Q. **Reference: GRA, Vol. I, page 170-171 pdf**

Citation:

Hydro’s proposal is for the Long-Term Supply Cost Variance Deferral Account to come into effect on January 1, 2027. This account will continue to capture variances between Hydro’s incurred supply costs and those included in Hydro’s most recently approved test year; however, these variances and the resulting balance in this account are expected to be much lower in comparison to those in the existing Supply Cost Variance Deferral Account as project costs and rate mitigation funding will be included in Hydro’s cost of service and test year revenues, prior to this account becoming effective. Contrary to the existing Supply Cost Variance Deferral Account, when it was originally created, balances are not expected to be material and fast-growing, and this account will operate in a similar manner to Hydro’s historical deferral accounts relating to supply costs, such as the Rate Stabilization Plan, where balances in the account are collected annually. For these reasons, this long-term approach to the Supply Cost Variance Deferral Account differs from the existing Supply Cost Variance Deferral Account at the time it was established; Hydro is proposing that the interest on the Long-Term Supply Cost Variance Deferral Account be calculated according to current regulatory practice in Newfoundland and Labrador, using the weighted average cost of capital as approved in Hydro’s test year. The calculation of finance charges based on Hydro’s approved weighted average cost of capital has been included in the proposed account definition.

**a)** Please confirm whether the LTSCVDA is expected to routinely carry a debit or credit balance (or fluctuate materially between the two), and explain how the choice of interest rate (WACC vs. short-term borrowing) affects customers differently depending on the sign of the balance.

**b)** Please provide Hydro's best estimate of the projected LTSCVDA balance at the end of each year from 2027 through 2030, including the assumptions underlying the projection (e.g., assumed variance in Muskrat Falls PPA costs, export revenues, Holyrood fuel costs, and load).

**c)** Please confirm whether any portion of the LTSCVDA balance will be recovered from, or refunded to, customers on an interim or periodic basis prior to the next GRA, or whether the full balance will remain deferred until Hydro's next GRA in 2031.

**d)** If no interim recovery mechanism is proposed, please explain the ratemaking rationale for allowing balances (and associated financing charges) to accumulate over a four-year period without interim rate relief or refund, and discuss the customer rate-shock and intergenerational equity implications of that approach.

A. **a)** In the absence of rate mitigation, the Long-Term Supply Cost Variance Deferral Account ("SCVDA") could carry a debit or credit balance, which is normal for any deferral account recording supply cost variances based on a test year. While rates are being mitigated, it is expected that the account will primarily have a debit balance until rate mitigation is applied to the balance.

The impact on customers related to the choice of interest rate depends on the difference between the approved Weighted Average Cost of Capital ("WACC") in the test year and the short-term interest rate in effect and applied to the deferral account for the year. Although Newfoundland and Labrador Hydro's ("Hydro") short-term interest rate is currently lower than its 2027 Test Year WACC, short-term interest rates can vary and may not always be lower than Hydro's WACC. For instance, in 2023, the interest rate applied to the SCVDA, based on short-term borrowing rate, was 5.72%, which was higher than the approved WACC of 5.43%.

Generally, if the account has a debit balance, the interest increases the amount owing from customers. A lower interest rate in this case would mean less owing from customers. If the account has a credit balance, the interest increases the balance due to customers. A lower interest rate in this case would mean less of a credit balance due to customers.

**b)** Please refer to Newfoundland and Labrador Hydro's ("Hydro") response to part c) of CA-NLH-196 of this proceeding.

**c)** A portion of the Long-Term SCVDA will continue to be recovered from customers in accordance with the rate mitigation plan announced on May 16, 2024, and implemented on July 1, 2024. The rate mitigation plan also provides for funding to pay the remaining balance in the account up to and including 2030.

**d)** Please refer to Hydro's response to part c).