IAS 16 relating to proceeds before intended use. The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss. The amendments also clarify the meaning of ‘testing whether an asset is functioning properly’. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.

These amendments are applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Hydro early adopted the amendments to IAS 16 as of January 1, 2020, with retrospective application as of January 1, 2019. The application of these amendments to IAS 16 did not have any transitional impact on Hydro’s financial statements.

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4.4 IAS 37 – Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Costs of Fulfilling a Contract (Amendments to IAS 37)

The amendments to IAS 37 specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract, such as direct labour and materials, or an allocation of other costs that relate directly to fulfilling contracts, such as the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract. These amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments and are currently not applicable to Hydro, however, may apply to future transactions.

4.5 IAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)

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. The amendments are applied retrospectively upon adoption.

5. TRADE AND OTHER RECEIVABLES

<i>As at December 31 (millions of Canadian dollars)</i>	2020	2019
Trade receivables	97	118
Due from related parties	16	16
Other receivables	12	26
Allowance for doubtful accounts	(17)	(14)
	108	146

<i>As at December 31 (millions of Canadian dollars)</i>	2020	2019
0-60 days	106	135
60+ days	2	11
	108	146

<i>As at December 31 (millions of Canadian dollars)</i>	2020	2019
Allowance for doubtful accounts, beginning of the year	(14)	(17)
Change in balance during the year	(3)	3
Allowance for doubtful accounts, end of the year	(17)	(14)

6. INVENTORIES

<i>As at December 31 (millions of Canadian dollars)</i>	2020	2019
Fuel	54	65
Materials and other	50	49
	104	114

Fuel inventory includes No. 6 fuel in the amount of \$43.6 million (2019 - \$53.4 million). The cost of inventories recognized as an expense during the year is \$162.1 million (2019 - \$221.6 million) and is included in operating costs and fuels.

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. DEFERRED ASSET

The deferred asset related to Hydro's PPA with Energy Marketing was amortized into income on a straight-line basis over the assumed five month term of the contract, which commenced on January 1, 2020. Subsequently, in June and September 2020, Management reassessed the anticipated contract term and determined that a new deferred asset and derivative liability was required resulting in a deferred asset addition of \$7.9 million and \$7.5 million, respectively. These balances were fully amortized at September 30, 2020 and December 31, 2020. In December 2020, 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 \$22.7 million to be amortized into income on a straight-line basis over the assumed nine month term, commencing on January 1, 2021. The components of change are as follows:

<i>As at December 31 (millions of Canadian dollars)</i>	2020	2019
Deferred asset, beginning of the year	9	21
Additions	38	9
Amortization	(24)	(21)
Deferred asset, end of the year	23	9

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. PROPERTY, PLANT AND EQUIPMENT

<i>(millions of Canadian dollars)</i>	Generation Plant	Transmission and Distribution	Other	Assets Under Development	Total
Cost					
Balance at January 1, 2019	1,916	1,288	278	51	3,533
Additions	-	-	-	173	173
Disposals	(6)	(4)	(4)	-	(14)
Transfers	81	69	15	(165)	-
Other adjustments	1	-	-	-	1
Balance at December 31, 2019	1,992	1,353	289	59	3,693
Additions	-	-	-	132	132
Disposals	(6)	(3)	(3)	-	(12)
Transfers	41	72	14	(127)	-
Other adjustments	-	(1)	-	(4)	(5)
Decommissioning liabilities and revisions	1	-	-	-	1
Balance at December 31, 2020	2,028	1,421	300	60	3,809
Depreciation					
Balance at January 1, 2019	555	218	108	-	881
Depreciation	59	30	12	-	101
Disposals	(2)	(1)	(3)	-	(6)
Other adjustments ¹	(6)	(6)	(2)	-	(14)
Balance at December 31, 2019	606	241	115	-	962
Depreciation	55	31	13	-	99
Disposals	(4)	(2)	(3)	-	(9)
Balance at December 31, 2020	657	270	125	-	1,052
Carrying value					
Balance at January 1, 2019	1,361	1,070	170	51	2,652
Balance at December 31, 2019	1,386	1,112	174	59	2,731
Balance at December 31, 2020	1,371	1,151	175	60	2,757

¹ In Board Order No. P.U. 48 (2018), the PUB approved a 2018 cost deferral of \$18.5 million related to the differential in the 2018 depreciation expense associated with the proposed change in depreciation methodology. Pursuant to Board Order No. P.U. 30 (2019), the PUB approved Hydro's proposed depreciation methodology and the reclassification of \$13.6 million of the 2018 cost deferral to property, plant and equipment.

Capitalized interest for the year ended December 31, 2020 was \$1.5 million (2019 - \$2.0 million) related to assets under development.

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. INTANGIBLE ASSETS

<i>(millions of Canadian dollars)</i>	Computer Software	Feasibility Studies	Assets Under Development	Total
Cost				
Balance at January 1, 2019	14	2	-	16
Transfers	1	-	-	1
Balance at December 31, 2019	15	2	-	17
Additions	-	-	1	1
Disposals	-	(1)	-	(1)
Transfers	4	-	(4)	-
Other adjustments	-	-	4	4
Balance at December 31, 2020	19	1	1	21
Amortization				
Balance at January 1, 2019	9	1	-	10
Amortization	2	-	-	2
Balance at December 31, 2019	11	1	-	12
Amortization	1	1	-	2
Disposals	-	(1)	-	(1)
Balance at December 31, 2020	12	1	-	13
Carrying value				
Balance at January 1, 2019	5	1	-	6
Balance at December 31, 2019	4	1	-	5
Balance at December 31, 2020	7	-	1	8

10. OTHER LONG-TERM ASSETS

<i>As at December 31 (millions of Canadian dollars)</i>	2020	2019
Reserve fund (a)	39	25
Sinking funds (b)	183	174
Right-of-use assets	2	2
Investment in joint arrangement	1	1
	225	202
Less: current portion of reserve fund	(3)	-
	222	202

(a) In 2007 Churchill Falls commenced the creation of a \$75.0 million segregated reserve fund pursuant to the terms of the Shareholders' Agreement to contribute towards the funding of capital expenditures related to Churchill Falls' existing facilities and their replacement. In December 2020, \$18.8 million was invested (2019 - \$18.8 million) into the fund as part of the Shareholders' Agreement to reestablish the \$75.0 million withdrawn in recent years. Hydro has recorded its 65.8% proportionate share of the amount invested of \$12.3 million (2019 - \$12.3 million).

This fund must remain in place until the end of the Shareholders' Agreement in 2041. Any amounts removed to fund capital expenditures must be replaced. Reserve fund holdings consist of securities issued by the Government of Canada, various provinces of Canada and Schedule 1 and 2 Canadian Chartered Banks.

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Hydro's proportionate share of the reserve fund consists of the following:

<i>As at December 31 (millions of Canadian dollars)</i>	2020	2019
Reserve fund, beginning of the year	25	12
Principal contributions	13	13
Mark-to-market adjustment	1	-
Reserve fund, end of the year	39	25
Less: current portion	(3)	-
	36	25

Hydro's proportionate share of reserve fund contributions due for the next two years are as follows:

<i>(millions of Canadian dollars)</i>	2021	2022
Reserve fund contributions	6	6

- (b) As at December 31, 2020, sinking funds include \$182.6 million (2019 - \$174.0 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 2022 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 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 1.52% to 6.82% (2019 – 2.51% to 6.82%).

The sinking funds consist of the following:

<i>As at December 31 (millions of Canadian dollars)</i>	2020	2019
Sinking funds, beginning of the year	174	164
Contributions	7	7
Change in sinking fund investments in own debentures	(10)	(8)
Earnings	12	11
Sinking funds, end of the year	183	174

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

<i>(millions of Canadian dollars)</i>	2021	2022	2023	2024	2025
Sinking fund instalments	7	7	7	7	7

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. REGULATORY DEFERRALS

		January 1	Reclass & Regulatory	December 31	Remaining	
		2020	Disposition	2020	Recovery	
					Settlement	
					Period	
					(years)	
<i>(millions of Canadian dollars)</i>						
Regulatory asset deferrals						
Supply deferrals	(a)	35	(20)	44	59	n/a
Deferred energy conservation costs	(b)	9	-	(1)	8	n/a
Foreign exchange losses	(c)	48	-	(2)	46	21
Rate stabilization plan (RSP)	(d)	16	49	(25)	40	n/a
Retirement asset pool	(e)	11	-	2	13	n/a
Business system transformation program	(f)	3	-	1	4	n/a
Other	(i-v)	1	-	1	2	n/a
		123	29	20	172	
Regulatory liability deferrals						
Insurance amortization and proceeds	(g)	(3)	-	-	(3)	n/a
Removal provision	(h)	(8)	-	(4)	(12)	n/a
Other	(i-v)	(2)	1	(1)	(2)	n/a
		(13)	1	(5)	(17)	

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

	2020	2019
<i>For the year ended December 31 (millions of Canadian dollars)</i>		
RSP amortization	(32)	4
RSP fuel deferral	57	34
RSP interest	(2)	2
Rural rate adjustment	2	1
Total RSP activity	25	41
Supply deferral recovery	11	3
Supply deferrals	(55)	(30)
Total supply deferrals	(44)	(27)
2019 revenue deficiency	-	(52)
Removal provision	4	4
Other	-	(3)
	(15)	(37)

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 2020 would have decreased by \$15.1 million (2019 – \$36.7 million).

11.(a) Supply Deferrals

Pursuant to Board Order No. P.U. 22 (2017), the Board approved the deferral of Energy Supply costs using three specific deferral accounts: the Energy Supply, Holyrood Conversion and Isolated Systems Supply cost deferrals. In 2020, Hydro recorded a net increase to the deferrals of \$55.0 million (2019 - \$29.6 million) with recovery determined through an annual application process. Board Order No. P.U. (2019) approved the recovery from customers of \$18.4 million over a 20 month period; of which, in 2020 Hydro recovered \$10.9 million (2019 - \$2.7 million). In Board Order No. P.U. 13 (2020), the Board approved the recovery of the 2019 supply cost deferral of \$19.8 million from the RSP.

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11.(b) Deferred Energy Conservation Costs

In 2020, Hydro deferred \$0.6 million (2019 - \$1.5 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 \$1.5 million (2019 – \$1.4 million) of the balance through a rate rider.

11.(c) 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 2020, amortization expense of \$2.2 million (2019 - \$2.2 million) was recorded.

11.(d) 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.

Hydro recorded a net increase in the RSP balance in 2020 of \$23.7 million (2019 - decrease of \$89.9 million) resulting in a balance from customers of \$39.9 million (2019 - \$16.2 million). The increase in the RSP asset is primarily due to Board Order P.U. 16 (2020) which approved a one-time bill credit resulting in a net increase to the RSP of \$30.8 million; Board Order P.U. 13 (2020) which approved the recovery of the 2019 supply cost deferrals of \$19.8 million resulting in an increase to the RSP; partially offset by normal operation of the RSP which resulted in a net decrease to the RSP of \$25.4 million (2019 - \$40.7 million) and Board Order P.U. 29 (2019) which approved the refund of the firm energy savings deferral resulting in a decrease of \$1.5 million from the RSP.

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. The depreciation methodology and corresponding retirement asset pool was approved effective January 1, 2018. In 2020, Hydro deferred \$2.1 million (2019 - \$1.9 million) of retirement asset activity resulting in a total balance of \$13.2 million.

11.(f) 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 commencing in 2018. The recovery of the deferral is subject to a future Board order. During the year, Hydro deferred \$1.1 million (2019 – \$2.5 million).

11.(g) 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 2020, Hydro recorded a decrease to regulatory liabilities resulting from amortization of \$nil (2019 - \$0.6 million) related to the assets.

11.(h) 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. The depreciation methodology and corresponding removal provision was approved effective January 1, 2018. Hydro recorded a net increase to the provision relating to 2020 activity of \$4.1 million (2019 - \$4.1 million) resulting in a total balance of \$12.0 million.

11.(i) Hearing Costs

As per Board Order No. P.U. 30 (2019), the Board approved the deferral of \$1.7 million in hearing costs relating to the 2017 General Rate Application hearing and the Cost of Service hearing to be amortized over a three year period commencing 2018. In 2020, Hydro recorded amortization of \$0.6 million (2019 - \$1.1 million) resulting in a net balance of \$nil.

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11.(j) 2018 Revenue Deficiency

In Board Order P.U. 30 (2019), the Board approved the 2018 Revenue Deficiency of \$0.8 million. The Revenue Deficiency consists of \$2.3 million which was approved to be recovered through a transfer to the RSP and a refund to customers of \$1.5 million. A refund of \$0.6 million was paid to industrial customers in 2019 with the remaining balance of \$0.9 million refunded to the Labrador Rural Interconnected customers in 2020.

11.(k) 2019 Revenue Deficiency

In Board Order P.U. 30 (2019), the Board approved the 2019 Revenue Deficiency of \$51.8 million. The Revenue Deficiency consists of \$52.6 million which was approved to be recovered through a transfer to the RSP, \$0.1 million to be recovered over a 20 month period and a refund to customers of \$0.9 million. A refund of \$0.3 million was paid to Industrial customers in 2019 which resulted in a December 31, 2019 balance in the 2019 Revenue Deficiency of \$0.6 million. The remaining refund of \$0.6 million to the Labrador Rural Interconnected customers was paid in 2020.

11.(l) Deferred Lease Costs

In Board Order No's. P.U. 17 (2016), P.U. 23 (2016) and No. P.U. 49 (2016) the Board approved amortization of lease costs associated with mobile diesel units at Holyrood Thermal Generating Station (HTGS) over a period of five years. In 2020, Hydro recorded amortization of \$0.3 million (2019 - \$1.3 million) of the deferred lease costs.

11.(m) Deferred Foreign Exchange on Fuel

Hydro purchases fuel for HTGS in USD. The RSP allows Hydro to defer variances in fuel prices (including foreign exchange fluctuations). During 2020, Hydro recognized a reduction to regulatory assets foreign exchange gains on fuel purchases of \$0.2 million (2019 - \$1.0 million).

11.(n) 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. As a result, Hydro recorded a net increase to regulatory assets of \$nil million (2019 - \$0.2 million) for a total deferred balance of \$1.4 million (2019 - \$1.4 million).

11.(o) 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.(p) Firm Energy Purchase

Pursuant to Board Order No. P.U. 3 (2020), the Board approved the deferral of savings associated with firm energy power purchases. Hydro recorded a regulatory liability of \$1.5 million in 2019. In 2020, pursuant to Board Order No. 29 (2020), the balance of \$1.5 million was refunded through the RSP.

11.(q) Hydraulic Resources Optimization Deferral Account

In Board Order 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, 2020, the balance of hydraulic optimization activities is a net gain of \$1.0 million (2019 - \$0.3 million) recorded as a deferred liability.

11.(r) 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 \$0.2 million (2019 - \$0.3 million) are deferred as a regulatory liability.

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11.(s) 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 not customers in profit or loss. During 2020, Hydro recorded \$0.9 million (2019 - \$0.7 million) non-customer CIAC amortization as a regulatory adjustment. In the absence of rate regulation, IFRS requires non-customer CIACs to be recorded as contributed capital with no corresponding amortization. As a result, during 2020 Hydro also recorded an increase of \$0.9 million (2019 - \$0.7 million) to contributed capital to recognize the amount that was reclassified to profit or loss.

11.(t) 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 2020 Hydro recorded \$0.1 million (2019 - \$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 2020 Hydro also recorded a decrease of \$0.1 million (2019 - \$nil) to other comprehensive income to recognize the amount that was reclassified to profit or loss.

11.(u) 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 \$0.6 million in 2020 (2019 - \$0.2 million). The recovery of the balance is to be determined in a future Board Order.

11.(v) Frequency Converter Revenue Deferral Account

In Board Order P.U. 35 (2020), the Board 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 2020, Hydro deferred \$0.2 million as a regulatory liability (2019 - \$nil).

12. TRADE AND OTHER PAYABLES

<i>As at December 31 (millions of Canadian dollars)</i>	2020	2019
Trade payables	103	102
Accrued interest payable	25	25
Due to related parties	8	7
Other payables	18	34
	154	168

13. DEBT

13.1 Short-term Borrowings

Hydro utilized its \$300.0 million government guaranteed promissory note program to fulfil its short-term funding requirements. As at December 31, 2020, there were three promissory notes outstanding for a total of \$262.0 million with a maturity date of January 4, 2021 bearing an average interest rate of 0.17% (2019 - \$233.0 million bearing an average interest rate of 1.82%). Upon maturity, the promissory notes were reissued.

Hydro maintains a \$200.0 million CAD or USD equivalent committed revolving term credit facility maturing on July 27, 2021. As at December 31, 2020, there were no amounts drawn on the facility (2019 - \$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 prevailing Government BA fee. Borrowings in USD may take the form of Base Rate Advances and letters of credit. The facility also provides coverage for overdrafts on Hydro's bank accounts, with interest calculated at the Prime Rate.

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

On April 17, 2020, Hydro obtained additional credit through establishment of a committed credit facility with its banker in the amount of \$300.0 million with a maturity date of April 17, 2021. As at December 31, 2020, there were no amounts drawn on this facility. Borrowings in CAD may take the form of BAs and, in certain circumstances, Prime Rate advances. The facility also provides coverage for overdrafts on Hydro's bank accounts, with interest calculated at the Prime Rate.

Churchill Falls maintains a \$10.0 million CAD or USD equivalent unsecured demand operating credit facility with its banker. Advances may take the form of a Prime Rate advance, or the issuance of a BA with interest calculated at the Prime Rate or prevailing Government BA fee. The facility also provides coverage for overdrafts on Churchill Falls bank accounts, with interest calculated at the Prime Rate. There were no amounts drawn on this facility as at December 31, 2020 (2019 - \$nil).

Churchill Falls has issued three irrevocable letters of credit totalling \$2.0 million (2019 - \$2.0 million), \$1.0 million of which does not impact the borrowing limit of the operating credit facility (2019 - \$1.0 million). The letters of credit ensure satisfactory management of its waste management system and compliance with a certificate of approval for the transportation of special and hazardous wastes, granted by the Provincial Department of Environment and Conservation.

13.2 Long-term Debt

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

<i>As at December 31 (millions of Canadian dollars)</i>	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	2020	2019
Hydro						
Y*	300	8.40	1996	2026	297	296
AB*	300	6.65	2001	2031	304	305
AD*	125	5.70	2003	2033	124	124
AF	500	3.60	2014/2017	2045	481	481
1A	600	3.70	2017/2018	2048	639	640
Total	1,825				1,845	1,846
Less: Sinking fund investments in own debentures					73	63
					1,772	1,783
Less: Sinking fund payments due within one year					7	7
Total					1,765	1,776

*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 exception of Series 1A which is borrowed directly from the Province. 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, 2020 was \$8.6 million (2019 - \$8.6 million).

On December 18, 2020, Hydro received approval from the Board of Public Utilities to issue debt with a face value of up to \$300.0 million (Board Order No. P.U. 40 (2020)) on or before April 30, 2021.

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

<i>As at December 31 (millions of Canadian dollars)</i>	2020	2019
Deferred contributions, beginning of the year	27	26
Additions	3	1
Other adjustments	-	1
Amortization	(2)	(1)
Deferred contributions, end of the year	28	27
Less: current portion	(2)	(2)
	26	25

15. DECOMMISSIONING LIABILITIES

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

The reconciliation of the beginning and ending carrying amounts of decommissioning liabilities for December 31, 2020 are as follows:

<i>As at December 31 (millions of Canadian dollars)</i>	2020	2019
Decommissioning liabilities, beginning of the year	15	15
Accretion	-	-
Revisions	1	-
Decommissioning liabilities, end of the year	16	15

The total estimated undiscounted cash flows required to settle the HTGS obligations at December 31, 2020 are \$15.2 million (2019 - \$15.2 million). Payments to settle the liability are expected to occur between 2021 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 0.5% (2019 - 2.0%). Hydro has recorded \$14.8 million (2019 - \$14.1 million) related to HTGS obligations.

The total estimated undiscounted cash flows required to settle the PCB obligations at December 31, 2020 are \$1.1 million (2019 - \$1.3 million). Payments to settle the liability are expected to occur between 2021 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 0.5% (2019 - 2.1%). Hydro has recorded \$1.0 million (2019 - \$1.2 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.

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. LEASE LIABILITIES

AMOUNTS RECOGNIZED IN THE CONSOLIDATED STATEMENT OF PROFIT AND COMPREHENSIVE INCOME

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2020	2019
Variable lease payments not included in the measurement of leases (a)	28	28

(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 Consolidated Statement of Profit and Comprehensive Income.

The total cash outflow for leases for the year ended December 31, 2020 amount to \$28.3 million (2019 - \$28.2 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, 2020 of \$9.4 million (2019 - \$9.6 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 upon retirement. In 2020, cash payments to beneficiaries for its unfunded other employee future benefits were \$3.8 million (2019 - \$3.3 million). An actuarial valuation was performed as at December 31, 2020.

<i>As at December 31 (millions of Canadian dollars)</i>	2020	2019
Accrued benefit obligation, beginning of the year	123	105
Current service cost	5	5
Past service cost	-	3
Interest cost	4	4
Benefits paid	(4)	(3)
Actuarial loss	2	9
Accrued benefit obligation, end of the year	130	123

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2020	2019
Component of benefit cost		
Current service cost	5	5
Past service cost	-	3
Interest cost	4	4
Total benefit expense for the year	9	12

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

	2020	2019
Discount rate - benefit cost	3.20%	3.90%
Discount rate - accrued benefit obligation	2.70%	3.20%
Rate of compensation increase	3.50%	3.50%

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Assumed healthcare trend rates:

	2020	2019
Initial health care expense trend rate	5.64%	5.85%
Cost trend decline to	3.60%	3.60%
Current rate 5.64%, reducing linearly to 3.6% in 2040 and thereafter.		

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

<i>Increase (millions of Canadian dollars)</i>	2020	2019
Current service and interest cost	2	2
Accrued benefit obligation	22	20
<i>Decrease (millions of Canadian dollars)</i>	2020	2019
Current service and interest cost	(1)	(1)
Accrued benefit obligation	(17)	(15)

18. SHAREHOLDER'S EQUITY

18.1 Share Capital

<i>As at December 31 (millions of Canadian dollars)</i>	2020	2019
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

<i>As at December 31 (millions of Canadian dollars)</i>	2020	2019
Contributed capital, beginning of the year	152	152
Additions	-	1
Amortization	(1)	(1)
Contributed capital, end of the year	151	152

During 2020, Lower Churchill Management Corporation (LCMC) contributed \$0.2 million (2019 - \$0.7 million) in addition to property, plant and equipment. Pursuant to Board Order No. P.U. 1 (2017), Hydro recognized \$0.9 million (2019 - \$0.7 million) in amortization as a regulatory adjustment.

18.3 Dividends

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2020	2019
Declared during the year		
Final dividend for prior year: \$0.03 per share (2019 - \$0.05)	1	1
Interim dividend for current year: \$0.31 per share (2019 - \$0.29)	12	7
	13	8

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. OPERATING COSTS

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2020	2019
Salaries and benefits	113	114
Maintenance and materials	27	31
Professional services	10	10
Insurance	6	6
Travel and transportation	4	6
Office supplies	3	3
Municipal taxes	2	2
Equipment rental	2	2
Other operating costs	8	6
	175	180

20. NET FINANCE EXPENSE

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2020	2019
Finance income		
Interest on sinking fund	12	11
Other interest income	2	3
	14	14
Finance expense		
Long-term debt	92	92
Debt guarantee fee	9	9
Other	3	4
	104	105
Interest capitalized during construction	(2)	(2)
	102	103
Net finance expense	88	89

21. OTHER EXPENSE

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2020	2019
Loss on disposal of property, plant and equipment	3	7
Rent and royalties	4	4
Other	2	1
Other expense	9	12

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

22.1 Fair Value

The estimated fair values of financial instruments as at December 31, 2020 and 2019 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.

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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, 2020 and 2019.

	Level	Carrying Value December 31, 2020	Fair Value	Carrying Value December 31, 2019	Fair Value
<i>As at (millions of Canadian dollars)</i>					
Financial assets					
Sinking funds - investments in Hydro debt issue	2	73	88	63	75
Sinking funds - other investments	2	183	234	174	211
Reserve fund	2	39	39	25	25
Financial liabilities					
Derivative liability	3	23	23	9	9
Long-term debt (including amount due within one year before sinking funds)	2	1,845	2,394	1,846	2,242

The fair value of cash, trade and other receivables, 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.

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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, 2020:

<i>(millions of Canadian dollars)</i>	Carrying Value	Valuation Techniques	Significant Unobservable Input(s)	Range
Derivative liability (PPA)	23	Modelled pricing	Volumes (MWh)	28-32% of available generation

The derivative liability arising under the PPA 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, 2020, the effect of using reasonably possible alternative assumptions for volume inputs to valuation techniques may have resulted in -\$0.1 million to +\$0.7 million change in the carrying value of the power purchase derivative liability.

22.2 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 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 Consolidated Statement of Financial Position at the reporting date.

The COVID-19 pandemic has increased the credit risk of the Company, as the potential risk for non-performance of the Company's customers has increased with the current economic slowdown. Hydro had established flexible collection practices during the COVID-19 pandemic for its customers including flexible bill payment arrangements and waiving interest on overdue accounts for residential and general service customers, which is recoverable from the Province. In September 2020, Hydro returned to its normal customer collections practices, but continues to waive interest on overdue accounts, which is recoverable from the Province. Hydro is continuing to monitor the risk of non-performance by its customers and as at December 31, 2020 the impact on the Company's expected credit loss allowance is not considered material. As well, Hydro is continuing to monitor the implications of COVID-19, including the risk of credit losses, pronouncements from governments and regulators and, if required, will make adjustments to the expected credit loss allowance in future periods.

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).

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 (%)
	2020		2019	
Provincial Governments	AA- to AAA	17.10%	AA- to AAA	17.30%
Provincial Governments	A- to A+	26.53%	A- to A+	27.16%
Provincially owned utilities	AA- to AAA	24.03%	AA- to AAA	26.00%
Provincially owned utilities	A- to A+	32.34%	A- to A+	29.54%
		100.00%		100.00%

Credit exposure on the reserve fund is mitigated by adhering to an investment policy which restricts the holdings to long-term debt instruments issued or guaranteed by the Government of Canada or any province of Canada. Investment in the long-term debt instruments of Canadian banks are also permitted, provided the bank is rated A or higher by Standard and Poor's. With the exception of Government of Canada, holdings of any one issuer are limited to 10% of the total principal amount of the portfolio. The following credit risk table provides information on credit exposure according to issuer type and credit rating for the reserve fund:

	Issuer Credit Rating	Fair Value of Portfolio(%)	Issuer Credit Rating	Fair Value of Portfolio (%)
	2020		2019	
Provincial Governments	A- to A+	40.58%	A- to A+	40.50%
Provincially owned utilities	AA- to AAA	8.26%	AA- to AAA-	8.93%
Provincially owned utilities	A- to A+	6.00%	A- to A+	4.54%
Schedule 1 Canadian banks	AA- to AAA	18.53%	AA- to AAA	12.17%
Schedule 1 or 2 Canadian banks	A- to A+	26.63%	A- to A+	33.86%
		100.0%		100.0%

Credit exposure on derivative assets is limited by the Financial Risk Management Policy, which restricts available counterparties for hedge transactions to Schedule 1 Canadian Chartered Banks, and Federally Chartered US Banks.

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 81.3% (2019 - 82.3%) of total energy sales and 63.0% (2019 - 63.4%) of accounts receivable. Energy sales for the three largest customers include \$455.0 million (2019 - \$501.2 million) for Regulated Hydro, as well as \$41.4 million (2019 - \$39.8 million) for Non-Regulated Hydro. Churchill Falls' exposure to credit risk on energy sales is limited, as Churchill Falls' main customer, Hydro-Québec is an investment grade utility.

Liquidity Risk

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

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 \$200.0 million (2019 - \$200.0 million) committed revolving term credit facility with its primary banker. On April 17, 2020, Hydro signed a credit agreement with its primary banker to establish an additional credit facility in the amount of \$300.0 million with a maturity date of April 17, 2021. These credit facilities are held with its primary banker in order to meet any requirements beyond those forecasted for a given period. Churchill Falls also maintains a \$23.0 million (2019 - \$23.0 million) minimum cash balance, business interruption insurance, as well as a \$10.0 million (2019 - \$10.0 million) unsecured credit facility with its banker.

Long-term liquidity risk for Hydro 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 2045 and 2048.

For Churchill Falls, long-term liquidity risk is managed by maintenance of the reserve fund in accordance with the Shareholders' Agreement and a dividend management policy that meets long-term liquidity requirements associated with Churchill Falls' capital expenditure program.

The following are the contractual maturities of Hydro's financial liabilities, including principal and interest, as at December 31, 2020:

<i>(millions of Canadian dollars)</i>	<1 Year	1-3 Years	3-5 Years	> 5 Years	Total
Trade and other payables	154	-	-	-	154
Short-term borrowings	262	-	-	-	262
Derivative liability	23	-	-	-	23
Debt guarantee fee	9	17	16	143	185
Long-term debt including sinking funds	7	13	13	1,792	1,825
Interest	93	185	185	1,035	1,498
	548	215	214	2,970	3,947

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, electricity, and No. 6 fuel. These exposures are addressed as part of the Financial Risk Management Policy.

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 2020 due to the short time period to maturity. There was no impact on profit and other comprehensive income associated with long-term debt as all of Hydro's long-term debt has fixed interest rates.

Changes in prevailing interest rates will impact the fair value of financial assets classified as FVTOCI, which includes Churchill Falls' reserve fund. Expected cash flows from these assets are also impacted in certain circumstances, such as when reserve fund securities are sold prior to maturity. The impact to other comprehensive income for a 0.5% decrease or increase in interest rate would be +\$0.1 million and -\$0.1 million, respectively.

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Foreign Currency and Commodity Exposure

Hydro's primary exposure to both foreign exchange and commodity price risk arises from its purchases of No. 6 fuel for consumption at the HTGS, and these risks are mitigated through the operation of the RSP.

As at December 31, 2020, trade and other payables included balances of \$0.1 million (2019 - \$0.2 million) denominated in USD.

The components of the change impacting the carrying value of the derivative asset and derivative liability for the years ended December 31, 2020 and 2019 are as follows:

<i>(millions of Canadian dollars)</i>	Level 3
Balance at January 1, 2020	(9)
Purchases	(38)
Changes in profit or loss	
Mark-to-market	1
Settlements	23
Total	24
Balance at December 31, 2020	(23)

<i>(millions of Canadian dollars)</i>	Level 3
Balance at January 1, 2019	(21)
Purchases	(9)
Changes in profit or loss	
Mark-to-market	(5)
Settlements	26
Total	21
Balance at December 31, 2019	(9)

23. RELATED PARTY TRANSACTIONS

Hydro enters into various transactions with its parent and other affiliates. 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. Related parties with which Hydro transacts are as follows:

Related Party	Relationship
Nalcor	100% shareholder of Hydro
Churchill Falls	Joint arrangement of Hydro
The Province	100% shareholder of Nalcor
Twin Falls	Joint venture of Churchill Falls
Energy Marketing	Wholly-owned subsidiary of Nalcor
Hydro-Québec	34.2% shareholder of Churchill Falls
Labrador-Island Link Operating Corporation (LIL Opco)	Wholly-owned subsidiary of Nalcor
Lower Churchill Management Corporation	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
Board of Commissioners of Public Utilities (PUB)	Agency of the Province
The Trust	Created by the Province with Churchill Falls as the beneficiary

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Outstanding balances due to or from related parties are non-interest bearing with settlement within 30 days, unless otherwise stated.

- (a) For the year ended December 31, 2020, Lower Churchill Management Corporation contributed \$0.2 million (2019 - \$0.7 million) in addition to property, plant and equipment.
- (b) Hydro incurs certain costs of operations, hearings and application costs of the PUB. During 2020, Hydro incurred \$1.1 million (2019 - \$2.1 million) in costs related to the PUB and has included \$0.9 million (2019 - \$0.7 million) in trade and other payables.
- (c) As at December 31, 2020, Hydro has a payable to related parties of \$7.8 million (2019 - \$7.2 million) and a receivable from related parties for \$16.1 million (2019 - \$16.3 million). This payable/receivable consists of various intercompany operating costs and power purchases.
- (d) The debt guarantee fee paid to the Province for 2020 was \$8.6 million (2019 - \$8.6 million). Interest paid to the Province on Series 1A long-term debt for 2020 was \$22.2 million (2019 - \$22.2 million).
- (e) For the year ended December 31, 2020, Hydro recovered \$2.1 million (2019 - \$2.0 million) of operating costs from related parties representing the provision of administrative services.
- (f) For the year ended December 31, 2020, Hydro incurred \$6.9 million (2019 - \$6.7 million) in operating costs from related parties representing the provision of administrative services.
- (g) For the year ended December 31, 2020, Hydro has purchased \$28.0 million (2019 - \$28.0 million) of power generated from assets related to Exploits Generation, which are owned by the Province. In addition, Hydro operates these assets on behalf of Nalcor and recovered costs in the amount of \$25.6 million (2019 - \$26.2 million).
- (h) For the year ended December 31, 2020, Hydro has recovered net intercompany labour related expenses of \$0.9 million (2019 - \$0.1 million).
- (i) Hydro received \$1.0 million (2019 - \$1.0 million) from Nalcor associated with the Upper Churchill Redress Agreement to be used to provide a rebate to residential customers in Innu Communities and to the Mushuau Innu First Nation.
- (j) Hydro recorded \$2.3 million (2019 - \$2.2 million) as an energy rebate from the Province to offset the cost of basic electricity consumption for Labrador rural isolated residential customers under the Northern Strategic Plan. As at December 31, 2020, there is a balance of \$0.2 million (2019 - \$0.4 million) outstanding in trade and other receivables.
- (k) During 2020, Churchill Falls generated revenue from Hydro-Québec of \$95.0 million (2019 - \$95.3 million) and Hydro has recognized its share of \$62.5 million (2019 - \$62.7 million).
- (l) Under the terms of the Lease and amendments thereto, Churchill Falls is required to pay the Province an annual rental of 8% of the consolidated net profits before income taxes and an annual royalty of \$0.50 per horsepower year generated, as defined in the Lease. At December 31, 2020, \$6.5 million (2019 - \$6.9 million) was payable to the Province. Hydro has recognized its share of \$4.3 million (2019 - \$4.5 million).
- (m) Hydro recorded \$2.6 million (2019 - \$nil) as sales to Lower Churchill Management Corporation to reimburse costs of electricity used at Soldier's Pond.

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23.1 Key Management Personnel Compensation

Compensation for key management personnel, which Hydro defines as its executives who have the primary authority and responsibility for planning, directing and controlling the activities of the entity, includes compensation for senior executives. Salaries and employee benefits include base salaries, performance contract payments, vehicle allowances and contributions to employee benefit plans. Post-employment benefits include contributions to the Province's Public Service Pension Plan in the amount of \$0.2 million (2019 - \$0.2 million).

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2020	2019
Salaries and employee benefits	3	2

24. COMMITMENTS AND CONTINGENCIES

- (a) Hydro is subject to legal claims with respect to various matters. For some legal claims, it is not possible at this time to predict with any certainty the outcome of such litigation. Should these claims result in an unfavorable outcome for Hydro, they may have a significant adverse impact on Hydro's financial position.
- (b) Outstanding commitments for capital projects total approximately \$42.7 million as at December 31, 2020 (2019 - \$16.7 million).
- (c) Hydro has entered into a number of long-term power purchase agreements as follows:

Type	Rating	Effective Date	Term
Hydroelectric	3 MW	1995	25 years*
Hydroelectric	4 MW	1998	25 years
Cogeneration	15 MW	2003	20 years
Wind	390 kW	2004	Continual
Wind	27 MW	2008	20 years
Wind	27 MW	2009	20 years
Wind	300 kW	2010	Continual
Hydroelectric	175 kW	2019	15 years
Biomass	450 kW	2018	1 year post in-service of Muskrat Falls in-service date

*This agreement is currently in discussion for renewal

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

<i>(millions of Canadian dollars)</i>	2021	2022	2023	2024	2025
Power purchases	30.0	30.1	19.3	18.4	18.3

- (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 2024.

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

2021	\$20.6 million
2022	\$20.8 million
2023	\$21.0 million
2024	\$5.3 million

- (e) In 2013, Hydro entered into a Power Purchase Agreement with Muskrat Falls for the purchase of energy and capacity from the Muskrat Falls Plant. The supply period under the agreement is 50 years and commences at the date of commissioning of the Muskrat Falls Plant. Estimated payments for the next five years have not yet been determined as they may be impacted by the Province's rate mitigation plan.

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- (f) In 2013, Hydro entered into the Transmission Funding Agreement (TFA) with LIL Opco, in which Hydro has committed to make payments which will be sufficient for LIL Opco to recover all costs associated with rent payments under the LIL Lease and payments to cover operating and maintenance costs incurred by LIL Opco. Hydro will be required to begin mandatory payments associated with the TFA upon commissioning of the Lower Churchill Project assets. The term of the TFA is anticipated to continue until the service life of the LIL assets has expired.
- (g) In 2018, Hydro entered into three additional agreements in order to enable transmission of energy from Labrador to the island; the Labrador Island Link Interim Transmission Funding Agreement (LIL interim TFA); Labrador Transmission Assets Interim Transmission Funding Agreement (LTA interim TFA); and a Minimum Performance Guarantee (the Guarantee). The LIL Interim TFA is between the Labrador Island Link Limited Partnership (Partnership) and Hydro to provide for cost reimbursement, from Hydro to the Partnership, for operating and maintenance costs resulting from the LIL being made available for service earlier than would otherwise be required. The LTA Interim TFA is between the Labrador Transmission Corporation (LTC) and Hydro to provide for cost reimbursement, from Hydro to LTC, for operating and maintenance costs resulting from the LTA being made available for service earlier than would otherwise be required. Both of the Interim TFA's were developed based on the existing long-term Transmission Funding Agreement, executed in 2013. The Guarantee is between Nalcor Energy and Hydro and provides Hydro with guaranteed minimum average availability of the LIL and LTA during the term of the Interim TFA's. Should performance deficiencies by either or both of the LIL and LTA result in Hydro realizing a net loss from the use of off-island purchases, Nalcor will reimburse Hydro, in proportion to the contribution of these deficiencies to the net loss, for the operating and maintenance costs of the LIL and LTA. No payments have been made to date.
- (h) In 2014, Hydro entered into three Capacity Assistance Agreements, one with Vale Newfoundland & Labrador Limited (Vale) and two with Corner Brook Pulp and Paper Limited (CBPP) for the purchase of relief power during the winter period. In February 2019, Hydro entered into a revised agreement with CBPP that expires the earlier of April 30, 2022 or the commissioning of the Muskrat Falls plant. In December 2020, Hydro entered into a revised agreement with Vale that expires in March of 2021. Payment for services will be dependent on the successful provision of capacity assistance for the winter period by Vale and CBPP.

25. 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).

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A summary of the capital structure is outlined below:

<i>(millions of Canadian dollars)</i>	2020		2019	
Debt				
Sinking funds	(183)		(174)	
Short-term borrowings	262		233	
Current portion of long-term debt	7		7	
Long-term debt	1,765		1,776	
	1,851	62.9%	1,842	64.1%
Equity				
Share capital	23		23	
Contributed capital	151		152	
Reserves	(22)		(22)	
Retained earnings	939		877	
	1,091	37.1%	1,030	35.9%
Total Debt and Equity	2,942	100.0%	2,872	100.0%

25.1 Hydro

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, 2020, Hydro was in compliance with this covenant.

Legislation stipulates that the total of the Government guaranteed 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 February 20, 2020, the Lieutenant-Governor in Council issued Order in Council OC2020-18 to increase the level of short-term borrowings permitted by Hydro from \$300 million to \$500 million, effective until March 31, 2022. As a result, the current limit is now \$500.0 million and \$262.0 million is outstanding as at December 31, 2020 (2019 - \$233.0 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. Bill 33, passed on March 26, 2020, increased Hydro's total borrowing limit under the Act from \$2.1 billion to \$2.6 billion.

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

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25.2 Churchill Falls

Churchill Falls' objective when managing capital is to maintain its ability to continue as a going concern. Churchill Falls' requirements for capital in the future are expected to increase, coincident with the aging of the plant and related infrastructure and the execution of the long-term asset management plan. The focus of the capital management policy is to provide flexibility to ensure cash continues to be available to satisfy capital requirements. Managing the level of dividend payments is a key aspect of ensuring the availability of funding to maintain the plant and infrastructure.

At present, the capital position of Churchill Falls is comprised entirely of equity capital (issued capital, shareholder contributions, reserves and retained earnings). The capital structure is adjusted through the amount of dividends paid to shareholders.

Churchill Falls maintains a \$10.0 million Canadian or US equivalent unsecured operating credit facility with its banker. Advances may take the form of a Prime Rate advance or the issuance of a Bankers' Acceptance (BA) with interest calculated at the Prime Rate or prevailing Government BA Fee. The facility provides coverage for overdrafts on Churchill Falls' bank accounts, with interest calculated at the Prime Rate. There were no amounts drawn on this facility as at December 31, 2020 (2019 - \$nil).

Churchill Falls has issued three irrevocable letters of credit totaling \$2.0 million (2019 - \$2.0 million), \$1.0 million of which does not impact the borrowing limit of the operating credit facility (2019 - \$1.0 million). The letters of credit ensure satisfactory management of its waste management system and compliance with a certificate of approval for the transportation of special and hazardous wastes, granted by the Provincial Department of Environment and Conservation.

26. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2020	2019
Trade and other receivables	38	5
Inventories	10	(7)
Prepayments	(1)	(1)
Trade and other payables	(14)	28
Changes in non-cash working capital balances	33	25
Related to:		
Operating activities	31	31
Investing activities	2	(6)
	33	25

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. SEGMENT INFORMATION

Hydro operates in four 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. Hydro Non-Regulated activities include the sale of energy, purchased from Churchill Falls, to mining operations in Labrador West as well as costs of Hydro that are excluded from the determination of customer rates. Churchill Falls operates a hydroelectric generating facility which sells electricity to Hydro-Québec and Hydro Regulated. Energy Marketing includes the sale of electricity and transmission to Energy Marketing.

	Hydro Regulated	Churchill Falls	Energy Marketing	Non-Regulated Activities	Inter-Segment	Total
<i>(millions of Canadian dollars)</i>						
For the year ended December 31, 2020						
Energy sales	557	94	4	50	(32)	673
Other revenue	6	-	20	-	3	29
Revenue	563	94	24	50	(29)	702
Fuels	158	-	-	-	-	158
Power purchased	75	-	4	43	(32)	90
Operating costs	135	38	-	1	1	175
Transmission rental	1	-	20	-	-	21
Depreciation and amortization	79	21	-	-	1	101
Net finance expense (income)	90	(1)	-	-	(1)	88
Other expense	4	6	-	-	(1)	9
Expenses	542	64	24	44	(32)	642
Preferred dividends	-	(3)	-	-	3	-
Profit before regulatory adjustments	21	33	-	6	-	60
Regulatory adjustments	(15)	-	-	-	-	(15)
Profit for the year	36	33	-	6	-	75
Capital expenditures*	90	42	-	-	1	133
Total assets	2,780	683	26	9	-	3,498

*Capital expenditures include non-cash additions of \$0.2 million contributed by Lower Churchill Management Corporation and \$1.5 million of interest capitalized during construction.

NEWFOUNDLAND AND LABRADOR HYDRO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Hydro Regulated	Churchill Falls	Energy Marketing	Non-Regulated Activities	Inter- Segment	Total
<i>(millions of Canadian dollars)</i>						
For the year ended December 31, 2019						
Energy sales	608	94	5	44	(31)	720
Other revenue	5	-	21	(1)	3	28
Revenue	613	94	26	43	(28)	748
Fuels	217	-	-	-	-	217
Power purchased	84	-	4	42	(31)	99
Operating costs	136	39	-	5	-	180
Transmission rental	1	-	21	-	-	22
Depreciation and amortization	83	20	-	-	-	103
Net finance expense (income)	91	(1)	-	(1)	-	89
Other expense	8	4	-	-	-	12
Expenses	620	62	25	46	(31)	722
Preferred dividends	-	(3)	-	-	3	-
(Loss) profit before regulatory adjustments	(7)	35	1	(3)	-	26
Regulatory adjustments	(37)	-	-	-	-	(37)
Profit (loss) for the year	30	35	1	(3)	-	63
Capital expenditures*	129	44	-	-	-	173
Total assets	2,735	647	12	10	-	3,404

*Capital expenditures include non-cash additions of \$0.7 million contributed by Lower Churchill Management Corporation and \$2.0 million of interest capitalized during construction.