

1 Q. **Additional Cost of Service Information filed March 22, 2018**

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3 Page 7, lines 13-16. Provide the rationale or the basis for the assumption on the
4 cost of purchases over the Maritime Link.

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7 A. Purchases over the Maritime Link are forecast to be primarily beneficial during the
8 period prior to the in-service of the Labrador-Island Link and during periods of high
9 demand when additional displacement of Holyrood generation can be achieved in
10 excess of displacement from the use of Recapture Energy.¹ Therefore, Hydro's
11 decision to make off-island purchases over the Maritime Link will be based on the
12 savings it can achieve relative to Holyrood production costs.

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14 At the time of preparation of the *Summary Report - Additional Cost of Service*
15 *Evidence*, Hydro had minimal experience with respect to the cost of purchases over
16 the Maritime Link.² As a preliminary estimate to establish a Test Year forecast cost
17 of purchases over the Maritime Link, Hydro assumed that the cost of purchases
18 over the Maritime Link would be correlated to its forecast cost of No. 6 fuel and,
19 therefore, made an assumption that the forecast cost of purchases would be 10%
20 lower than the Test Year monthly No. 6 fuel price forecast.³ The actual cost of
21 purchases over the Maritime Link incurred in 2018 is provided in response to PUB-
22 NLH-149.

¹ See page 7 of *Summary Report – Additional Cost of Service Information* filed March 22, 2018.

² Contract details for purchases over the Maritime Link are confidential; please see Hydro's response to CA-NLH-254.

³ Hydro made this assumption on the basis that generators selling to Hydro over the Maritime Link prior to the completion of the Labrador-Island Link and during periods of high demand would be aware that the provision of energy is to displace Holyrood fuel, as it is the marginal energy cost on the Island during these periods.

1 If the Board concludes, in the GRA Order, that Hydro should use the Expected
2 Supply Scenario for establishing the 2018 and 2019 Test Year revenue
3 requirements, Hydro will provide an updated estimate of the forecast unit cost of
4 purchases over the Maritime Link (on a confidential basis) in its GRA compliance
5 filing. Hydro’s GRA compliance filing will be subject to the review of the Board’s
6 financial consultants.

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8 In the Expected Supply Scenario, Hydro indicated that a revised Energy Supply Cost
9 Variance Deferral Account Definition would be required to address variances in Test
10 Year off-island supply costs. This deferral account would ensure that only the actual
11 cost of off-island supply would be recovered from customers.