

Q. Re: p. 20, lines 14-17

Mr. Browne states, “Therefore, there is a question whether the Government considered the cost of equity to be a cost recoverable through allowed rates at the time it decided to transfer funding for the Deficit from the taxpayer to the ratepayer. There is at least a question whether there was a recoverable cost in excess of the 8% margin.”

Would Mr. Browne please explain in greater detail what he means by this paragraph?

A. To the extent that there is an opportunity cost associated with the Government’s investment in Hydro, there was an opportunity cost associated with the investment in 1989 when the Government decided that the funding of the Deficit would be transferred from taxpayers to ratepayers. However the Government did not attempt to recover that opportunity cost. As noted by Ms. McShane on page 2 of her pre-filed testimony, the amount of margin included in revenue requirements was set essentially to provide protection to ensure that Hydro could meet its debt obligations. This target margin was last set to provide an interest coverage of 1.08 (i.e., a margin over interest of 8%).

As previously noted by this Board, the Deficit is unusually large and effectively represents a tax on ratepayers¹. Since the time that the Deficit was passed on to ratepayers, the resulting burden has been partially offset by the Government not seeking a full return on its investment. To leave the ratepayers with the Deficit while allowing Hydro to recover the full opportunity cost of its investment would effectively increase the social policy costs that must be borne by ratepayers.

Where there has not been explicit direction from the Government, either through specific legislation or in accordance with the legislation under which the Board operates, it is reasonable to assume that the Board is expected to exercise its judgment in determining whether it is just and reasonable for this increase in social policy costs to be passed on to ratepayers.

¹ Report of the Board of Commissioners of Public Utilities to the Honourable Minister of Natural Resources, Government of Newfoundland & Labrador on a Referral by the Lieutenant Governor in Council Concerning Rural Electrical Service; October 10, 1995; pg. 13 and 163.