Q. Hydro states on page 4, paragraph 16 of the Application:

> It remains probable that Hydro will incur costs in 2021 as a result of the commissioning of the Muskrat Falls Project. Therefore, although Hydro proposes to delay its GRA filing, Hydro is proposing to continue to require 2021 as a test year for use in determining the 2021 costs to be ultimately recovered from customers.

Can any 2021 costs as a result of the commissioning of the Muskrat Falls Project be addressed more appropriately by way of timely application to address these costs for example through a deferral account and/or a rate rider?

A. Recently, it has been common for Newfoundland and Labrador Hydro ("Hydro") to make use of deferral accounts to track cost differences for a single cost item from the previous test year (e.g., fuel costs) or during a General Rate Application ("GRA") for cost differences from a proposed test year (e.g., depreciation costs). In such circumstances, Hydro's GRA evidence and tested forecast serves as a benchmark to determine the amount to be set aside for consideration for future recovery from customers.

Based on Hydro's current forecast, changes in its 2021 revenue requirement are not solely related to the additional power purchase expense related to the Muskrat Falls Project. As noted in Hydro's response to PUB-NLH-003 of this proceeding, the overall Muskrat Falls Project charges reflecting the Transmission Funding Agreement (which is finalized) and the existing terms of the Muskrat Falls Purchase Power Agreement are currently projected to be approximately $60 million per month. However, the payment terms of the contracts require Hydro to make these payments in advance of receiving service. The Muskrat Falls Project charges are anticipated to have a material impact on Hydro's financing costs and required working capital. Hydro would also expect impacts on its Holyrood Thermal Generating Station fuel costs and fuel inventory as a result of transitioning to supply from the Muskrat Falls Project. Hydro further notes it will have additional borrowing, depreciation, and return requirements in 2021 resulting from increased capital investments since its 2019 Test Year.

For these reasons, Hydro's forecast costs in many areas are expected to be materially different from the 2019 Test Year. If 2021 is not used as a test year, the Board of Commissioners of Public Utilities would not have a comparable test year to determine the amount of costs to be deferred and set aside for future recovery. In Hydro's view, the use of 2021 as a test year ensures tested costs will be the basis for determining what 2021 costs will be deferred as revenue deficiency to be either recovered from customers in the future or funded through the Government of Newfoundland and Labrador's rate mitigation plan.