

1 **Q. In its Electrification, Conservation and Demand Management application**
2 **Newfoundland and Labrador Hydro proposes to charge the capital cost of its DCFC**
3 **charging stations on the Island Interconnected system to a deferral account rather**
4 **than including the costs in rate base as a capital asset. What would be the**
5 **advantages and disadvantages of Newfoundland Power recording the capital costs**
6 **of its DCFC and Level 2 charging stations in its electrification deferral account?**
7 **Please address impacts on the net present value analysis, regulated rate base and**
8 **revenue requirements as well as any other considerations, including any issues**
9 **related to the requirements associated with US generally accepted accounting**
10 **principles?**

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12 A. There would be no material advantage or disadvantage if Newfoundland Power recorded
13 electric vehicle (“EV”) fast charger capital costs to a deferral account rather than to a
14 capital account. This is reflective of the similarities of both methods regarding the
15 (i) deferral of costs and (ii) recovery of costs through customer rates.

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17 Deferred cost recovery is conceptually similar to capitalization.¹ Both approaches
18 require Newfoundland Power and Newfoundland and Labrador Hydro (collectively,
19 the “Utilities”) to finance the up-front cash outlay of the EV fast chargers. The cash
20 outlay under both methods is included in the Utilities’ calculations of rate base until the
21 amounts are recovered through customer rates.²

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23 In its *2022/2023 General Rate Application* (the “2022/2023 GRA”), Newfoundland
24 Power has proposed recovery of deferred electrification costs over 10 years.³ This
25 recovery period is the same as the Company’s estimated useful life of the EV fast
26 chargers.⁴ As a result, there would effectively be no change to Company’s regulated rate
27 base, revenue requirement or net present value (“NPV”) calculations using either
28 method.⁵

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30 In Newfoundland Power’s assessment, U.S. GAAP would allow the creation of a
31 regulatory asset resulting from the approved deferred cost recovery.⁶

¹ Both deferred cost recovery and capitalization allow for recovery of the costs over a longer timeframe, and are therefore both consistent with the principles of rate stability and intergenerational equity.

² Hydro also includes deferred charges in its computation of rate base, including its Conservation Demand Program deferral. See, for example, *Return 3: Computation of Rate Base* and *Return 11: Deferred Charges* included with Hydro’s *2020 Annual Return* filed with the Board on April 1, 2021.

³ See Newfoundland Power’s *2022/2023 GRA*, Volume 1, Company Evidence, Section 3.4.2 Customer Program Costs, page 56, *et. seq.*

⁴ See Newfoundland Power’s *2022/2023 GRA*, Volume 3, Gannett Fleming: *2019 Depreciation Study*, page I-6.

⁵ The only difference between the two methods is a small difference in the timing of cost recovery. Under capitalization, recovery of costs in year 1 would be subject to the half year rule. Under the deferral account method, recovery does not start until year 2 and is not subject to a half year rule. The difference is negligible. For example, on a NPV basis, the deferral method would produce a \$61.543 million cumulative value by 2034 compared to a \$61.529 million cumulative value by 2034 under capitalization.

⁶ *ASC 980 Regulated Operations* permits the creation of assets and liabilities to reflect the economic impact of rate-regulated activities. See the response to NLH-NP-002 for an assessment on applying ASC 980 to charge the capital costs associated with the Electric Vehicle Charging Network project to the Electrification Cost Deferral Account, if ordered by the Board.