

1 Q. **Reference: Long-Term Supply for Southern Labrador – Revision 1 - Schedule 2 - Long-Term**
2 **Supply for Southern Labrador - Evidence Supporting the Revised Application**

3 In footnote 18, page 14, Hydro noted that the insurance claim related to the 2019 fire at the
4 Charlottetown diesel generating station is ongoing and should the claim result in a payment to
5 Hydro, it will be applied to reduce the revenue requirement associated with this project.

6 In footnote 3, page 1 of Appendix A “Capital Expenditure and Carryover Report for the Year
7 Ended December 31, 2021”, Hydro noted that as per Board Order No. P.U. 13(2012), insurance
8 proceeds are offset against the cost of the capital asset and as a reduction of the rate base value
9 of assets. Hydro also noted that in 2021 it reached a settlement on the Charlottetown Diesel
10 Generating Station fire for \$4.5 million, and that \$3.6 million will be applied against the planned
11 expenditures in Labrador South.

12 a) Please reconcile the two footnotes noted above and confirm whether Hydro has
13 received the insurance proceeds related to the 2019 fire and the amount received.

14 b) Please explain why Hydro has determined that the proceeds from the insurance claim
15 will be applied against the revenue requirement associated with this project and not
16 against the capital cost of the project.

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19 A. Newfoundland and Labrador Hydro (“Hydro”) notes that footnote 18, page 14 was included in
20 error. Please refer to the following responses for the updated information:

21 a) It is confirmed that Hydro reached a settlement on the Charlottetown Diesel Generating
22 Station fire and received \$4.5 million (net of deductibles).

23 b) The total \$4.5 million insurance proceeds received was deferred as a reduction in rate base
24 and, as a result, the proceeds did not increase Hydro’s net income. Hydro has undertaken
25 further review of its asset retirements including those stemming from the 2019 fire, which
26 has resulted in a change of allocation of the insurance proceeds. Of the total \$4.5 million

1 received, Hydro allocated \$3.5 million of the proceeds to Hydro’s Retirement Asset Pool
2 which offsets the losses on retirements incurred,¹ and \$1.0 million was deferred to be
3 applied against the cost of capital assets² and as a reduction in rate base when the future
4 assets go into service.

¹ As per Board Order No. P.U. 30 (2019), gains and losses on the retirement of asset are deferred in Hydro’s Retirement Asset Pool. As a result, Hydro deferred \$3.5 million of losses on retirement and an offsetting allocation of the insurance proceeds of \$3.5 million.

² As per Board Order No. P.U. 13 (2012), Hydro is required to record “net” insurance proceeds associated with capital projects of \$50,000 or more as an offset against the cost of capital assets and as a reduction to the rate base value of those assets. In this instance, Hydro incurred losses on retirement of \$3.5 million; and as a result, \$3.5 million of the proceeds was allocated to be applied against the losses. The remaining “net” insurance proceeds of \$1 million will be used to offset the cost of capital assets.