Q. (Reference 2017 GRA Volume I, page 1.12) It is stated (lines 4 to 12) "*In Order 73/15, Manitoba's Public Utilities Board approved an interim rate increase for Manitoba Hydro of 3.95%. The revenues from 2.15% of that rate increase are to be placed in a deferral account to mitigate expected rate increases from when the Bipole Transmission Reliability Project (Bipole III) comes into service in 2018/19. In Order 73/15, the Manitoba regulator stated that, "Because very significant rate increases will be needed at that time, the Board sees a compelling policy reason to gradually increase rates to avoid rate shock for consumers three years from now." The funds set aside in the Board-ordered deferral account will be used to smooth the significant rate increases that may otherwise be required when the Bipole III is completed, helping to mitigate the resulting rate shock*." Why is Hydro proposing a revenue requirement based on a fictitious test year scenario, and a complicated formula to determine money to be put aside for rate mitigation purposes rather than follow Manitoba's lead to set aside a simple percentage of the rate increase to accomplish the same objective, but in a simple, understandable and transparent manner?

A. Hydro is open to discussions on alternatives to its proposal. Hydro views the approach and outcome undertaken in the Manitoba example to be broadly similar to the one proposed by Hydro. Establishing a rate increase at a certain level and carrying the remainder in a deferral account—as was done in the Manitoba hearing, or basing rates based upon a particular level of a given cost component and carrying the achieved savings in a deferral account—as is being proposed by Hydro in the present Application, are both examples of permitted regulatory options of using deferral accounts and rate setting options to address a specific rate setting circumstance. In Hydro's view, its deferral account proposal is understandable, transparent, and testable.  It differs somewhat from the Manitoba approach in method but its purpose and intended outcome are similar.

Hydro's proposed deferral account approach reflects the uncertainty in its test year supply costs. Please see response to CA-NLH-042. A discussion of alternative considered is provided in response to NP-NLH-114.