

1 Q. (CA-NLH-298) In the response to CA-NLH-298, Hydro states *“Under the Expected*  
2 *Supply Scenario, should actual savings from off-island power purchases be less than*  
3 *reflected in the test year forecast, a supply cost balance owing from customers*  
4 *would accumulate in the Revised Energy Supply Cost Variance Deferral Account. This*  
5 *would result in higher rates for customers to be recovered during a future recovery*  
6 *period. This increase in rates would likely occur during the same timeframe that*  
7 *customer rate increases are being implemented to recover the cost of the Muskrat*  
8 *Falls Project, further compounding the required rate increases to customers on the*  
9 *Island Interconnected System.”*

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11 a) Is this not true for any deferral account?

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13 b) Is it possible that the Isolated Systems Supply Cost Variance Deferral  
14 Account, the Energy Supply Cost Variance Deferral Account, the Holyrood  
15 Conversion Rate Deferral Account and the Rate Stabilization Plan might  
16 result in rate increases being implemented *“during the same timeframe that*  
17 *customer rate increases are being implemented to recover the cost of the*  
18 *Muskrat Falls project, further compounding the required rate increases to*  
19 *customers on the Island Interconnected System”?*

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21 c) Does Hydro propose to discontinue or modify the Isolated Systems Supply  
22 Cost Variance Deferral Account, the Energy Supply Cost Variance Deferral  
23 Account, the Holyrood Conversion Rate Deferral Account and the Rate  
24 Stabilization Plan to avoid the potential for rate increases *“during the same*  
25 *timeframe that customer rate increases are being implemented to recover*  
26 *the cost of the Muskrat Falls project, further compounding the required rate*  
27 *increases to customers on the Island Interconnected System”?*

1 A. a) Hydro agrees that, in general, deferral account balances would be expected to  
2 vary from a credit position to a debit position. However, given the material  
3 uncertainty in Hydro's 2018 and 2019 Test Year supply costs as a result of potential  
4 off-island purchases over the LIL, Hydro believes reflecting the potential net savings  
5 from off-island purchases in its forecast Test Year revenue requirements would  
6 pose a high risk that the 2018 and 2019 Test Year revenue requirements would be  
7 materially understated. If this were to occur, the use of the Expected Supply  
8 Scenario would result in customer rates that materially under-recover the actual  
9 costs to provide service.

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11 The approval of the Off-Island Purchases Deferral Account permits the isolation of  
12 net savings in off-island purchases for the Board to determine disposition in a  
13 future period. Hydro believes its proposed Deferral Account approach to be  
14 consistent with customer rate stability during the Muskrat Falls pre-commissioning  
15 period.

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17 Hydro also notes that the net savings as a result of off-island purchases will  
18 primarily result from the purchases of lower cost energy over the LIL. As future  
19 customers will be required to provide recovery of the costs of the LIL, Hydro  
20 considers it reasonable that future customers should receive the benefits from the  
21 savings that can be achieved through the use of the LIL during the Muskrat Falls  
22 pre-commissioning period. Setting customer rates for 2018 and 2019 based on the  
23 Expected Supply Scenario such that all savings from the use of the LIL are utilized to  
24 reduce rates for current customers is not consistent with the principle of  
25 intergenerational equity.

1           b) During the transition from pre-commissioning period and post-commissioning  
2           period of the Muskrat Falls Project, debit balances in the existing supply cost  
3           deferral accounts may exist that will contribute to higher costs to be recovered  
4           from future customers.

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6           c) The future of Hydro's supply cost recovery mechanisms will be addressed in  
7           detail through Hydro's 2019 GRA. As noted in Hydro's response to LAB-NLH-021(c),  
8           Hydro filed a Supply Cost Recovery Mechanism Review report on June 15, 2016.  
9           This report provided a review of Hydro's requirements for regulatory mechanisms  
10          to deal with variability in supply costs post Muskrat Falls Commissioning. LAB-NLH-  
11          021, Attachment 5 provides this report.