

1 **Q. RE: Pre-Filed Evidence of Mr. C. Douglas Bowman, page 17:**  
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3 "I therefore recommend that the Board direct Hydro to undertake the  
4 following: File a cost of service study for the Island system for the 2019 test  
5 year based on its best forecast of costs including off-island sales and  
6 purchases over the Labrador-Island Link, as well as sales and purchases over  
7 the Maritime Link; i.e., based on ISO New England spot prices. Only those  
8 changes to the cost of service allocations that are necessary to perform the  
9 cost of service study should be made; i.e., functionalization of LIL and LTA  
10 operating and maintenance costs, and allocation of the costs of off-island  
11 purchases (CA-NLH-169).  
12

13 **Propose a deferral account to protect Hydro from the uncertainties brought**  
14 **on by variations in hydro generation, fuel costs and off-island purchases and**  
15 **sales."**  
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17 **Please confirm Mr. Bowman is not recommending any recovery of LIL and**  
18 **LTA capital costs in this scenario. If not, why not? Please address**  
19 **intergenerational equity in the response.**  
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21 **A.** Mr. Doug Bowman recommends recovery of LIL/LTA capital costs consistent  
22 with OC2013-343. He recommends that Hydro file a 2019 test year cost of service  
23 study based on the expected supply scenario with off-island purchases over the  
24 LIL and the ML. Under this cost of service study Hydro's proposed Off-Island  
25 Purchases Deferral Account becomes obsolete. Nonetheless, Hydro will be  
26 exposed to uncertainties brought on by off-island purchases, so should propose a  
27 supply cost adjustment mechanism to protect it from such uncertainties.  
28

29 He believes a supply cost adjustment mechanism that charges/refunds the year-end  
30 balance to customers in the following year reduces inter-generational equity  
31 concerns. He notes that deferral accounts are common practice in this Province;  
32 i.e., the RSP, the Energy Supply Cost Variance Account, the Isolated Systems  
33 Supply Cost Variance Account, the Holyrood Conversion Rate Deferral Account,  
34 etc.<sup>1</sup> He points out that OC2013-343 directs cost recovery of the Muskrat Falls  
35 project. It does not say that the assets should lie idle until both generation and  
36 transmission components of the project are commissioned. Mr. Doug Bowman  
37 believes that a rate rider approach to rate mitigation such as that used in Manitoba  
38 does lead to intergenerational equity concerns, as do all deferral accounts,  
39 including the Off-Island Purchases Deferral Account proposed by Hydro. He notes

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<sup>1</sup> A supply cost adjustment mechanism might replace a number of the current deferral accounts.

1       that Hydro is proposing to start collecting funds from customers in 2018 for  
2       disbursement to customers possibly as late as 2024 if the rate mitigation plan were  
3       to be spread over four years. The customer makeup could look much different six  
4       years later. Mr. Doug Bowman points out that the question appears to be making  
5       an argument against rate mitigation on the basis of intergenerational equity  
6       concerns. This may ultimately reflect the views of the parties at the settlement  
7       discussions.