

1 **Q. RE: Pre-Filed Evidence of Mr. C. Douglas Bowman, page 17:**

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3 "I therefore recommend that the Board direct Hydro to undertake the
4 following: File a cost of service study for the Island system for the 2019 test
5 year based on its best forecast of costs including off-island sales and
6 purchases over the Labrador-Island Link, as well as sales and purchases over
7 the Maritime Link; i.e., based on ISO New England spot prices. Only those
8 changes to the cost of service allocations that are necessary to perform the
9 cost of service study should be made; i.e., functionalization of LIL and LTA
10 operating and maintenance costs, and allocation of the costs of off-island
11 purchases (CA-NLH-169).

12
13 Propose a deferral account to protect Hydro from the uncertainties brought
14 on by variations in hydro generation, fuel costs and off-island purchases and
15 sales."

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17 If Hydro were to undertake this recommendation, and actual savings from
18 off-island purchases were less than forecast and additional Holyrood fuel
19 costs would need to be deferred, does Mr. Bowman agree that this could
20 result in additional costs being charged to customers once the Muskrat Falls
21 Project were placed into service? Please explain how this proposal in the
22 context of lower actual savings than forecast will help mitigate future
23 customer rate impacts.

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25 **A.** Mr. Doug Bowman recommends that Hydro file a 2019 test year cost of service
26 study based on the expected supply scenario with off-island purchases over the
27 LIL and the ML. Under this cost of service study Hydro's proposed Off-Island
28 Purchases Deferral Account becomes obsolete. Nonetheless, Hydro will be
29 exposed to uncertainties brought on by off-island purchases, so should propose a
30 supply cost adjustment mechanism to protect it from such uncertainties. The
31 supply cost adjustment mechanism is not meant to be used to mitigate future rate
32 increases – it is meant to protect Hydro from the uncertainties brought on by off-
33 island purchases. It would work similarly to the RSP. If at the end of the year there
34 is a balance owing to Hydro because supply costs were more than forecast, rates
35 would be increased accordingly in the subsequent year to recover the shortfall. If
36 there is a surplus because supply costs were less than forecast, rates would be
37 reduced accordingly in the subsequent year. The response to PUB-CA-002
38 addresses Mr. Doug Bowman's views on rate mitigation. The supply cost
39 adjustment mechanism would be independent of any rate mitigation initiative.