

1 Q. Hydro states in the Application on page 1, lines 10-12, *“Hydro’s current position is*
2 *that low precipitation levels in late 2015 and to date in 2016 have reduced storage*
3 *levels. Therefore, an increase in thermal generation, more than is currently provided*
4 *for in rates charged to customers, is required”*. Considering this statement and that
5 the definition of the deferral account contained in Appendix B does not reference
6 generation costs for hydrology issues, please explain how Hydro will ensure the fuel
7 charged to this account will be for hydrology and how an objective examination of
8 the annual balance in the deferral account can verify that the accrual results from
9 this purpose only.

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12 A. Hydro is proposing that all additional fuel costs incurred in 2016 associated with
13 Standby Generation be deferred in the proposed account.

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15 While Hydro anticipates that the majority of costs charged to the deferral will be a
16 result of low hydrology, Hydro will incur standby fuel costs in 2016 associated with
17 increased reliability to customers. Increased Standby Generation will not only
18 provide energy to the system thereby increasing the amount of energy in Hydro’s
19 reservoirs, it will also provide increased reliability to customers. Hydro expects that
20 in most events of deployment of the Standby generation, it will be understood to
21 be providing both energy and reliability benefits simultaneously. For these reasons,
22 Hydro believes that for 2016, drawing distinctions in the deferral account balance
23 between standby fuel costs incurred for usage of standby generation for energy,
24 versus standby fuel costs incurred to provide capacity or reliability, would be
25 impracticable and would not produce meaningful results.

- 1 Response to NP-NLH-010 indicates that Hydro will provide quarterly reports
- 2 documenting the details on the operation of the standby units including the reason
- 3 for operation on a daily basis.