

1 Q. **Reference: NP-NLH-097, Issue Topic: Long Term Supply Cost Variance Deferral Account, and**
2 **Exhibit 12.**

3 Please explain to what extent the following factors were considered by Hydro when deciding to
4 propose to move from its historically used energy-only allocation to an energy/demand
5 allocation to allocate costs in the proposed Long Term Supply Cost Variance Deferral Account:

- 6 i. Canadian utility practice supports the continuation of the energy only allocation,
7 with no utilities surveyed using Hydro's proposed approach (Exhibit 12, Table 1);
- 8 ii. Hydro's expert's finding that Hydro's proposed change *"might produce a slightly*
9 *improved allocation"* when compared to the *"simple and well-founded practice"* of
10 an energy only allocation (Exhibit 12, page 14);
- 11 iii. Hydro's view is that it is not necessary to address the approaches for the disposition
12 of account balances for the Long-Term Supply Cost Variance Deferral Account at this
13 time (NP-NLH-092); and,
- 14 iv. Uncertainties in future balances in the Long-Term Supply Cost Variance Deferral
15 Account (balance of \$179,874,420 as of December 31, 2027 in NP-NLH-110 vs. an
16 expectation of balances centered on zero as provided in Exhibit 12, page 14).

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19 A. **i and ii.** In proposing an energy and demand allocation methodology for the Long-Term
20 Supply Cost Variance Deferral Account ("SCVDA"), Newfoundland and Labrador
21 Hydro ("Hydro") considered the information provided by its external expert,
22 including the jurisdictional review and assessment of alternative approaches.

23 Hydro acknowledges that the jurisdictional review found that many Canadian
24 utilities recover comparable generation-related rider costs through energy-only
25 charges. Hydro also acknowledges the expert's observation that an energy-only
26 approach is a simple and well-established practice.

1 However, Hydro's proposed approach was informed by the principle that costs
2 should be allocated in a manner that is consistent with cost causation, as reflected
3 in Hydro's approved Cost of Service Methodology. As noted by the expert, applying
4 Hydro's existing demand and energy allocation methodology to the account
5 components would provide an improved assignment of cost responsibility among
6 customer classes and better align cost responsibility with the underlying cost
7 drivers. By contrast, an energy-only allocation would not recognize demand-related
8 cost responsibility and would therefore result in an allocation that is less consistent
9 with Hydro's approved Cost of Service Methodology.

10 While the expert noted that the improvement associated with a demand and energy
11 allocation may be modest and that an energy-only allocation could also represent a
12 reasonable recovery approach, Hydro considers consistency with cost causation
13 principles and its approved Cost of Service framework to be the preferable basis for
14 allocating costs. Hydro also considered the impacts on all affected customer classes,
15 including Island Industrial customers, in assessing the proposed methodology.

16 In addition, Hydro considered whether moving from an energy-only allocation to a
17 demand and energy allocation would create undue complexity or administrative
18 burden and determined that implementation of the proposed allocator would not
19 materially increase the complexity or administration of the account.

20 iii. Hydro considers the allocation of costs to customer classes and the disposition of
21 account balances to be separate issues. The proposed demand and energy allocator
22 is intended to determine how costs and credits recorded in the account are
23 allocated among customer classes in a manner that is consistent with Hydro's
24 approved Cost of Service Methodology and the principle of cost causation.

25 The issue of when and how account balances may ultimately be recovered from or
26 returned to customers does not affect the underlying allocation of those balances
27 among customer classes. Accordingly, Hydro does not consider the absence of a
28 proposed disposition methodology at this time to be a reason to depart from an
29 allocation methodology that is more consistent with cost causation principles.

1 Further, customer rates are expected to remain subject to the existing rate
2 mitigation targets up to and including 2030. Any future disposition of Long-Term
3 SCVDA balances through a proposed rider would be offset by a corresponding
4 adjustment to the Project Cost Recovery Rider during this period.

5 **iv.** Hydro considered the nature and magnitude of expected future variances in the
6 account. As noted in the application, Hydro expects variances recorded in the Long-
7 Term SCVDA to be significantly lower than those experienced historically.

8 Hydro notes that the balance referenced by Newfoundland Power Inc. represents
9 the projected balance in the account at a specific point in time and is largely
10 attributable to the forecast timing difference between the receipt of rate mitigation
11 funding, which will reverse as associated rate mitigation funding is received,
12 projected in the first quarter of the following year. Accordingly, the projected
13 account balance at December 31, 2027 is not indicative of a persistent variance in
14 supply costs and is not inconsistent with the expectation that account balances
15 arising from supply cost variances would be centered on zero over time. Hydro
16 therefore does not consider the projected year-end balance at December 31, 2027
17 to be a factor that would support continuation of an energy-only allocation
18 methodology.