Q. **Reference: Volume 3, pages 685-690**

Confirm whether the Long-Term Supply Cost Variance Deferral Account's ten variance streams, taken together, are intended to substantially insulate Hydro's earned return from forecast error (load, hydrology, export price, fuel, and mitigation-funding variance) within a test year. Provide a direct confirmation or denial, and identify any category of forecast risk relevant to Hydro's cost of service that is not captured by the Long-Term SCVDA or another deferral or variance mechanism disclosed in this GRA.

A. Newfoundland and Labrador Hydro ("Hydro") does not confirm that the Long-Term Supply Cost Variance Deferral Account ("SCVDA"), taken together with its ten variance streams, is intended to substantially insulate Hydro's earned return from forecast error within a test year.

While the Long-Term SCVDA is designed to address specific categories of long-term supply cost variability, Hydro remains exposed to a number of forecast risks that are not captured by the Long-Term SCVDA or other deferral mechanisms. Examples of forecast risks that may affect Hydro's financial results include depreciation associated with growth in asset base; operating cost increases; revenue variances not deferred through the Long-Term SCVDA; variations in power purchase and fuel supply costs not included in the Long-Term SCVDA or the Energy Supply deferral; foreign exchange fluctuations; interest rate fluctuations; borrowing costs; bad debt expense; and other contract and operating costs incurred due to business circumstances. Accordingly, while the Long-Term SCVDA mitigates the impact of specified supply cost variances, Hydro continues to bear a range of forecast and business risks that may affect its earned return.