

1 Q. With the existing Rate Stabilization Plan (RSP) and Energy Supply Variances Account
2 (ESVA), it is the variances from the estimates used in setting rates, which at the
3 time they are established are the most reasonable estimates for the test year, that
4 are adjusted in the accounts. In this application Hydro is not proposing to use an
5 estimate based on a reasonable expectation of factors in the test year (such as the
6 actual fuel used after off-island purchases) but instead is proposing a revenue
7 requirement which ignores the expected condition of off island purchases and the
8 resulting impact on revenue requirement. This has been described by some parties
9 as using a “fictional” test year. The examples of uncertainty deferrals included in
10 the evidence of Mr. Browne only include examples similar to the existing RSP and
11 ESVA. Is Mr. Browne familiar with precedents for the use of a test year to set rates
12 that is not based on the expected cost of service in that year and for use of deferral
13 accounts of the same nature as proposed by Hydro with the Off Island Purchases
14 Deferral Account?

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

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19 The Off-Island Purchases Deferral Account is a relatively unique deferral account.
20 Not only does it deal with the uncertainty of the Pre-Commissioning Net Benefits, it
21 enhances intergenerational equity and rate stability and predictability. As a result,
22 it is difficult to find precedents with the same exact characteristics.

23

24 In using deferral accounts to deal with uncertainty, amounts (costs/cost
25 savings/revenues/gains/losses) related to providing service in one period (or
26 periods) are deferred and included in the determination of the revenue
27 requirements of another period (or periods). Such a shifting of revenue

1 requirements is usually in conflict with the principle of intergenerational equity and
2 possibly rate stability and predictability.

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4 Where a deferral account is used to deal with uncertainty related to expected
5 amounts, it is usually a variance account – an estimate of the relevant amounts is
6 included in the revenue requirements of the period and the difference between the
7 estimated and actual amounts is deferred and included in the determination of the
8 revenue requirements of a future period (or periods). The use of an estimate tends
9 to reduce the shifting of revenue requirements and tends to mitigate the impact on
10 intergenerational equity and rate stability and predictability.

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12 The Off-Island Purchases Deferral Account differs from most other deferral
13 accounts in that it is not in conflict with the principles of intergenerational equity
14 and rate stability and predictability. Rather, it is expected to enhance
15 intergenerational equity and rate stability and predictability. As explained in his
16 evidence, Mr. Browne believes the principle of intergenerational equity requires
17 that the amounts included in the Off-Island Purchases Deferral Account should not
18 be included in the determination of Hydro’s revenue requirements prior to the
19 commissioning of the Muskrat Falls Project.

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21 Regulatory liabilities that reflect amounts collected through regulated rates to cover
22 future removal and site restoration costs are somewhat similar to the Off-Island
23 Purchases Deferral Account. In both cases, revenue requirements are increased in
24 the current period on account of future costs. In both cases, the regulatory
25 liabilities enhance intergenerational equity. However, there is a difference, in the
26 former case, it is presumed that the liability was created so that future costs can be
27 reflected in the periods that the future costs contribute to the provision of

1 regulated service. In the case of the Off-Island Purchases Deferral Account, the
2 liability would capture the net benefits of the Muskrat Falls Project prior to
3 commissioning so they could offset the higher costs due to the Muskrat Falls Project
4 following its commissioning – net benefits that would not exist without the higher
5 costs after commissioning.

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7 The following are examples of regulatory liabilities that reflect amounts collected in
8 rates to cover future removal and site restoration costs.

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10 • Newfoundland Power has a “*Future Removal and Site Restoration Provision*”
11 which represents amount collected from customers to cover future costs:

12 *This regulatory liability represents amounts collected in customer*
13 *electricity rates over the life of certain property, plant and equipment*
14 *which are attributable to removal and site restoration costs that are*
15 *expected to be incurred in the future. Actual removal and site*
16 *restoration costs are recorded against the regulatory liability when*
17 *incurred. The regulatory liability represents the amount of expected*
18 *future removal and site restoration costs associated with the*
19 *applicable property, plant and equipment in service as at December*
20 *31, calculated using current depreciation rates as approved by the*
21 *PUB. (Newfoundland Power, 2016 Management Discussion & Analysis*
22 *& Annual Audited Financial Statements, page 31)*

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24 • Enbridge Gas Distribution has a “Future removal and site restoration reserves”
25 which also represents amounts collected from customers to cover future costs.

1 *Future removal and site restoration reserves result from amounts*
2 *collected from customers by Enbridge Gas Distribution, with the*
3 *approval of the OEB, to fund future costs for removal and site*
4 *restoration relating to property, plant and equipment.*
5 *These costs are collected as part of depreciation charged on property,*
6 *plant and equipment that is recorded in rates. The balance represents*
7 *the amount that Enbridge Gas Distribution has collected from*
8 *customers, net of actual costs expended on removal and site*
9 *restoration. The settlement of this balance will occur over the long-*
10 *term as future removal and site restoration costs are incurred. In the*
11 *absence of rate regulation accounting, costs incurred for removal and*
12 *site restoration would be charged to earnings as incurred with*
13 *recognition of revenue for amounts previously collected. (Enbridge*
14 *Gas Distribution Inc. (a subsidiary of Enbridge Inc.) Consolidated*
15 *Financial Statements, December 31, 2016; page 16)*

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17 • *Gaz Métro Inc’s regulated operations collects amounts to cover future costs of*
18 *retiring property, plant and equipment:*

19 *Under regulatory treatments, GMi recognizes the estimated future*
20 *costs of retiring property, plant and equipment used in energy*
21 *distribution activities. These costs are recovered through rates mainly*
22 *by adding amortization rates to regulatory liabilities, whereas actual*
23 *retirement costs are applied against regulatory liabilities. (Gaz Métro*
24 *Inc. Consolidated Financial Statements, fiscal years ended September*
25 *30, 2017 and 2016; page 92)*

1 As discussed in Hydro’s evidence (page 1.12), there is also the Manitoba Hydro
2 precedent identified by Hydro. However it differs from the Off-Island Purchases
3 Deferral Account in that it is inconsistent with the principle of intergenerational
4 equity while the Off-Island Purchases Deferral Account enhances intergenerational
5 equity.