

1 Q. (a) Recalculate DWO, Schedule I with an estimate of the annual Hydro
2 Rural deficit per year treated as a cost of serving Wabush using the
3 cost of service methodology approved in the Board's report in
4 February 1993.

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6 (b) Justify the proposed Wabush rebate in light of Section 17(5) of the
7 Hydro Corporation Act.

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10 A. (a) Hydro has compiled the cost of serving Wabush, as filed on DWO,
11 Schedule I, based solely on costs recorded in the accounting records.
12 It does not include any overhead cost allocation, margin allocation, or
13 rural deficit allocation. Prior to 1992, this was the accepted method for
14 recording the Wabush cost of service.

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16 The February 1993 cost of service methodology approved one cost of
17 service study for the Labrador Interconnected system however it has
18 not been implemented. For this reason, Hydro continued with the
19 accounting treatment for recording Wabush costs, while maintaining
20 the cost of service study for Labrador Interconnected as a whole.

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22 The deficit allocation component of the February 1993 cost of service
23 methodology uses revenue requirement to allocate costs within each
24 system. However, the methodology does not provide for calculation of
25 the Wabush revenue requirement. Therefore, we are unable to
26 estimate the Wabush only component of the rural deficit.

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1 A. (b) Hydro's requirement to determine and record the Wabush surplus
2 arose while the Wabush customers were served by the Power
3 Distribution District of Newfoundland (P.D.D.). P.D.D. was absorbed
4 into Hydro by a 1989 amendment to the *Hydro Corporation Act*
5 (referred to as the *Hydro Act* at that time). This requirement to
6 account for this surplus has remained as part of Hydro's rate
7 structures since that time.

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9 Subsection 17(5) of the *Hydro Corporation Act* reads as follows:

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11 17(5) The rates, tolls and charges for, and the rules applicable to,
12 each kind of service provided or supplied directly or indirectly to or for
13 the public immediately prior to the coming into force of this section or
14 a corporation by the corporation immediately prior to the coming into
15 force of this section shall apply to the same kind of service so
16 provided or supplied by the corporation until altered under the *Public*
17 *Utilities Act* and, notwithstanding that Act, no alteration shall have
18 retroactive effect on those rates, tolls or charges or increases,
19 including by providing for refunds or credits to customers.

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21 The section came into force in January of 1996. In Hydro's view, as of
22 January 1996 the obligation to refund or rebate amounts to the
23 customers in Wabush had already arisen and was continued by
24 subsection 17(5) of the *Hydro Corporation Act*. Therefore, giving
25 effect to this existing obligation does not constitute an "alteration" as
26 that term is intended in that section.