

1 Q. Please provide the reasons for waiting seven years to file this GRA? Does Hydro  
2 believe that filing a GRA at this time is consistent with regulatory efficiency?

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5 A. While there can be other reasons to file a GRA, a utility will normally file a GRA  
6 when its earnings deteriorate to the point that rate increases are required. In  
7 Hydro's case, in the years since 2007, a number of initiatives assisted Hydro in  
8 achieving an acceptable financial status without seeking rate increases through a  
9 GRA. The following initiatives and events are outlined in Hydro's pre-filed evidence:

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11 • Hydro determined that wind energy was a cost effective and viable  
12 alternative energy source that was able to displace Hydro's fuel consumed  
13 at Holyrood and so it set out to purchase wind energy through Power  
14 Purchase Agreements (PPAs). There are two wind energy PPAs with a  
15 combined capacity of 54 MW. Due to the fact that wind energy cannot be  
16 dispatched, and due to the realities of operating an isolated electrical grid  
17 on the Island part of the Province, the amount of wind energy that can be  
18 economically is finite. However, the purchase price advantage of wind over  
19 Holyrood fuel is significant, was a prudent energy source to secure while  
20 larger scale projects were being considered, and assisted Hydro's income in  
21 the years since its last GRA. While these energy cost savings were  
22 significant, most of the energy cost savings obtained through the  
23 displacement of Holyrood fossil fuel generated energy were realized by the  
24 ratepayers through the RSP.

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26 • In December of 2008 the Provincial Government passed the *Abitibi-*  
27 *Consolidated Rights and Assets Act*, SNL2008 Chapter A-1.01, and the hydro-

1 electric generating assets formerly owned by Abitibi became the property of  
2 the Province. Nalcor was given a license to operate these assets and the  
3 energy generated by them was delivered to Hydro at a price of 4 cents/kWh,  
4 displacing much more costly Holyrood fossil fuel generated energy. These  
5 energy cost savings further assisted Hydro in meeting its financial needs  
6 without seeking rate increases. Again, most of the savings obtained through  
7 the displacement of Holyrood fuel costs were realized by the ratepayers  
8 through the RSP.

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- 10 • In 2008, the Government waived its debt guarantee fee and then reset the  
11 fee at a lower level effective 2011. This cost reduction has assisted with  
12 Hydro's earnings.
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  - 14 • In 2009 Government provided an equity injection to Hydro, through Nalcor,  
15 of \$100 million. This action strengthened Hydro's financial position.
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17 With regard to regulatory efficiency, Hydro believes there is a trade-off when longer  
18 periods occur between GRAs. Because, typically, the prime reason to file a GRA is  
19 the need to increase customer rates, the decision to take other steps which results  
20 in fewer GRAs will usually result in fewer rate increases to customers and lower  
21 overall regulatory costs due to the avoidance of GRAs in the intervening years. It  
22 appears to be true that there is an increased complexity and scope of GRAs that  
23 occur after several years have passed but, overall, Hydro believes deferring GRAs  
24 when it is reasonable to do so reduces the regulatory costs borne by the customer.