

1 **Q. Page 9, , lines 11-17. Please list the details on the proposed Off-Island**
2 **Purchases Deferral Account that in Mr. Bowman's opinion are necessary for**
3 **Hydro to provide before the Account can be appropriately considered in the**
4 **settlement discussions and before the Board renders a decision.**

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6 **A.** Mr. Doug Bowman does not support Hydro's proposed cost of service study and
7 Off-Island Purchases Deferral Account. There are far too many problems with the
8 proposed Off-Island Purchases Deferral Account, including:

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10 a. Hydro suggests that its proposed Off-Island Purchases Deferral Account is
11 a rate mitigation plan. It is not. It is a proposal to over-charge customers by
12 basing rates on a supply scenario that Hydro expects to significantly over-
13 collect revenues, and making these funds available to the Board to decide
14 if, and how, the funds might be used to mitigate upcoming rate increases.
15 How the funds are to be allocated to customers in the future is a critical
16 component of any rate mitigation plan.
- 17 b. The Off-Island Purchases Deferral Account protects Hydro from
18 uncertainties associated with off-island purchases, but lacks transparency as
19 Hydro has not submitted a procurement plan for off-island purchases,
20 claiming that negotiations are confidential.
- 21 c. Customers have not been surveyed to determine if they believe that paying
22 costs up-front is a desirable alternative to waiting until Muskrat Falls comes
23 into service and paying the full amount of the increase at that time.
- 24 d. The deferral account is open-ended with the potential to accumulate
25 hundreds of millions of dollars. The estimate of the account balance by
26 August 31, 2020 is \$174.3 million (NP-NLH-115, rev 1). However, this is
27 under-stated as costs for use of the LIL/LTA assets appear to be very high
28 and it is not clear under current legal documentation if Hydro can collect
29 these costs prior to the commissioning of the Muskrat Falls Project.
30 Further, the proposed deferral account does not include purchases over the
31 ML, and it does not include potential sales over the ML.
- 32 e. The proposed deferral account does not include reliability benefits. As
33 stated in Expert Evidence submitted by JT Browne Consulting (page 4):
34 *"The net benefits prior to full commissioning of the MFGF would also*
35 *include improved reliability of the IIS. It would be difficult to estimate the*
36 *value of this increased reliability and Hydro has not attempted to estimate*
37 *it."* It is not clear why reliability benefits are so difficult to estimate. For
38 example, the new transmission facilities may lead to savings arising from:

1) avoiding, or delaying, construction of new generation facilities, 2) relegating Holyrood Units 1 and 2 to standby status, and Unit 3 to synchronous condenser operation, 3) cancellation of capacity assistance agreements, 4) allowing purchases of non-firm economy energy rather than firm energy purchases with an implied capacity charge, and/or 5) freeing up capacity on the Island that might be sold in the Northeastern United States. Hydro is proposing to set Island customer rates at levels reflecting the continued operation of Holyrood for both capacity and energy purposes including capital, O&M and fuel, without returning to customers the costs it avoids from the reliability benefits derived from the LIL/LTA and ML transmission. This is inconsistent with the Cost of Service Standard that the utility may be assured of an opportunity to earn a fair return because the “*opportunity*” is weighted in Hydro’s favour.

f. The deferral account allows for the costs of off-island purchases including the cost of transmission, and the O&M costs associated with using LIL/LTA, but does not appear to allow for potential offsets for the costs of transmission that Island customers are already paying through the cost of service study. Without knowing what might be included for the costs of transmission under the open access regime that Hydro proposes to file by the end of the first quarter of 2018, it is difficult to know how customers will be charged for transmission. Regardless, the transmission costs for off-island purchases should allow for offsets that Island customers are already paying. Otherwise, it is inconsistent with the Cost of Service Standard that the utility may be assured of an opportunity to earn a fair return because the “*opportunity*” is weighted in Hydro’s favour.

g. It does not specify how funds from the deferral account will be allocated to Island customer classes, so it is not clear how allowance will be made for the fact that Island customer classes have not been paying according to rates that reflect the costs they impose on the system; i.e., the proposed cost of service study does not incorporate off-island purchases. It appears the only practical way to allocate funds fairly would be to run after-the-fact cost of service studies reflecting the actual cost of supply to each customer class, which might be considered retroactive ratemaking.

Hydro has not filed a cost of service study based on the expected Island supply regime with off-island purchases. Further, there is a significant void in the information necessary for the Board and the parties to properly assess the cost of service study. Mr. Doug Bowman recommends that the Board direct Hydro to file

1 the following information. Settlement sessions should not take place until this
2 information has been filed, so the Schedule of Dates for the Application will
3 require adjustment accordingly (see response to PUB-CA-005).
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- 5 • A 2019 test year cost of service study based on the expected supply scenario
6 with off-island purchases over the LIL and the ML. Under this cost of service
7 study Hydro's proposed Off-Island Purchases Deferral Account becomes
8 obsolete. Nonetheless, Hydro will be exposed to uncertainties brought on by
9 off-island purchases, so should propose a supply cost adjustment mechanism to
10 protect it from such uncertainties.
- 11 • A power procurement plan for off-island purchases over the LIL and ML.
- 12 • A plan for sales of power over the LIL and ML.
- 13 • A vetting program for both sales and purchases over the LIL and ML that will
14 enable the parties and the Board to determine if customers are receiving
15 optimum value.
- 16 • An open access transmission tariff including an explanation of the facilities
17 included in the tariff, how Hydro foresees the open access regime will work,
18 which entities will be under Board jurisdiction, and how open access can be
19 leveraged to provide optimum value to Island customers. It should include the
20 review of LIL/LTA transmission O&M costs that Hydro references in CA-
21 NLH-177.
- 22 • A wholesale power rate for Newfoundland Power that better reflects marginal
23 costs.