

1 Q. (Re: *2016 Standby Fuel Deferral Application*, February 5, 2016 Report, Appendix B)
2 Is it appropriate to apply a dead-band to the deferral account? If not, why not?
3 Please submit an alternative deferral account including language covering an
4 appropriate dead-band.

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7 A. Hydro does not consider it appropriate to apply a deadband to the 2016 Standby
8 Fuel Deferral Account. As such, no alternative deferral account language has been
9 provided in this response.

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11 Deadbands, with respect to deferral accounts, represent a fixed threshold at which
12 costs or savings accrue to the utility before being passed on to customers. An
13 example of such a deadband can be found in Hydro's Amended General Rate
14 Application through the Energy Supply Cost Variance Deferral Account (ESCVA).¹
15 The ESCVA, for example, includes a deadband of $\pm\$500,000$.

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17 In this regard, the deadband acts as both incentive for management to optimize the
18 account and create savings (+\$500,000) and disincentive with respect to increased
19 costs (-\$500,000). In order for the incentive/disincentive associated with the
20 deadband to achieve its intended result, the utility must have some control over the
21 variables driving costs. Without control, the utility cannot respond to the
22 incentive/disincentive created by the deadband.

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24 With respect to the 2016 Standby Fuel Deferral, the cause of increased costs in the
25 proposed deferral is primarily low storage levels in Hydro's reservoirs. Hydro cannot

¹ See Finance, Schedule VII, Page 1 of 1 of Hydro's Amended 2013 General Rate Application.

1 control the level of precipitation and therefore would not be able to respond to the
2 incentive created by a deadband.

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4 Hydro notes that deadbands are commonly not included in utility deferral accounts
5 over which management does not have control. Specifically, the Rate Stabilization
6 Plan which captures variances in No. 6 fuel due to hydrology includes no such
7 mechanism.