

Q. **Reference: GRA, Vol. I, p. 165 pdf, and GRA, Vol. III, Exhibit 13, Illustrative Example of Cost Variance Allocation, page 716 pdf**

Citation 1:

The Supply Cost Variance Deferral Account enables the deferral of costs related to Hydro's requirement to commence payment of Muskrat Falls Project costs<sup>85</sup> prior to recovering these costs.<sup>86</sup>

Note 85: Muskrat Falls Project costs are comprised of payments made under: (i) the Muskrat Falls PPA and (ii) the Transmission Funding Agreement. The deferral account also captures rate mitigation funding and rate changes implemented solely to recover project costs to offset charges to Hydro. The deferral account enables Hydro to isolate the net effect of project costs and rate mitigation.

Note 86: The Supply Cost Variance Deferral Account also includes variances for costs and revenues from Hydro's approved test year for items such as fuel costs associated with the Holyrood TGS, transmission tariff revenue, net revenues from exports, greenhouse gas credit revenues, load variations, rural rate adjustments, and other Island Interconnected System supply cost variances. The existing Supply Cost Variance Deferral Account definition reflects the calculation of financing charges based on Hydro's short-term borrowing costs.

Citation 2:

Long-Term Supply Cost Variance Deferral Account  
Illustrative Example of Cost Variance Allocation  
Energy Only Allocator vs Demand/Energy Allocators<sup>1</sup>

Cost Allocation

| Component                                             | Variance Allocations <sup>2</sup> |                      | Variances From<br>Test Year <sup>3</sup><br>(\$ Millions)<br>[C] | Demand<br>Allocation<br>(\$ Millions)<br>[D] = [A] * [C] | Energy<br>Allocation<br>(\$ Millions)<br>[E] = [B] * [C] |
|-------------------------------------------------------|-----------------------------------|----------------------|------------------------------------------------------------------|----------------------------------------------------------|----------------------------------------------------------|
|                                                       | Demand<br>(%)<br>[A]              | Energy<br>(%)<br>[B] |                                                                  |                                                          |                                                          |
|                                                       |                                   |                      |                                                                  |                                                          |                                                          |
| Muskrat Falls Project Costs                           | 50%                               | 50%                  | 5.5                                                              | 2.8                                                      | 2.8                                                      |
| Net Revenue from Exports                              | 50%                               | 50%                  | 17.2                                                             | 8.6                                                      | 8.6                                                      |
| Transmission Tariff Revenue                           | 50%                               | 50%                  | (1.3)                                                            | (0.7)                                                    | (0.7)                                                    |
| Rate Mitigation Funding                               | 50%                               | 50%                  | 38.0                                                             | 19.0                                                     | 19.0                                                     |
| Holyrood TGS                                          | 0%                                | 100%                 | (3.4)                                                            | -                                                        | (3.4)                                                    |
| Utility Load                                          | 50%                               | 50%                  | (6.8)                                                            | (3.4)                                                    | (3.4)                                                    |
| Industrial Load                                       | 50%                               | 50%                  | (5.1)                                                            | (2.5)                                                    | (2.5)                                                    |
| Greenhouse Gas Credits Revenue                        | 50%                               | 50%                  | 1.6                                                              | 0.8                                                      | 0.8                                                      |
| <b>Other Island Interconnected System Supply Cost</b> |                                   |                      |                                                                  |                                                          |                                                          |
| Thermal                                               | 100%                              | 0%                   | 0.2                                                              | 0.2                                                      | -                                                        |
| Off-Island Purchases                                  | 50%                               | 50%                  | -                                                                | -                                                        | -                                                        |
| On-Island Purchases                                   | 50%                               | 50%                  | 0.0                                                              | 0.0                                                      | 0.0                                                      |
| Wind Purchases                                        | 43%                               | 57%                  | -                                                                | -                                                        | -                                                        |
|                                                       |                                   |                      | <b>45.8</b>                                                      | <b>24.7</b>                                              | <b>21.1</b>                                              |

- 1       **a)** Please confirm that the elements listed in footnote 86 (Citation 1) are all related to the  
2           Muskrat Falls Project costs. If not, please explain in detail.
- 3       **b)** Please confirm that, unlike the SCVDA it replaces, the LTSCVDA includes costs other than  
4           Muskrat Falls Project costs.
- 5       **c)** Of the cost components listed in the Citation 2, please indicate those that are in some way  
6           relevant to LIS customers, and explain their relevance.
- 7       **d)** Are there possible scenarios in which the LTSCVDA balance will be positive? If so, please  
8           describe such scenarios in detail.
- 9       **e)** In such scenarios, would the payment due to LIS customers under the proposed allocation  
10          rules be returned to them, or credited to net income?

- 11
- 12
- 13    A.    **a)** The elements listed in footnote 86 (Citation 1) include Muskrat Falls costs as well as items  
14           such as fuel costs associated with the Holyrood Thermal Generating Station, load variations,  
15           rural rate adjustments and other Island Interconnected System supply cost variances which  
16           are not related to the Muskrat Falls Project costs.
- 17           **b)** Both the Supply Cost Variance Deferral Account (“SCVDA”) and the proposed Long-Term  
18           SCVDA include costs other than the Muskrat Falls Project costs. The supply cost components  
19           are consistent in both accounts.
- 20           **c)** Please refer to Newfoundland and Labrador Hydro’s (“Hydro”) response to LAB-NLH-021 of  
21           this proceeding.
- 22           **d)** Yes, each variable included in the deferral account could result in a balance owing from  
23           customers (positive balance) or owing to customers (negative balance) depending on its  
24           variation from the approved Test Year values. The sum of the variances of all components  
25           determines the balance to be settled. The balance in the account up to and including 2030  
26           will be settled according to the rate mitigation plan.

- 1           e) Please refer to Hydro's response to LAB-NLH-021 of this proceeding.