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

Please explain how the proposal described in PUB-NLH-020 would impact the operation of the RSP and the current supply deferral accounts if these accounts were to continue operating "as is" until Hydro has obtained more certainty with the supply of energy from the Muskrat Falls Project. Also, would this result in any negative impact with regards to Hydro's financial reporting?

A. The continued operation of the Rate Stabilization Plan ("RSP") and the Revised Energy Supply Cost Variance Deferral Account in combination with a new Muskrat Falls Project ("Project") cost deferral account would increase complexity in understanding what the balances in each account represent. For example, a reduction in Newfoundland and Labrador Hydro's ("Hydro") hydraulic production as a result of increased Project purchases would result in No. 6 fuel costs being charged to the RSP. However, the increase in off-island purchases from the Project would create an off-setting No. 6 fuel savings in the Revised Energy Supply Cost Variance Deferral Account. In this example, the RSP would reflect a fuel cost owing from customers and the Revised Energy Supply Cost Variance Deferral Account would show an offsetting fuel savings owing to customers. However, in this example, no additional fuel costs would have been incurred as a result of the reduction in hydraulic production.

The separate deferral accounts as presented in this scenario would not negatively impact Hydro's financial results. Hydro's response to PUB-NLH-020 provides a discussion on why Hydro believes a single deferral account with multiple components is a preferable approach to implement.