

1 Q. **Reference: Interim Rates Application, Schedule 1 – Evidence, Revision 1**

2 On page 12 lines 11 to 16 Hydro indicates that for the purposes of preparing
3 customer impacts shown in Table 3 the entire amount of the deferred supply costs
4 would be mitigated through use of the Off-Island Purchases Deferral Account.

5 Please explain why it makes sense to over-charge customers in 2019 to build up
6 funds in the proposed Off-Island Purchases Deferral Account and use those funds to
7 offset deferred supply costs in the same year. Would it not make more sense to just
8 base customer rates on the expected cost of supply and recovery of the deferred
9 supply costs?

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12 A. There continues to be material supply cost uncertainty for establishing a test year
13 forecast during the pre-commissioning period of the Muskrat Falls Project.¹ Hydro's
14 proposed Off-Island Purchases Deferral Account permits the Board to isolate the
15 savings from off-island purchases for use in the management of customer rate
16 impacts in dealing with future cost increases.

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18 Hydro does not consider the Expected Supply Scenario the preferred approach.

19 Under the Expected Supply Scenario, should actual savings from off-island power
20 purchases be less than reflected in the test year forecast, a supply cost balance
21 owing from customers would accumulate in the Revised Energy Supply Cost

¹ There is uncertainty regarding the availability of Recapture Energy to displace No. 6 fuel at Holyrood during the Muskrat Falls pre-commissioning period due to increased service requests on the Labrador Interconnected System from data centers. The accuracy of supply cost forecast in the Expected Supply Scenario also depends on the accuracy of the forecast costs of using the Labrador-Island Link and the Labrador Transmission Assets in addition to the cost of purchasing energy over the Maritime Link. The timing of the availability of the Labrador-Island Link for accessing Recapture Energy to serve the Island is beyond Hydro's control. The amount of savings achieved will also depend of the cost of No. 6 fuel that is displaced.

1 Variance Deferral Account.² This would result in higher rates for customers to be
2 recovered during a future recovery period. This increase in rates would likely occur
3 during the same timeframe that customer rate increases are being implemented to
4 recover the cost of the Muskrat Falls Project, further compounding the required
5 rate increases to customers on the Island Interconnected System.

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7 Hydro believes implementing the Off-Island Purchases Deferral Account to ensure
8 adequate funds are collected from current customers would avoid a possible
9 compounding rate increase as a result of uncertainty associated with expected
10 supply costs. Hydro also believes that using a portion of the savings that accumulate
11 in the Off-Island Purchases Deferral Account to offset increases associated with
12 deferred supply costs is a reasonable alternative for the Board to consider which is
13 consistent with its 2017 GRA.³ Please refer to Hydro's response to CA-NLH-299.

² To address volume and price risks under the Expected Supply Scenario would require Hydro to modify the existing Energy Supply Cost Variance Deferral Account Definition to enable the deferral of variances between the actual cost of off-island power purchases and the test year forecast cost of off-island power purchases.

³ 2017 GRA Evidence, Chapter 6, page 6.4, lines 11-16.