Q. **Reference: John T. Browne Evidence, Page 12**

*"The use of deferral accounts to deal with uncertainty is a common regulatory practice, and such accounts have previously been approved by the Board."*

Please identify the deferral accounts previously approved by the Board and discuss the manner in which uncertainty is dealt with, and any similarities to what Hydro is proposing in the OPDA.

A. This response has been provided by JT Browne Consulting.

Deferral accounts that at least partially deal with uncertainty and that have been approved by the Board include:

Hydro:

- 2014 Cost Deferral;
- 2015 Cost Deferral;
- 2016 Cost Deferral;
- Asset Disposal;
- Deferred Energy Conservation;
- Deferred Foreign Exchange on Fuel;
- Deferred Lease Costs;
- Employee Future Benefits Actuarial Loss;
- Foreign Exchange Losses;
- Fuel Supply Deferral;

- Hearing Costs;
- Insurance Amortization Proceeds;
- Phase Two Hearing Costs;
- Rate Stabilization Plan;
- Energy Supply Cost Variance Deferral;
- Isolated Systems Cost Variance Deferral; and
- Holyrood Conversion Rate Deferral Account.

Newfoundland Power:

- Rate Stabilization Account;
- Conservation and Demand Management Deferral;
- Weather Normalization Account;
- Deferred GRA Costs;
- Optional Seasonal Rate Revenue And Cost Recovery Account;
- Cost Recovery Deferral; and
- Excess Earnings.

Many of the deferral accounts dealing with uncertainty are variance accounts - i.e., differences between estimated and actual costs are deferred and amortized in a future period. Examples include the Rate Stabilization Plan and the Hearing Costs account for Hydro, and the Rate Stabilization Account and the Weather Normalization Account for Newfoundland Power.

In some cases, the deferral accounts deal with uncertainty but are not variance accounts, or at least it is not clear. For example, in the case of Newfoundland Power's "Excess Earnings" account, it may not be clear as to whether it is excess earnings or the variance from allowed earnings that is being deferred? For the purposes of answering this question, Mr. Browne does believe any difference between variance accounts, and the other deferral accounts that deal with uncertainty, is materially relevant.

In the case of the variance accounts, a portion of the revenue requirement related to providing service in one period is removed from that period and included in the determination of the revenue requirements for another. In essence, the customers of one period pay more on account of service provided to customers of another (a change in the amount of revenue requirements used in setting rates usually results in a similar change in the amount collected from customers). Where the deferral gives rise to a debit balance, in essence customers of a future period pay more on account of providing service to current customers; where the deferral gives rise to a credit balance, in essence customers of the current period pay more on account of providing service to customers of a future period. In both cases, uncertainty is dealt with by including amounts in the determination of revenue requirements only after they are known.

Since variance accounts result in customers of one period paying more on account of providing service to customers of another, they tend to be in conflict with the principle of intergenerational equity, and possibly rate stability and predictability.

With deferral accounts that are not variance accounts, there is no estimate, or effectively the estimate is zero. Otherwise they are the same as a variance account.

In the case of the Off-Island Purchases Deferral Account, the Pre-commissioning Net Benefits will be excluded from revenue requirements in the period prior to commissioning of the Muskrat Falls Project. The account will then be amortized and used to reduce revenue requirements in the period after commissioning.

Like the other deferral accounts, the Off-Island Purchases Deferral Account will deal with uncertainty – in this case, the uncertainty associated with the Pre-commissioning Net Benefits. The net benefits will be included in the determination of revenue requirements only after they are known. However, unlike the other deferral accounts, the Off-Island Purchases Deferral Account will not be in conflict with the principle of intergenerational equity. As explained in Mr. Browne's evidence (page 14), intergenerational equity requires that the Pre-commissioning Net Benefits be included in the determination of revenue requirements after the commissioning of the Muskrat Falls Project. As a result it would be inappropriate to include an estimate of the Pre-commissioning Net Benefits in revenue requirements prior to the commissioning of the Muskrat Falls Project. Also such an estimate would tend to reduce rate stability and predictability.