

1 Q. **Reference: Financial Reporting of Project Costs**

2 Will Hydro have separate regulatory accounts for the pre-commissioning power purchases from
3 the Muskrat Falls PPA, the post-commissioning power purchases from the Muskrat Falls PPA and
4 the transmission costs from the TFA or will there be one regulatory account? Will these
5 regulatory assets/liabilities be included in the calculation of rate base?

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8 A. No. The current application proposes approval of a single deferral account that effectively
9 blends Newfoundland and Labrador Hydro's ("Hydro") existing supply cost deferral accounts
10 with new deferral account components for the transactions associated with the Muskrat Falls
11 Project ("Project"). The primary Project transactions include Hydro's payments under the Project
12 agreements, rate mitigation funding to be provided by government, and funds collected from
13 customers from rate increases to recover Project costs.¹ Hydro's monthly Project costs under
14 the Transmission Funding Agreement and the Muskrat Falls Power Purchase Agreement
15 ("Muskrat Falls PPA") will be recorded in the same component in the proposed deferral account.
16 The term of the proposed deferral account would begin in the month when Hydro makes its first
17 payment under the Muskrat Falls PPA and will end upon the conclusion of Hydro's next general
18 rate application ("GRA").

19 Due to the uncertainty in the ongoing balances in the proposed deferral account, Hydro is
20 proposing to exclude the Supply Cost Variance Deferral Account in its calculation of rate base in
21 its next GRA. However, Hydro is proposing to apply financing costs to the deferral account
22 balance based on Hydro's approved test year weighted average cost of capital (i.e., consistent
23 with the financing costs applied to the Rate Stabilization Plan).

¹ The proposed deferral account also includes components to credit revenues resulting from the sale of Greenhouse Gas Credits, transmission tariff revenues from third parties and export revenues.

1 In its next GRA, Hydro will propose a long-term approach to the Supply Cost Variance Deferral
2 Account to replace the proposed deferral account in this application with the replacement
3 deferral account to become effective after the conclusion of the next GRA. The long-term
4 approach will include the allocation and recovery of the balances that accumulate in each
5 component after the conclusion of the next GRA.