

1 Q. **Reference: Application, Volume I, Section 5.2.1 Fuel Costs, p 5.3**

2 Hydro indicates that a substantial part of the increase in diesel and CT fuel quantities is due to
3 the extended outage of Bay D’Espoir Units 5 and 6 due to the planned replacement of Penstock
4 3 in 2027.

5 a) If the base rates for 2027 are based on this supply assumption, please indicate whether
6 this test year is appropriate for application of the rates to 2028 or beyond, assuming
7 Bay D’Espoir Units 5 and 6 are back in operation at that time?

8 b) If Bay D’Espoir Units 5 and 6 are back on line in 2028, and this leads to volumetric
9 savings in diesel compared to the test year assumptions (i.e., not related to drought or
10 load changes), how would the impacts of this reduced diesel be accounted for (e.g.,
11 deferral account, Hydro’s net income, etc.)?

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14 A. As noted in Chapter 5, Section 5.2.1 of Newfoundland and Labrador Hydro’s (“Hydro”) 2026
15 General Rate Application, diesel and combustion turbine (“CT”) fuel costs in the 2027 Test Year
16 have increased over the 2019 Test Year by \$16.1 million as a result of an increase in volume and
17 price. Of this \$16.1 million increase, \$9.7 million is attributable to higher forecast fuel volumes.
18 Approximately \$7.0 million of this volume variance relates to the operation of the Holyrood CT.
19 One of the primary reasons for the increased Holyrood CT operation is the planned replacement
20 of Penstock 3, which requires an extended outage of Bay d’Espoir Units 5 and 6 and results in a
21 higher level of thermal generation support forecast during the test year.

22 In any given year, outages of Hydro’s generation may be required to facilitate sustaining capital
23 work necessary to maintain the reliability and long-term performance of the system. The 2027
24 Test Year reflects Hydro’s best forecast of costs and operating conditions expected during that
25 year, including the planned outage of Bay d’Espoir Units 5 and 6. In the 2027 to 2030 period,
26 Hydro is forecasting a significant amount of ongoing work at the Bay d’Espoir facility that will
27 require outages of units for varying periods of time, such as the planned replacement of

1 Penstock 2. This work was also considered during the preparation and review of Hydro's test
2 year forecast. It is Hydro's position that the forecast increase in fuel volumes associated with
3 this outage does not make the 2027 Test Year inappropriate for establishing rates that will
4 remain in effect in 2028 and beyond. Once Bay d'Espoir Units 5 and 6 return to service, and if
5 fuel consumption is lower than reflected in the 2027 Test Year forecast, the resulting fuel cost
6 variance would be captured through Hydro's proposed Long-Term Supply Cost Variance Deferral
7 Account. Accordingly, such variances would be addressed through a regulatory mechanism
8 rather than being retained by Hydro through net income.