Q. The response to PUB-NLH-022 notes that Hydro "plans to utilize short-term borrowings to make" payments required under Muskrat Falls PPA and TFA. Please explain why Hydro is proposing to apply WACC for the deferral account if short-term borrowing is used for payments?

A. Newfoundland and Labrador Hydro ("Hydro") is proposing to use weighted average cost of capital ("WACC") for the deferral account as Hydro is uncertain when rate mitigation will be available to offset the costs to be deferred in the proposed Supply Cost Variance Deferral Account. The proposed approach is consistent with the current approach approved in the Rate Stabilization Plan which requires Hydro to apply its WACC to the outstanding plan balances (both positive and negative balances).

As WACC is applied to deferral account balances when included in rate base, Hydro would not be proposing to include the forecast balance in the in proposed Supply Cost Variance Deferral Account in test year rate base for rate setting purposes.[1] Applying financing costs to the deferral account balance as it varies rather than including a forecast fixed balance in rate base provides a better reflection of the financing costs incurred by Hydro in maintaining the deferral account.

[1] The inclusion of deferral account balances in rate base is consistent with the Asset Rate Base Method approved by the Board of Commissioners of Public Utilities.