

1 Q. **Off-Island Purchases Deferral Account**

2 References:

3 (i) NLH 2017 GRA, Evidence, chapter 1, page 1.10

4 (i) « Hydro is also proposing to establish a deferral account which will include both  
5 the fuel savings from off-island purchases and the actual costs attributable to off-  
6 island power purchases, including transmission costs for delivery. The deferral  
7 account will permit the savings from off-island purchases to offset the  
8 transmission costs to be incurred by Hydro. Any additional savings will be set aside  
9 for the benefit of customers.»

10

11 Quantify the amount of the offset reduction in NLH's revenue requirement resulting  
12 from the lower debt and changes in capital structure?

13

14

15 A. Hydro is proposing the Board approve rates based on the capital structure and rate  
16 of return, exclusive of the proposed deferral account, as presented in Volume I,  
17 Chapter 4, Schedule 4-II, pages 4 and 5 of 9.

18

19 There will be no impact on customers if the proposed deferral account is approved  
20 as it is intended that the deferral account will accrue interest at the weighted  
21 average cost of capital. Any amounts collected from Island Interconnected  
22 customers under the existing proposal will be accrued in the deferral account to the  
23 benefit of these customers in the future. This treatment has the same impact as if  
24 the forecasted deferral amounts were deducted from the rate base calculation as  
25 presented in **the revised IOC-NLH-013**, Attachment 1.

Table 1 Rate of Return on Rate Base  
Off-Island Power Purchase Deferral Account (Proposed)

Line		Test Year	Test Year	
		2018	2019	
1	<b>Property, plant, and equipment</b>	2,230,663	2,286,879	
2	add: accumulated depreciation	389,021	476,625	
3	less: work in progress	(51,306)	(30,488)	
4	<b>Capital assets in service</b>	2,568,379	2,733,015	
5	less: asset retirement obligation	(307)	(693)	
6	add: contributions in aid of construction	(32,593)	(31,324)	
7	less: accumulated depreciation	(389,021)	(476,625)	
8	<b>Capital assets - current year</b>	2,146,457	2,224,373	
9	<b>Capital assets - previous year</b>	2,008,765	2,146,457	
10	Unadjusted capital assets - average	2,077,611	2,185,415	
11	less: Average net assets excluded from rate base	(8,820)	(6,415)	
12	<b>Capital assets - average</b>	2,068,791	2,179,000	
13				
14	Working capital allowance	2,772	2,255	
15	Fuel	76,472	74,369	
16	Materials and supplies	33,034	32,884	
17	Deferred charges	82,041	75,958	
18				
19	<b>Average rate base</b>	2,263,109	2,364,466	
20				
21	<b>Estimated Deferral Balance</b> <sup>1</sup>	12,310	87,567	
22				
23	<b>Average Deferral Balance</b>	6,155	49,939	Line 21 (Beginning Bal. + Ending Bal)/2
24				
25	<b>Average rate base (adjusted for deferral account)</b>	2,256,954	2,314,527	Line 19 - Line 23
26				
27	<b>Return on rate base (before deferral account)</b>	129,631	134,420	Line 19 x Line 33
28				
29	<b>Return on rate base (after deferral account)</b>	129,278	131,579	Line 25 x Line 33
30				
31	<b>Variance in return on rate base</b> <sup>2</sup>	(353)	(2,841)	Line 29 - Line 27
32				
33	<b>Rate of return on rate base</b> <sup>3</sup>	5.73%	5.68%	
34				
35	<b>Reconciliation with Deferral Account Interest</b>			
36	Variance in return on rate base (above)	353	2,841	Line 31
37	Interest Accrued @ 6.61% in 2015 <sup>3,4</sup>	55		
38	Interest on Prior Year Interest <sup>5</sup>		19	
39	Interest on Off-Island Deferral Account (per NP-NLH-115)	407	2,860	

<sup>1</sup> Refer to Hydro's response to NP-NLH-115 for the forecasted balances in the deferral account, including interest.

<sup>2</sup> The interest calculation in NP-NLH-115, accrues interest on the deferral balances plus interest.

<sup>3</sup> Hydro has proposed interest at 6.61% in 2018 on the deferral account balance, higher than the return on rate base in 2018, to ease the administration of implementing proposed rates.

<sup>4</sup> (6,155 x (6.61% - 5.73%) = 55

<sup>5</sup> (353 x 5.68%) = 19