Q. In its 2018 Utility Customer Interim Rates Application Hydro proposed the recovery of $65.4 million in deferred supply costs over a 20 month amortization period beginning January 1, 2019 for the Expected Supply Scenario or the recovery could be mitigated through the use of the Off-Island Purchases Deferral Account for the Deferral Account Scenario.

Has Hydro considered any other alternatives for the recovery of the deferred supply costs? If yes, please explain. If no, why not?

A. In addition to a rate rider, mitigation through the Off-Island Purchases Deferral Account, or some combination of the two, Hydro has considered other methods for the recovery of deferred supply costs.

Specifically, Hydro considered a one-time transfer to the Hydraulic Production Variation account in the Rate Stabilization Plan. The use of these funds would provide immediate relief to customers when compared to a recovery rider, and balances in this account are amortized over a four-year period further mitigating the near-term customer impacts.

This approach was proposed in Hydro's Application for recovery of 2015/2016 Supply Costs which was dismissed by the Board in Order No. P.U. 39(2017). Hydro acknowledges the Board's concerns with this approach as outlined in their decision of November 29, 2017. However, as at March 31, 2018 the Hydraulic Production Variation Account has a credit balance of approximately $19.4 million. The use of this credit balance in combination with a recovery rider would also be an option to reduce the rate impact on customers.

Hydro also considered the implementation of a rider to provide full recovery of the deferred energy supply costs over a 3 to 5 year term. The term for recovery would depend on the rate increase required from customers in 2019 to deal with the recovery of 2018 and 2019 Test Year Revenue Requirements in establishing customer rates at the conclusion of the 2017 GRA. Hydro considers it reasonable to target a limit to an end-consumer increase of 10% at the conclusion of the GRA. However, a recovery rider for a 3 to 5 year period has the disadvantage of recovering previously incurred fuel costs from future customers at the same time as customer rates will need to increase materially to begin recovery of the costs of the Muskrat Falls Project (i.e., intergenerational equity concerns).