Q. On page 5.5, lines 17-18 of its application Hydro proposes that the savings from off island purchases be “set aside for the benefit of Hydro’s customers in reducing the customer rate impact from the recovery of Muskrat Falls Project costs” and on page 5.6, lines 24-25 Hydro describes its proposal on the Off Island Purchases Deferral account (“OPDA”) as a “critical first step “ in the approach to rate mitigation associated with recovery of Muskrat Falls costs. In Mr. Browne’s opinion does the OPDA reflect a traditional approach to rate mitigation? If yes, explain in detail how it reflects rate mitigation principles. Also include in the response reference to any regulatory precedents where savings associated with the provision of current service were set aside for future customers in a similar manner to that proposed by Hydro.

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

The Off-Island Purchases Deferral Account is consistent with traditional approaches to rate mitigation. The cost of providing service in one period (or periods) is excluded from the determination of revenue requirements in that period (or periods) and included in the revenue requirements of another period (or periods) so as to smooth out fluctuations or increases in rates.

In most of the cases that Mr. Browne is aware of, where the primary purpose of the deferral account is to deal with rate mitigation, the deferral account only defers costs resulting in future rates recovering costs of providing service in the past. However, from the perspective of established regulatory principles, there is usually no difference between including in revenue requirements costs related to providing service in a past period and including in revenue requirements costs related to providing service in a future period.