

1 Q. At page 17, Mr. Bowman states, “While the Rate Stabilization Plan does tend to
2 reduce year-to-year volatility, it is my opinion that overall the plan is detrimental
3 to consumers.”

4 (a) Is this statement based on evidence or studies of any kind?

5 (b) How does Mr. Bowman measure when consumers are better off?

6

7 ANSWER:

8 (a) The statement is based on page 16 line 23 and page 17, lines 1 to 6 of Mr.
9 Bowman’s Pre-filed Evidence, repeated below:

10 *The method of recovery impacts rate design as do the subsidies that result*
11 *from the plan. In addition, the plan eliminates any incentives to Hydro to do a*
12 *better job of forecasting, and to better manage its fuel supply cost, and the*
13 *plan is not well-understood by consumers. The plan, by deferring costs to the*
14 *future, results in a cross-subsidy to current consumers by future consumers.*
15 *For example, the large increase in rates resulting from the Rate Stabilization*
16 *Plan now means that today’s consumers are subsidizing past customers who*
17 *have enjoyed lower rates as a result of the deferment of higher fuel costs.*

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19 Newfoundland Power’s expert witness, Mr. Brockman, makes similar claims,
20 arguing that: 1) the process of allocating the RSP amounts is not very
21 transparent (Direct Testimony, page 16, lines 6 to 8); 2) the RSP amount,
22 representing nearly 1/3 of Hydro’s revenue requirement (at the \$100 million
23 cap) is excessive, and gives Hydro little or no incentive to operate efficiently
24 (page 9 of his Direct Testimony, lines 6 to 7); and 3) if an Industrial Customer
25 were to leave the system remaining customers might conceivably be left to
26 pick up large deferred expenses in the RSP (page 10, lines 7 to 10). This third
27 argument is true for any RSP-paying customer that leaves the system, and
28 supports Mr. Bowman’s argument that the RSP creates cross-subsidization
29 among generations of consumers.

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1 (b) There are many inputs used to determine when consumers are better off, but
2 generally, consumers are better off when the benefits or value exceeds the
3 costs.