

1 Q. If Hydro's proposed deferral mechanism for energy supply cost variances on the  
2 Island Interconnected system is approved, is it correct to say that all risks associated  
3 with changes in quantity or price that may be directed by Government for the  
4 supply of Exploits generation are borne by Hydro's customers, once the proposed  
5 threshold of +/- \$500,000 is met? If yes, why does Hydro believe that it should be  
6 insulated from the results of actions taken by its shareholder while its customers  
7 bear the risk?

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10 A. The proposed Energy Supply Cost Variance Deferral Account deals with quantity  
11 and price variances on the Island Interconnected System related to power  
12 purchases from wind generation, CBPP generation and hydraulic generation and  
13 generation costs from diesels and gas turbines. See Section 3.8.2 to the Evidence in  
14 Hydro's Amended Application.

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16 The Energy Supply Cost Variance Deferral Account is required to deal with quantity  
17 variances from Exploits hydraulic production for the same reason that RSP includes  
18 a hydraulic variations component. Holyrood production remains the marginal  
19 supply for energy on the Island Interconnected System, meaning that increases or  
20 decreases in power purchases vary the amount of fuel required to be consumed at  
21 Holyrood. Variances in the quantity of purchases available from Exploits can cause  
22 significant volatility in the amount of fuel burned at Holyrood from year to year.

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24 As outlined in Section 2.7.3 of Hydro's Amended Application and similar to Test  
25 Year treatment of its own generation, Hydro has used the Vista model to determine  
26 the Exploits power purchase forecast based on long-term inflow data. Using recent

1 fuel forecasts, variances ranging from seven to 11 cents per kWh<sup>1</sup> can be  
2 experienced between Holyrood generation unit costs and Exploits power purchase  
3 unit costs. These variations represent risks to both ratepayers and Hydro. The risk  
4 to ratepayers results in the case of higher than normal Exploits production that  
5 results in Holyrood fuel savings. Without the proposed deferral, account ratepayers  
6 do not receive the benefit of these lower costs. The risk to Hydro results in the case  
7 of lower than normal Exploits production which results in an increased use of  
8 Holyrood. Without the proposed deferral account, Hydro's net income is not  
9 protected from the increased Holyrood fuel cost. It is Hydro's opinion that, as a  
10 matter of fairness to both ratepayers and Hydro, quantity variances resulting from  
11 Exploits production would properly be accounted for in Hydro's proposed deferral  
12 mechanism for energy supply variances.

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14 Hydro has proposed price variability to be dealt with in the Energy Supply Variance  
15 Deferral Account because the costs of diesel fuel, gas turbine fuel and the price for  
16 power purchases from wind and CBPP cogeneration change between test years.

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18 Hydro does not anticipate any price variability from Exploits for 2015. In a letter  
19 from Government to Hydro, a copy of which has been provided in this proceeding in  
20 Hydro's response to PUB-NLH-008, it is indicated that it is "the Government of  
21 Newfoundland and Labrador's intention to transfer ownership of the Exploits  
22 generation facilities ...in a manner that will ensure long term benefits to  
23 Newfoundland and Labrador electricity ratepayers". Hydro anticipates the asset  
24 transfer to occur in 2016.

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<sup>1</sup> Calculated based on Hydro's 2015 Interim Application fuel price of \$65.63/bbl , Hydro's Amended Application fuel price of \$93.32/bbl and a fuel conversion factor of 607 kWh/bbl.