

2. Hydro is proposing that rates be set lower than that required to recover the full cost of service in the three test years. This results in large deferrals over the three test years. Hydro believes it is essential that provision be made in the rates for the recovery of some of the deferrals in the test years.
  
3. Hydro is proposing that rates be established based on an interest coverage of 1.15 times gross interest, the minimum of the range Hydro is requesting. Unless rates are set for more than one year more hearings will be required.

Hydro is proposing that the price of Bunker "C" oil be maintained at \$18 for the 1990 cost of service, increased to \$20 in 1991 and \$21 for 1992. This results in a revenue requirement of \$45 million in 1990, \$56.3 million in 1991 and \$67 million in 1992.

Mr. Collett testified that Hydro has experienced extremely large fluctuations in the price of oil over a one year period.

Mr. Brockman stated that under its proposal, Hydro will be operating under a regulatory scheme that will give it less economic incentive to be efficient than the use of a single test year would. Under this scheme, this Board will be required to make judgements about costs and revenues that will occur up to three years into the future and approve rates based upon these necessary speculative estimates. It

will be very difficult for the Board and intervenors to judge how accurate the long term projections are. Once rates are approved based on these projections, there will be very little economic incentive for Hydro to operate efficiently.

#### CONCLUSION

The Board believes it is too speculative to accept three test years for rate making purposes and recommends that rates be based upon the 1990 projected test year only.

#### Early Retirement

In December 1988 Government approved a voluntary retirement program for all employees employed in direct Government Departments.

On January 18, 1989, a Press Release from the Premier's Office stated, inter alia, "Today, I am pleased to announce that my Government has approved a voluntary retirement program for all other organizations that are covered under the Public Service Pension Plan.....All these organizations will be advised that if they so choose they may implement a voluntary retirement program in their organization which is similar to those available in Government Departments provided that the following conditions apply: