

1 **Q. Reference: Volume I, page 5.24, Table 5-13**

2 Provide the rationale for the following cost/revenue variances transferred to the LT SCVDA not
3 being classified as 100% energy related:

- 4 **a)** Utility load and Industrial load in the load variation component, given that the balance
5 reflects the cumulative variations from test year energy revenues;
- 6 **b)** Off-Island and on-island purchases, given that the purchase cost variances normally
7 depend on the amount of energy purchased and generally do not impact firm capacity;
- 8 **c)** Net Revenues from Exports, given that the variations from forecast revenues are
9 generally driven by the energy market conditions and amount of energy exports;
- 10 **d)** Wind purchase costs, given that the cost variances generally depend on the amount of
11 wind energy purchased and is not normally dependent upon whether the wind is
12 available at peak times; and
- 13 **e)** Greenhouse Gas Credits Revenue, given that the variations from forecast revenues is an
14 outcome of reduced energy production and reduced emissions from the Holyrood TGS.

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17 **A.** Newfoundland and Labrador Hydro's ("Hydro") proposed approach is to classify each Long-Term
18 Supply Cost Variance Deferral Account component consistently with the classification or
19 allocation applicable to the corresponding cost or revenue in the approved or proposed test
20 year Cost of Service Study. This preserves consistency between the costs recovered through
21 base rates and the subsequent true-up of variances between forecast and actual amounts.

- 22 **a)** Utility and Industrial load variations are calculated using differences between test year and
23 actual firm energy sales valued at the marginal cost of energy. The marginal cost of energy
24 on the Island Interconnected System is the opportunity cost of the market value of exports
25 and is the underlying basis for the second block rate for Newfoundland Power Inc. and the
26 second block rate for Island Industrial customers proposed in the 2026 General Rate

1 Application. Since changes in load result in changes in export value, the marginal source of
2 energy, Hydro proposes to allocate the load variation in the same manner as approved for
3 the allocation of the Net Revenue from Exports.

4 **b)** On-island purchase variances may be calculated based on purchased-energy volumes or
5 costs, but the corresponding purchased-power costs are classified using the system load
6 factor in the Cost of Service Study. Applying the same classification to the variances ensures
7 that the test year costs and their subsequent true-up are allocated on a consistent basis.
8 Off-island purchases, while classified as energy in the 2019 Cost of Service Study, do support
9 firm capacity to the Island if supporting Muskrat Falls deliveries over the Labrador-Island
10 Link. There are no off-island purchases included in the 2027 Test Year Cost of Service Study;
11 however, the system load factor would capture the allocation of the capacity benefits of
12 these purchases, should they exist.

13 **c)** Net Revenues from Exports are reflected as a credit to Island Interconnected supply costs
14 and are classified using the system load factor. Applying the same classification to the
15 actual-to-forecast variance provides symmetrical treatment of export revenue shortfalls and
16 surpluses and is consistent with Board of Commissioners of Public Utilities Order No.
17 P.U. 37(2019) that approved the same Cost of Service Study classification as the Muskrat
18 Falls supply costs.

19 **d)** In the Cost of Service Study, wind purchases are proposed to be classified as 43% demand
20 and 57% energy based on the proposed recognition of wind's capacity and energy
21 contributions. The 43% demand classification reflects the marginal effective load-carrying
22 capability identified for a representative 50 MW wind resource. Applying the same
23 classification to wind purchase variances maintains consistency with the proposed
24 classification of the underlying purchase costs.

25 **e)** Greenhouse Gas Credits Revenue is reflected as a credit to Island Interconnected supply
26 costs. The performance credits are based on the difference between generation in a year as
27 if the Holyrood Thermal Generating Station had continued to operate in the absence of the
28 Muskrat Falls, as projected in 2012, and actual generation in that year. Hydro proposes to

- 1 classify the actual-to-forecast variance using the system load factor, consistent with the
- 2 treatment in the Cost of Service Study approved in Board Order No. P.U. 14(2026).