

1 Q. Hydro states on page 4, paragraph 18 of the Application:

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3 The use of multiple test years would permit the use of: (i) a 2021 test year to
4 determine any under recovery of costs through customer rates in effect during
5 2021, and (ii) a separate test year as the basis for establishing future customer
6 rates, including the incorporation of the rate mitigation plan to be released by
7 the Government.
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9 and proposes on page 4, paragraph 19(ii) of the Application that the Board approve:

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11 That the GRA filing should be based on a 2021 Test Year and additional test
12 years, if required.
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14 Does Hydro propose that 2021 would be based on actual costs and how would the
15 complications associated with a backward looking test year as demonstrated in Hydro's last two
16 GRAs be avoided?
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18 A. In Newfoundland and Labrador Hydro's ("Hydro") view, a 2021 Test Year for use in determining
19 revenue deficiency from customer rates would be reflective of 2021 forecast costs. Currently,
20 there is material uncertainty surrounding the timing and availability of the information required
21 to prepare a General Rate Application ("GRA") regarding the Muskrat Falls Power Purchase
22 Agreement ("PPA") and the Government of Newfoundland and Labrador's rate mitigation plan.
23 As a result, Hydro is uncertain if forecast 2021 annual costs may need to be reflective of some
24 actual cost experience in 2021. As indicated in the application, Hydro anticipates a test year
25 beyond 2021 will be the most appropriate in the establishment of customer rates.

26 Hydro's 2017 GRA was filed in July 2017, reflecting both 2018 and 2019 Test Year forecast
27 revenue requirements. The delay in the GRA regulatory process, due to a number of factors,
28 permitted the Board of Commissioners of Public Utilities ("Board") to apply hindsight in
29 evaluating the reasonableness of the 2018 Test Year forecast as the Board required Hydro to
30 update its test year forecasts to reflect Hydro's most up-to-date estimate for off-island
31 purchases and capital expenditures for 2018 and 2019. However, Hydro continues to view the
32 2018 and 2019 Test Years as forecast test years (2018 for determining revenue deficiency and
33 2019 for rate-setting).

1 With the current uncertainty on the timing of the availability of the required information to file
2 reasonable test year cost projections, Hydro is proposing a similar regulatory approach to
3 establishing test years for the next GRA as it did in its 2017 GRA. Due to increased capital
4 investments and increased borrowings since 2019, a preliminary financial review without the
5 consideration of Muskrat Falls Project costs indicates that Hydro is projecting 2021 earnings
6 below the lower range of its allowed rate of return on rate base. Any additional supply costs in
7 2021 resulting from the commissioning of the Muskrat Falls Project, without revenue relief,
8 would be expected to result in Hydro reporting financial losses in 2021.

9 One of the complexities experienced in the recent GRAs has been the operation of the supply
10 cost deferral accounts during the GRA process. For the next GRA, Hydro will be filing a proposal
11 with respect to the operation of its supply cost deferral accounts during the regulatory process
12 while awaiting the finalization of customer rates incorporating the costs of the Muskrat Falls
13 Project.

14 Hydro notes that the transition to the Muskrat Falls Project is a monumental change to the
15 Province's electrical system. Due to the cost magnitude and timing delays in concluding the
16 project and the requirement to revise the Muskrat Falls PPA to benefit customers over the
17 longer term, practical constraints need to be considered when determining the test years for the
18 next GRA. Paragraph 3(a)(iii) of the *Electrical Power Control Act 1994* ("EPCA") indicates that test
19 years "wherever practicable" should be one or more forecast test years. The testing of 2021
20 costs for the next GRA may be an instance where the use of a pure forecast test year may not be
21 practical if Hydro is to be provided a reasonable opportunity to recover the cost of providing
22 service to customers in 2021.