Q. How does Hydro determine whether a deferral account will accrue financing charges on the balance or whether a deferral account should be included in rate base?

A. Both carrying charges and rate base treatment are intended to compensate the utility for the financing cost of deferred balances. The choice between the two approaches is generally based on the characteristics of the deferral account and the approved regulatory treatment. Carrying charges are generally used where balances are expected to vary significantly over time, including within a year,[1] as they can more directly reflect the financing impact of the actual account balance. Rate base treatment is often used where the unamortized balance is treated as a regulatory asset and included in rate base until recovered through amortization.[2]

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[1] Examples include the Rate Stabilization Plan and the Supply Cost Variance Deferral Account.
[2] Examples include, but are not limited to, general rate application hearing costs, foreign exchange losses and the Muskrat Falls Power Purchase Agreement Sustaining Capital.