Q. Further to the response to Request for Information CA-NLH-043 and the Edison Electric Institute report*, Alternative Regulation for Emerging Utility Challenges: 2015 Update* (the "EEI Report"):

Hydro refers to the EEI Report as support of "…the inclusion, in current revenue requirement, of costs related to capital projects that are not yet in service." Specifically, Hydro quotes the EEI Report as stating "Capital cost trackers have been used in lieu of frequent rate cases to obtain CWIP recovery."

However, the EEI Report indicates "Capital cost trackers typically address the accumulating depreciation, return on asset value and taxes that result from capex."[1]

How, in Hydro's view, should the Board treat the fact that Hydro has to date incurred no "…accumulating depreciation, return on asset value and taxes that result from capex" or any cost whatsoever in consideration of Hydro's proposed *Off-Island Purchases Deferral Account*.

A. Hydro does not consider the type of costs incurred to be relevant when considering mitigation of potential rate shock. While Hydro's proposed Off-Island Purchases Deferral Account is not exactly analogous to a capital cost tracker, it will have the same practical impact for ratepayers in this jurisdiction.

---

[1] See page 6.

As noted in the Edison Electric Institute (EEI) Report, "[d]eferred recovery of the allowance strains utility cash flow, increases financing expenses, and induces more rate "shock" when the value of the plant and construction financing is finally added to the rate base."[2] Hydro submits that this concept holds true with respect to Hydro's proposals in the 2017 GRA.

The EEI report also states: "[n]o single Altreg approach is right in every situation. The availability of multiple remedies for the underlying challenges increases the chance that an approach has already been tried that would work well, with some adjustments, in new situations."[3] Hydro believes the report demonstrates that flexibility is required in dealing with new situations to meet the needs of both customers and the utility.

The intent of Hydro's proposal is to allow the accumulation of funds in an account that the Board can use at a later date to affect the best advantage, an easing of the eventual rate required to recover the significant increase in cost of providing service. There is no financial benefit retained by Hydro.

[2] Hydro's response to CA-NLH-043, Attachment 1, *Alternative Regulation for Emerging Utility Challenges: 2015 Update,* Edison Electric Institute, Page 6.
[3] Hydro's response to CA-NLH-043, Attachment 1, *Alternative Regulation for Emerging Utility Challenges: 2015 Update,* Edison Electric Institute, Page 56.