

1 Q. The Board recommended in its July 29, 1996 report '*Referral by the*  
2 *Lieutenant Governor in Council Concerning Rural Electrical Service*' "that  
3 preferential rates be phased out. The phase out period should be five  
4 years" (page 32). Why has Hydro not started the phase out of preferential  
5 rates?  
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7 A. Hydro did not start the phase out of preferential rates since this is Hydro's  
8 first general rate application since 1992, plus if preferential rates were  
9 phased out at this time, the magnitude of the rate increase to Isolated Rural  
10 customers, including the general increase, is considered to be significant.  
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12 In addition, Mr. Osmond in his evidence on Page 9 lines 4 to 19 outlines  
13 that "Considering the overall impact of Hydro's general rate increase on  
14 Isolated Rural Customers, combined with the projected increases for  
15 Isolated Rural Customers that would arise if all recommendations in the  
16 1996 Report were implemented immediately, Hydro is not proposing to  
17 commence the implementation of all of these recommendations starting in  
18 2002. As a first step however, Hydro is proposing to phase in cost based  
19 rates for Provincial and Federal Government departments and agencies as  
20 outlined in the 1996 Report. Hydro believes that it is appropriate that this  
21 rate adjustment be considered by the Board now and in the future in order  
22 to keep the rural deficit paid by Newfoundland Power customers and  
23 Hydro's Rural Customers on the Labrador Interconnected System, as low  
24 as practicable. Hydro will submit at its next Rate Application, for review  
25 and approval by the Board, a rate plan outlining alterations in rates over a  
26 maximum of five years that will address the remaining recommendations in  
27 the 1996 Report (including the phase out of preferential rates and  
28 increases in cost recovery from Isolated Rural Customers)."