Q. **Reference: Schedule 1: Evidence**

Page 8, lines 16-17 states that, in order to defer excess Schedule 2 energy, Hydro is required to declare that it will defer excess energy rather than monetize the excess as export revenues.

(a) When does Hydro have to make the declaration to defer the excess energy rather than monetize it? Can the excess energy that has been deferred be monetized as export revenues in future years?

(b) How would Hydro account for the deferral of excess energy and will there be a dollar value attached to this deferred excess energy?

(c) Is there a limit to the amount of excess energy that Hydro can defer?

(d) Will the deferral of excess energy have any impact on the operation of the proposed Supply Cost Variance Deferral Account?

A. (a) Within 30 days of year-end, the Muskrat Falls Corporation is required to provide Newfoundland and Labrador Hydro ("Hydro") with an annual report that states, among other things, the amount of deferred energy owed to Hydro as of year-end and the amount of Residual Block sold in external markets in the previous year. Within five days of receiving this annual report, Hydro has the right to specify the amount of Residual Block sales in the previous year deemed to have been sold and monetized on Hydro's behalf for use in determining net revenues from exports to be paid to Hydro.[1] Base Block energy that is not delivered to Hydro and that Hydro chooses not to monetize will be deferred energy owed to Hydro which can be monetized in any future year.

(b) Any Schedule 2 energy deferred by Hydro will be tracked as part of the International Financial Reporting Standards deviation as outlined in PUB-NLH-026, Attachment 1. This

[1] Hydro may specify deferred energy sales only up to the amount of Target NLH External Market Sales included in the most recent 156 week forecast submitted by Hydro.

non-cash Regulatory asset will be excluded from rate base. The deferred energy will also be tracked as part of the contract compliance obligations.

(c) There is no contractual limit to the amount of energy Hydro can defer; however, operationally, the maximum that Hydro could defer in any given year is the amount of Base Block energy to which it is entitled in that year.

(d) The proposed Supply Cost Variance Deferral Account is structured to deal with the monetization of excess energy resulting from exports. The deferral account balances will only be impacted if excess energy is monetized, otherwise the deferral of excess energy will have no impact on the operation of the proposed Supply Cost Variance Deferral Account.