

December 15, 2023

Board of Commissioners of Public Utilities  
Prince Charles Building  
120 Torbay Road, P.O. Box 21040  
St. John's, NL A1A 5B2

Attention: Jo-Anne Galarneau  
Executive Director and Board Secretary

**Re: Application for Amendments to the Holyrood TGS<sup>1</sup> Accelerated Depreciation Deferral Account  
– Hydro's Reply**

On November 30, 2023, Newfoundland and Labrador Hydro ("Hydro") filed an application with the Board of Commissioners of Public Utilities ("Board") requesting approval to amend the Holyrood TGS Accelerated Depreciation Deferral Account definition to continue to defer the difference between the actual accelerated depreciation at the Holyrood TGS and the approved test year costs until end-of-steam generation ("Application").

Hydro received comments from both Newfoundland Power Inc. ("Newfoundland Power") and the Island Industrial Customer Group ("IIC Group"). No comments were forthcoming from the other parties.

**Party Comments**

Newfoundland Power advised that it supports the Application and did not raise any concerns or objections.

The IIC Group noted that the original application for approval of the deferral account was to address accelerated depreciation and the projected end-of-generation date for the Holyrood TGS of March 31, 2023. The IIC Group submitted that as a result of the extension of the date of Holyrood TGS end of generation "[t]he present and projected future circumstances are considerably different from those when this Account was originally approved."<sup>2</sup> The IIC Group stated that Hydro is facing lower depreciation expense and, as a result, the deferral account is in a credit position.

The IIC Group stated that "[i]f 2024 is not to be a test year, then a one-year extension of the Account may make sense."<sup>3</sup> However, it argued 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"<sup>4</sup> and requested that Hydro ". . . be required to present evidence to support what, if any, deadband continues to be justified in the Account definition . . ."<sup>5</sup> including the impact of depreciation expense versus the test year to 2030.

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<sup>1</sup> Holyrood Thermal Generating Station ("Holyrood TGS").

<sup>2</sup> "Newfoundland and Labrador Hydro Application for Amendments to the Holyrood TGS Accelerated Depreciation Deferral Account," Island Industrial Customer Group, December 12, 2023, p. 2.

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

## Hydro's Response

As noted in its Application, Hydro proposed to extend the Holyrood TGS Accelerated Depreciation Deferral Account to end-of-steam generation, as the deferral account will be necessary until that time to allow Hydro to manage potentially large variations in accelerated depreciation. Large variations in depreciation can occur due to the requirement of capital additions completed shortly before the end-of-steam date and/or if the end-of-steam date changes.

In the short term, the deferral account is expected to result in a positive variance and increase the amount owing to customers in 2024, which will not be a test year.<sup>6</sup> While it is possible that subsequent to 2024 there would be little or no activity in the deferral account for one to two years if the test-year was re-based within Hydro's upcoming general rate application ("GRA") to its most recent accelerated depreciation estimate, as the Holyrood TGS draws closer to its post-steam date, the accelerated depreciation becomes more volatile as the life expectancy of any new capital additions is reduced. This would result in the potential for significant increases in accelerated depreciation in the final years prior to post-steam. As a result, in these later years, the accelerated depreciation variance from the test year could swing in the opposite direction. Consequently, the Holyrood TGS Accelerated Depreciation Deferral Account may shift from a net balance owing to customers to a net balance receivable from customers. During this period, the increased accelerated depreciation would have a negative impact on Hydro's net income up to the top of the \$2.5 million deadband.

As the Board noted in the Order approving the deferral account,<sup>7</sup> which was quoted by the IIC Group in its submission,<sup>8</sup> there are circumstances where a utility may apply to defer costs between test years. These circumstances include the unusual variances in depreciation costs that could—when larger than normal—have a material impact on Hydro's opportunity to earn a fair return. The Board approved the deferral account for that reason; however, the Board stipulated that there be a deadband of \$2.5 million, which represented the average variances over the three years preceding the original application.<sup>9</sup> Expenses within that deadband would be borne by the utility, as is the normal course. Hydro also highlights that if the deadband remains in place—as is generally accepted utility practice—it would continue to operate for variances that were either over or under the \$2.5 million average. This would be to the benefit of Hydro in some instances and to the credit of customers in others. As noted previously, as the Holyrood TGS draws closer to its post-steam date the Holyrood TGS accelerated depreciation becomes more volatile. The life expectancy of any new capital additions is reduced and the depreciation of the additions is increased, necessitating the deferral account.

Hydro does not believe that further evidence is necessary at this time and respectfully requests that the Board approve the Application as submitted.

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<sup>6</sup> In the "Quarterly Update – Items Impacting the Delay of Hydro's Next General Rate Application," Newfoundland and Labrador Hydro, December 15, 2023, p. 3, Hydro stated that it ". . . expects to file its next GRA in 2025."

<sup>7</sup> *Public Utilities Act*, RSNL 1990, Board Order No. P.U. 33(2021), Board of Commissioners of Public Utilities, December 8, 2021, pp. 9/28–42 to 10/1–3.

<sup>8</sup> "Newfoundland and Labrador Hydro Application for Amendments to the Holyrood TGS Accelerated Depreciation Deferral Account," Island Industrial Customer Group, December 12, 2023, p. 1.

<sup>9</sup> "Supply Cost Accounting," Newfoundland and Labrador Hydro, July 29, 2021.

<<http://www.pub.nl.ca/applications/NLH2021CostAccountingApplication/apps/From%20NLH%20-%20Supply%20Cost%20Accounting%20Application%20-%202021-07-29.PDF>>.

Should you have any questions, please contact the undersigned.

Yours truly,

**NEWFOUNDLAND AND LABRADOR HYDRO**



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SAW/sk

Encl.

ecc:

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