

1 Q. Reference: *2016 Standby Fuel Deferral Application*, Appendix B, Page B-1.

2 *“This account shall be charged with the Standby Fuel Cost Variance incurred by*  
3 *Hydro on the Island Interconnected System in the 2016 calendar year.”*

4 If Hydro’s reservoirs recover to appropriate storage levels at some point throughout  
5 2016, will the Standby Generation fuel costs continue to be recovered in the  
6 proposed deferral account? If not, why not?

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9 A. The 2016 Standby Fuel Deferral account is required to provide a means of recovery  
10 of fuel costs incurred to provide energy to the Island Interconnected System in  
11 2016. Hydro proposes the deferral of all Standby Generation costs incurred in  
12 2016, offset by savings in power purchases and No. 6 fuel. In the event that storage  
13 levels recover at some point in 2016, Hydro will still be required to operate Standby  
14 Generation, from time to time, for reliability. These costs would also be recovered  
15 in the proposed deferral account in 2016.

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17 As noted on page 12 of the Application:

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19 *In addition to improved reliability afforded by running the Standby*  
20 *units, the use of Standby Generation in this manner has also injected*  
21 *energy into Hydro’s system. This has resulted in reservoir storages*  
22 *which are higher than they otherwise would have been.*

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24 The primary purpose of operating of Standby Generation in excess of Test Year  
25 levels has been to assure that Hydro has sufficient water in its reservoirs so that it  
26 can sustain generation levels needed in a dry sequence. However, using Standby  
27 generation has not only provided a benefit to customers through higher reservoir

1 storages, it has also provided increased reliability. As shown in Chart 4 of the  
2 Application, without Standby Generation in January 2016, the Avalon Peninsula  
3 would have been in a Power Emergency likely requiring rotating outages.

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5 Further, Hydro may be required to operate Standby Generation for reliability during  
6 planned generation or transmission maintenance outages during 2016. Should  
7 Hydro's Standby Generation be required not for hydrology but for reliability at  
8 some point in 2016, Hydro proposes such fuel costs would be prudently incurred  
9 and should be recovered in the proposed 2016 Standby Fuel Deferral account.