1   Q.   **Reference: Application**

2   With respect to capital expenditures, if the revenue requirement is lower based on actual cost

3   than based on forecast cost is the cost difference returned to customers?

4

5

6   A.   New capital expenditures between test years, such as those proposed through the 2021 Capital

7   Budget Application ("CBA"), increase Newfoundland and Labrador Hydro's ("Hydro") costs

8   relative to current customer rates and therefore will serve to lower Hydro's rate of return in the

9   short term. Over the long term, Hydro's approved annual rate base is established based on

10   actual capital expenditures for each year.

11   Hydro does not determine its revenue requirement annually nor are rates adjusted annually for

12   new capital expenditures. The establishment of a new test year revenue requirement for rate

13   setting occurs during the General Rate Application ("GRA") process and is normally based on

14   forecast costs including forecast capital expenditures. Hydro is not currently in a GRA process

15   and therefore customer rates will not immediately change to reflect the additional capital

16   expenditures included in the 2021 CBA. As a result, in the short term, Hydro's proposed 2021

17   capital expenditures will reduce Hydro's rate of return through increased costs (e.g.,

18   depreciation) not currently reflected in customer rates.

19   If Hydro files its next GRA based upon a 2022 Test Year, the projected actual expenditures for

20   2021 and the forecast 2022 capital expenditures would be used in the computation of Hydro's

21   2022 Test Year revenue requirement. In that circumstance, the 2021 capital budget

22   expenditures will be updated to reflect the projected actual capital expenditures for 2021 at the

23   time of GRA evidence preparation.

24   Hydro is granted an opportunity to recover future costs associated with the cumulative actual

25   capital investments when rates are established though each GRA process. The accuracy of the

1   capital expenditure forecast for the test year is a relevant rate-making issue during each GRA

2   process.