Q. **Volume 1 (1st Revision), Chapter 6: Supplemental Evidence**

The Electrical Power Control Act, 1994 states:

> *"It is declared to be the policy of the province that… the rates to be charged, either generally or under specific contracts, for the supply of power within the province… should be established, whenever practicable, based on forecast costs for that supply of power for 1 or more years."*
>
> (Electrical Power Control Act, 1994, Section 3(a)(ii))

The Electrical Power Control Act, 1994 also states:

> *"It is declared to be the policy of the province that all sources and facilities for the production, transmission and distribution of power in the province should be managed and operated in a manner… that would result in power being delivered to consumers in the province at the lowest possible cost consistent with reliable service."*
>
> (Electrical Power Control Act, 1994, Section 3(b)(iii))

Please explain how Hydro's proposal to use off-island supply sources in 2018 and 2019 to mitigate customer rates beginning in 2020 is consistent with the power policy of the Province. (Volume I (1st Revision), Chapter 6: Supplemental Evidence, Page 6.2, Lines 1-9)

A. The power policy of the Province set out in subparagraph 3(a)(ii) of the *Electrical Power Control Act, 1994* requires that "whenever practicable" rates be based upon forecast costs of power for one or more years. This is a grant of regulatory discretion that permits the Board to apply sound rate-making principles and methods, such as the use of a deferral account, where strict adherence to the other aspects of the power policy is impractical.

In the present circumstance, passing on costs savings through rates in the year that they are realized (the test year) could allow present rate payers to gain the cost-saving advantage of importing low-cost energy over transmission resources without incurring the full costs of using those transmission assets. This is because the full costs of the transmission resources will not be incorporated into customer rates until after those transmission assets are fully commissioned, which is unlikely to occur until after the Muskrat Falls generating project is complete.[1]

Hydro's proposal to defer these savings until a year in which a larger rate increase is anticipated, driven by the incorporation of new transmission and generating assets in the cost structure, permits a smoother rate transition and promotes inter-generational equity. In this sense, it is more practical and more aligned with sound ratemaking principles to not pass on these fuel-cost savings in customer rates in the year that they are realized by Hydro.

[1] As stated in Hydro's evidence, Chapter 5, page 5.5, as future customers will be required to pay the full costs of the Muskrat Falls Project, including the transmission mission assets, it is reasonable, from an inter-generational equity perspective, that those same future customers benefit from any savings that can be achieved through the use of those transmission assets.