

1 Q. Provide regulatory precedents for approval of placing a deferral account in a  
2 negative position and using the account to recover a separate unrelated deferral  
3 account balance.

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6 A. As shown in Table 10 of Hydro's Evidence to this Application, the total of the  
7 deferred supply cost balances under consideration is in a negative (debit) position  
8 with approximately \$42.2 million owing from customers. There is no automatic  
9 recovery mechanism for this supply cost balance.

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11 Most of Hydro's supply cost variability is dealt with through the Rate Stabilization  
12 Plan (RSP). The RSP already includes a rate adjustment process for recovery of  
13 supply cost variances. While the deferral account balances proposed for recovery in  
14 the current application are not RSP balances (primarily related to No. 6 fuel costs),  
15 Hydro considered it a practical approach to use the RSP to provide recovery of the  
16 deferred supply cost balances (which are also primarily related to fuel cost  
17 variances). The RSP Hydraulic Variance Account also uses a 25% amortization of the  
18 balance each year which provides advantages in managing the customer impacts of  
19 supply cost recovery.

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21 The RSP has multiple components: fuel price variation; load variation; hydraulic  
22 variation; and rural rate adjustments. It is the combined effect of debit and credits  
23 for each component that contribute to the RSP Current Plan balances for  
24 establishing annual adjustments to customer rates.

1 Hydro also notes that the Newfoundland Power Rate Stabilization Account (RSA)<sup>1</sup>  
2 also permits recovery of:

- 3 1) the fuel cost of operating its thermal generation to serve its customers;
- 4 2) variances in municipal taxes paid vs. municipal taxes collected through  
5 customer rates;
- 6 3) variances in purchase costs incurred vs. purchase cost recovered from  
7 customers as a result of flowing through wholesale rate changes to  
8 customers;
- 9 4) the Energy Supply Cost Variance balance which reflects the change in  
10 purchased power cost that is related to the difference between purchasing  
11 energy at the 2nd block energy charge in the wholesale rate and the test  
12 year energy supply cost reflected in customer rates;
- 13 5) changes in conservation demand management program costs; and
- 14 6) earnings impacts as a result of abnormal weather conditions in the previous  
15 year (i.e., the balance in the Weather Normalization Reserve).

16  
17 The Board has also approved the use of the RSA to provide recovery of variances in  
18 employee future benefit costs from those reflected in customer rates.

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20 Hydro believes its proposal is consistent with regulatory practice and is a practical  
21 solution to provide recovery of its supply cost deferral balances.

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<sup>1</sup> The RSA was established primarily for flowing through cost changes to Newfoundland Power as a result of changes in supply costs as a result of RSP rate changes from Newfoundland Hydro.