

1 Q. In the 2017 General Rate Application Hydro is proposing that customer rates be  
2 based on the Deferral Account Scenario which includes forecast No. 6 fuel  
3 purchases based on no off-island purchases with potential savings to be used for  
4 rate mitigation in anticipation of the rate increase required for Muskrat Falls.  
5 Explain how the proposal in the 2018 Interim Rates Application which is to base the  
6 RSP fuel rider on the expected operation of Holyrood reflecting off-island purchases  
7 is consistent with Hydro's approach in its GRA.

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10 A. Balancing Customer Rate Impacts and Cost Recovery

11 Hydro's interim rate proposal with respect to the proposed change in Rate  
12 Stabilization Plan (RSP) rules and interim base rates provides for recovery of a  
13 portion of 2018 revenue deficiency, thus reducing the rate increase required in  
14 2019. This is consistent with its original General Rate Application (GRA) proposal as  
15 found in Chapter 5, Section 5.4.1 of Hydro's 2017 GRA Evidence.

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17 If Hydro were to calculate the RSP fuel rider based on Test Year barrels it would  
18 result in an approximately 8.9% end customer rate increase in July 2018, excluding  
19 any interim base rate changes. In contrast, Hydro's Application seeks a rate increase  
20 of 7.5%, including an interim base rate increase which will provide Hydro the  
21 opportunity to recover a portion of its 2018 Revenue Deficiency. In this regard, it is  
22 Hydro's position that the 2018 Utility Customer Interim Rates Application strikes  
23 the appropriate balance between customer rate impacts and cost recovery.

1           Operation of Off-Island Deferral Account

2           The RSP fuel rider does not impact the calculation of the balance in the proposed  
3           Off-Island Purchases Deferral Account. Funds collected or disbursed through the  
4           RSP fuel rider accumulate in the RSP and do not accumulate in the proposed Off-  
5           Island Purchases Deferral Account.<sup>1</sup> Hydro's proposal to reduce the number of  
6           barrels for the purpose of calculating the July 1, 2018 fuel rider would reduce the  
7           July 1, 2018 customer rate increase and reduce the funds that would otherwise  
8           accumulate in the RSP.

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10          The fuel savings to be credited to the proposed Off-Island Purchases Deferral  
11          Account are calculated based on the approved Test Year No. 6 fuel cost per barrel  
12          and the approved Test Year number of barrels to be reflected in the Test Year  
13          revenue requirement to be used in establishing customer base rates.<sup>2</sup> Therefore,  
14          the proposal in the 2018 Utility Customer Interim Rates Application to base the RSP  
15          fuel rider on the projected number of barrels of No. 6 fuel to be consumed at  
16          Holyrood for the period July 1, 2018 to June 30, 2019 has no impact on the  
17          projected balances in the proposed Off-Island Purchases Deferral Account, or the  
18          computation of Test Year revenue requirements used for establishment of  
19          customer base rates.

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<sup>1</sup> The RSP fuel rider provides for recovery/refund of forecast fuel cost variances that result from variances from the Test Year No. 6 fuel price.

<sup>2</sup> If the Board approves the proposed Off-Island Purchases Deferral Account, the proposed deferral account will calculate fuel savings during 2018 based on the 2015 Test Year No. 6 fuel cost of \$64.41 per barrel and fuel savings for 2019 and 2020 will be based on the approved 2019 Test Year fuel cost. The proposed 2019 Test Year No. 6 fuel cost in the GRA filing is \$87.11 per barrel. Both the 2018 and 2019 Test Year revenue requirements reflect approximately 2.5 million barrels of No. 6 fuel.