

1 Q. **Reference: Supply Cost Accounting Application, paragraphs 27 and 28.**

2 Please explain how costs deferred in accordance with the Application proposal will be tested as  
3 part of Hydro's next GRA. For example, would a Board order on this Application effectively  
4 finalize the recovery of the costs, resulting in only allocation and disposition being required to  
5 be determined at Hydro's next GRA?

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8 A. The next general rate application ("GRA") will not deal with recovery of the costs proposed to be  
9 deferred in this application. A separate application will be filed after the conclusion of the next  
10 GRA which will present proposals for allocation and recovery.

11 Newfoundland and Labrador Hydro ("Hydro") notes that the only new costs proposed to be  
12 deferred are related to the Muskrat Falls Project ("Project"). With respect to Project costs, the  
13 government provided specific direction on supply cost recovery. In Order in Council OC2013-  
14 343, the government set forth the requirement that any expenditures, payments or  
15 compensation paid directly or indirectly by Hydro under an agreement or arrangement to which  
16 the Muskrat Falls Exemption Order applies, shall be included as costs in Hydro's cost of service,  
17 without disallowance, to be recovered through Island Interconnected System customer rates.  
18 Through the Muskrat Falls Power Purchase Agreement and the Transmission Funding  
19 Agreement this includes costs related to the Muskrat Falls generation assets, Labrador-Island  
20 Link assets, and the Labrador Transmission Assets.

21 In order for Hydro to fully recover annual costs resulting from charges related to the Project, it is  
22 necessary for Hydro to maintain a supply cost recovery mechanism to allow recovery of cost  
23 variances relative to the Project costs included in approved test year rates.