

1 Q. **Off-Island Purchases Deferral Account**

2 References:

3 (i) NLH 2017 GRA, Evidence, chapter 1, page 1.10

4 (i) « Hydro is also proposing to establish a deferral account which will include both
5 the fuel savings from off-island purchases and the actual costs attributable to off-
6 island power purchases, including transmission costs for delivery. The deferral
7 account will permit the savings from off-island purchases to offset the
8 transmission costs to be incurred by Hydro. Any additional savings will be set aside
9 for the benefit of customers.»

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11 Quantify the amount of the offset reduction in NLH's revenue requirement resulting
12 from the lower debt and changes in capital structure?

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15 A. Hydro is proposing the Board approve rates based on the capital structure and rate
16 of return, exclusive of the proposed deferral account, as presented in Volume I,
17 Chapter 4, Schedule 4-II, pages 4 and 5 of 9.

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19 There will be no impact on customers if the proposed deferral account is approved
20 as it is intended that the deferral account will accrue interest at the weighted
21 average cost of capital. Any amounts collected from Island Interconnected
22 customers under the existing proposal will be accrued in the deferral account to the
23 benefit of these customers in the future. This treatment has the same impact as if
24 the forecasted deferral amounts were deducted from the rate base calculation as
25 presented in Table 1.

**Table 1 Rate of Return on Rate Base
Off-Island Power Purchase Deferrral Account (Proposed)**

Line	Test Year 2018	Test Year 2019	
1	Property, plant, and equipment	2,230,663	2,286,879
2	add: accumulated depreciation	389,021	476,625
3	less: work in progress	(51,306)	(30,488)
4	Capital assets in service	2,568,379	2,733,015
5	less: asset retirement obligation	(307)	(693)
6	add: contributions in aid of construction	(32,593)	(31,324)
7	less: accumulated depreciation	(389,021)	(476,625)
8	Capital assets - current year	2,146,457	2,224,373
9	Capital assets - previous year	2,008,765	2,146,457
10	Unadjusted capital assets - average	2,077,611	2,185,415
11	less: Average net assets excluded from rate base	(8,820)	(6,415)
12	Capital assets - average	2,068,791	2,179,000
14	Working capital allowance	2,772	2,255
15	Fuel	76,472	74,369
16	Materials and supplies	33,034	32,884
17	Deferred charges	82,041	75,958
19	Average rate base	2,263,109	2,364,466
21	Estimated Deferral Balance ¹	18,868	69,300
23	Average Deferral Balance	9,434	44,084
25	Average rate base (adjusted for deferral account)	2,253,675	2,320,382
27	Return on rate base (before deferral account)	129,631	134,420
29	Return on rate base (after deferral account)	129,091	131,912
31	Variance in return on rate base ²	(540)	(2,508)
33	Rate of return on rate base ³	5.73%	5.68%
35	Reconciliation with Deferral Account Interest		
36	Variance in return on rate base (above)	540	2,508
37	Interest Accrued @ 6.61% in 2015 ^{3,4}	84	
38	Interest on Prior Year Interest ⁵		31
39	Interest on Off-Island Deferral Account (per NP-NLH-115)	624	2,539

¹ Refer to Hydro's response to NP-NLH-115 for the forecasted balances in the deferral account, including interest.

² The interest calculation in NP-NLH-115, accrues interest on the deferral balances plus interest.

³ Hydro has proposed interest at 6.61% in 2018 on the deferral account balance, higher than the return on rate base in 2018, to ease the administration of implementing proposed rates.

⁴ $(9,434 \times (6.61\% - 5.73\%)) = 84$

⁵ $(540 \times 5.68\%) = 31$