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December 12, 2023

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Via E-Mail

Newfoundland and Labrador Board
of Commissioners of Public Utilities
120 Torbay Road
P.O. Box 21040
St. John's, NL A1A 5B2

Attention: Jo-Anne Galarneau, Board Secretary

Dear Ms. Galarneau:

Re: Newfoundland and Labrador Hydro Application for Amendments to the Holyrood TGS Accelerated Depreciation Deferral Account

These are the comments of the Island Industrial Customer Group (Braya Renewable Fuels (Newfoundland) LP, Corner Brook Pulp and Paper Limited, and Vale Newfoundland and Labrador Limited) on the above Application.

As noted in P.U. 33 (2021) with respect to the proposed Holyrood TGS Accelerated Depreciation Deferral Account, the Industrial Customer Group submitted the following:

At p. 9, lines 10–15

The Industrial Customer Group submitted that the deferral account is unnecessary and inconsistent with fair prospective ratemaking as it is well-accepted practice that rates are adjusted for the addition and disposal of old assets in a general rate application. According to the Industrial Customer Group approval of an increase in Holyrood Thermal Generating Station depreciation expense without reflecting other cost changes which may offset this increase is inconsistent with normal future forward test year regulation.

The Board's findings in P.U. 33 (2021) in relation to this Account were as follows:

At p. 9, lines 28-42, p. 10, lines 1-3

While rates are based on test year costs and, in the absence of special circumstances, variances in costs between general rate applications are normally borne by the utility, there are circumstances where a utility may apply to defer costs between test years. The Board acknowledges that the planned transition of the Holyrood Thermal Generating Station to synchronous condensing mode has been delayed for a number of years as a result of the delay in the commissioning of the Muskrat Falls Project, which is beyond Hydro's control. The increase in depreciation costs in 2022 for these assets is material, approximately $13.2 million. This is much larger than the variances over the 2019 to 2021 period which were on average approximately $2.5 million each year. The Board is satisfied that the forecast increase in the depreciation expense for 2022 is sufficient to have a material impact on Hydro's opportunity to *earn a fair return. The Board believes that approval should be granted for Hydro to defer depreciation expense variances greater than $2.5 million in 2022 for the Holyrood Thermal Generating Station assets. In addition Hydro does not oppose including 2023 in the deferral account should 2023 not be a test year. Given the ongoing uncertainty associated with the timing of the filing of Hydro's next general rate application the Board believes that the deferral account should be revised to also include the 2023 variance if it is not a test year. The Board is satisfied that the Holyrood TGS Accelerated Depreciation Deferral Account should be established with a revised definition to defer variances in excess of $2.5 million for 2022 and also 2023 if it is not a test year.*

The Industrial Customer Group note that Hydro's original Application for approval of this Account, and the Board's Order P.U. 33 (2021), were predicated upon the use of accelerated depreciation and the projected end of generation date for the Holyrood TGS of March 31, 2023.[1]

The present and projected future circumstances are considerably different from those when this Account was originally approved. The projected end of generation date for the Holyrood TGS has been extended to 2030. Instead of needing protection from material adverse impacts on Hydro's opportunity to earn a fair return, Hydro is facing lower depreciation expense (as the denominator on which Hydro calculates depreciation expense, i.e., the remaining life, is considerably extended). As a result the Account is in the position of a credit to customers.

The Application seeks to defer the 2024 positive Account balance owing to Hydro's customers, in amount of $2 million. We presume, given the deadband of ± $2.5 million established in the Account definition (based upon the circumstances described in P.U. 33 (2021) that no longer obtain) that there is in effect a gross $4.5 million positive variance in Hydro's depreciation expense for 2024.

If 2024 is not to be a test year, then a one-year extension of the Account may make sense. However, it is submitted that Hydro has not presented any evidence to justify an indefinite, and possibly extending to 2030, deadband of $2.5 million per year which, if positive variances continue, will accrue to Hydro's substantial benefit. The Island Industrial Customers submit that Hydro should be required to present evidence to support what, if any, deadband continues to be justified in the Account definition, including an updated Table, extended to 2030, in the format of Table 1 from Hydro's January 1, 2022 Application (which Table is reproduced below for reference).

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[1] P.U. 33 (2021), p. 9, lines 7-8 and footnote 17.

**Table 1: Holyrood TGS Accelerated Depreciation Summary
($ Millions)**

Holyrood TGS Accelerated Depreciation	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast
2019 Tear Year	19.0	19.0	19.0	19.0	19.0
Actual / Forecast	21.6	16.3	16.8	32.2	5.9
Variance	**(2.6)**	**2.7**	**2.2**	**(13.2)**	**13.1**

We trust these comments will be found to be in order.

Yours truly,

Stewart McKelvey

Paul L. Coxworthy

PLC/

c. Shirley Walsh, Senior Counsel, Regulatory, Newfoundland and Labrador Hydro
Dennis Browne, K.C., Consumer Advocate
Dominic J. Foley, Newfoundland Power Inc.
Senwung F. Luk, Labrador Interconnected Group
Dean A. Porter, Poole Althouse
Denis J. Fleming, Cox & Palmer