Q. **Reference: Schedule 1: Evidence**

Hydro has not previously requested approval of a Rural Rate Adjustment - Load Variation component for the RSP. Please explain what has changed which has resulted in Hydro proposing this component as part of the proposed Supply Cost Variance Deferral Account.

A. Currently, the Rural Rate Adjustment only accounts for changes in the rate (price) component of Newfoundland and Labrador Hydro's ("Hydro") rural revenues, with variations from the test year load (volume) impacting Hydro's return. To the extent that island interconnected rural load has increased or decreased relative to the test year forecast, there would be an opposite return impact through the No. 6 fuel expense (i.e., decreased revenues would be offset by decreased No. 6 fuel expense, and vice versa); in this regard, there was an inherent mitigation of rural load variation risk through the inverse impact on Hydro's return between marginal fuel costs and rural revenues from load variances.

In the future, load reductions under the Muskrat Falls Project agreements will reduce Hydro's rural revenues (average of 12.34 cents per kWh) with no corresponding reduction in Hydro's costs. While this situation will result in an increase in energy that is available for exports, changes in these revenues are proposed to be credited to provide benefits to customers. In this regard, the risk to Hydro's return from variations in rural load will increase materially upon commissioning of the Muskrat Falls Project, while the mitigating export revenues are proposed to be returned to customers.

This modification is proposed to enable Hydro to recover the fixed costs incurred to serve Hydro's Island Interconnected System Rural customers which do not vary with changes in customer usage.