

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

2 What alternatives did Hydro consider when developing the Off-Island Purchases
3 Deferral Account? Please identify the advantages and disadvantages of each
4 alternative. (Volume I (1st Revision), Chapter 6: Supplemental Evidence, Pages 6.3,
5 Line 4, et. seq.)

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8 A. Discussion of the alternatives considered to Hydro’s proposed deferral account is
9 provided below.

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11 **Energy Supply Cost Variance Account (ESCVA) vs. Proposed Off-Island Purchases**
12 **Deferral Account**

13 Both the proposed stand-alone deferral and the existing ESCVA avoid duplication
14 with the Rate Stabilization Plan. However, Hydro elected to propose a stand-alone
15 deferral account to deal with the net savings from off-island purchases for both
16 increased transparency and flexibility in the manner of disposition.

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18 Hydro is proposing that any balance that accumulates in the Off-Island Purchases
19 Deferral Account be set aside for disposition when implementing rates to recover
20 the costs of the Muskrat Falls Project. In contrast, the ESCVA requires Hydro to file
21 an application annually for the disposition of any balance. Further, the ESCVA does
22 not provide interest for balances that accumulate. Hydro has proposed interest be
23 accumulated in the proposed Off-Island Purchases Deferral Account based on the
24 Test Year Weighted Average Cost of Capital (WACC).

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26 Hydro considers the proposed disposition approach to be reasonable in that it sets
27 aside net savings from off-island purchases achieved through the pre-

1 commissioning use of the Labrador-Island Link (LIL) and Labrador Transmission
2 Assets (LTA) components of the Muskrat Falls Project to the benefit of the future
3 customers responsible for the recovery of costs related to the Muskrat Falls Project.
4 Given the nature of the proposed deferral account with respect to future rate
5 mitigation, Hydro considered it reasonable to establish a separate deferral account
6 rather than blend its proposal within an existing deferral account.

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8 **Proposed Off-Island Purchases Deferral Account vs. Two Separate Deferral**
9 **Accounts (Off-Island Purchases Deferral and a Pre-Commissioning Cost Deferral)**

10 Hydro's current proposal seeks to defer savings from off-island purchases less the
11 cost of off-island purchases and the cost of using the LIL and the LTA to achieve
12 those savings.

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14 Hydro also considered setting aside the costs of using the LIL and the LTA in a
15 separate deferral account (Pre-Commissioning Cost Deferral) which would be
16 recovered post-commissioning of the Muskrat Falls Project. In this option, the costs
17 of using the LIL and the LTA during pre-commissioning would not be deducted from
18 the net savings from off-island purchases in the Off-Island Purchases Deferral
19 Account.

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21 Under a Pre-Commissioning Cost Deferral, Hydro would pay the costs of O&M for
22 the LIL and the LTA during the pre-commissioning period but not receive recovery
23 of those costs until the Board approves recovery in customer rates after the
24 commissioning of the Muskrat Falls Project. The option to defer the pre-
25 commissioning costs of the LIL and the LTA in a separate deferral account provides a
26 larger credit balance in a revised Off-Island Purchases Deferral Account for use in
27 future rate mitigation of Muskrat Falls Project costs. This approach would also

1 provide the Board flexibility to amortize the Pre-Commissioning Cost Deferral over a
2 different timeframe than the Off-Island Purchases Deferral.

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4 Hydro proposed the Off-Island Purchases Deferral Account reflected in the current
5 application as it considered it administratively easier to establish a single deferral
6 account to deal with the net savings from off-island purchases. However, Hydro also
7 considers the alternative of using one deferral account for the net savings from off-
8 island purchases and a separate deferral account for the pre-commissioning costs of
9 using LIL and LTA to be a reasonable approach (with both deferral accounts
10 attracting interest based on Test Year WACC).