

1 Q. Explain why it is necessary for the Board to address recovery of the 2015 and 2016  
2 deferred supply costs balances in isolation of the 2017 General Rate Application.

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5 A. Given the deferred supply cost balances have been determined in accordance with  
6 the account definitions approved by the Board and the magnitude of the estimated  
7 customer impacts, Hydro considers it reasonable to address recovery of the  
8 deferred supply costs through a process separate from the 2017 GRA.<sup>1</sup>

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10 Hydro also believes it is appropriate to apply historical energy supply savings for  
11 one supply source to recover historical energy supply costs for another supply  
12 source as it minimizes the required rate increase to future customers to provide  
13 recovery of historical costs. This approach is consistent with intergenerational  
14 equity.

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16 Hydro also notes that the 2017 GRA final customer rates may not be in effect until  
17 January 1, 2019. Hydro incurred the deferred supply costs in 2015 and 2016 and is  
18 not currently recovering its financing costs related to the \$42.2 million in deferred  
19 supply costs.<sup>2</sup> Additional delay in recovery results in increased financing costs being  
20 incurred by Hydro for 2017 and 2018 without being provided the opportunity to  
21 recover these costs.

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<sup>1</sup> The customer impacts of Hydro's proposed recovery of the deferred supply cost balances is approximately 0.8% for Newfoundland Power (0.5% for the end-consumer) and 0.5% for Island Industrial Customers.

<sup>2</sup> Delayed recovery of 2015 and 2016 supply costs by 12 months represents approximately \$2.8 million in lost opportunity for return, based on Hydro's approved 2015 Test Year weighted average cost of capital (i.e., 42.2 million times 6.61%).