Q. Reference: ”2025/2026 General Rate Application,” Newfoundland Power Inc., December 12, 2024, vol. 1, Evidence, sec. 1, pp 1-8–1-9 and The Brattle Group Deferral Account Report, p. 13.

Page 1-8 and page 1-9 states:

> **The wholesale rate will be re-designed as part of Hydro’s next general rate application. This is expected to include a second block energy rate that will reflect the cost of energy exports, which is now considered the marginal cost of energy. The marginal cost of energy exports is forecast to be in the range of 3 to 5¢ per kWh on an annual basis in 2025 and 2026.**

The Brattle Group Deferral Account Report, page 13 states:

> **The ESCV deferral only accounts for variances in costs related to marginal energy supply and does not account for any variance in revenues that NP may receive. Since the revenues related to energy supply costs are not captured in the ESCV deferral, then in the situation where the marginal cost of energy supply is below the average energy supply costs, included in NP’s rates, NP will be overcompensated in that current year, by capturing all associated energy supply revenues in their net income and deferring the energy costs supply costs via the ESCV.**

Given Newfoundland Power’s wholesale second block rate is expected to decrease to the range of 3 to 5 cents/kWh, in The Brattle Group’s view, does the current design of the Energy Supply Cost Variance (“ESCV”) provide Newfoundland Power an incentive to under-forecast sales in a test year? Would the recommendation to include both costs and revenues in the ESCV deferral remove this incentive?

A. Given the current structure of the ESCV, there may be an incentive to under-forecast sales in a test year. The inclusion of both energy revenues and costs within the ESCV would mediate the incentive for Newfoundland Power to under-forecast sales in a test year.