

1 Q. Mr. Henderson states at page 1 of his Supplemental Evidence that if
2 Hydro used a 30 year average for test year hydraulic production, "we
3 would not be planning operation of our system storage levels to ensure
4 our firm loads could not be met with a repeat of a known historical
5 occurrence."

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7 (a) Does the witness believe it is necessary to link planning for the
8 operation of the hydraulic system (the goal of which is ensuring
9 adequate energy supply), with the forecast production of the hydraulic
10 system in a test year (the goal of which is establishing reasonable
11 electricity rates)?

12
13 (b) Does the availability of the RSP to deal with financial implications of a
14 dry year provide increased flexibility in forecasting test year hydraulic
15 production?

16
17 (c) Isn't it prudent to use a more conservative approach to planning (i.e.,
18 the use of a firm energy criteria) than the approach that would be
19 employed to project hydraulic production for setting rates for a test
20 year?

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22 A. (a) Yes, it is necessary to link the planning of the operation of the power
23 system and the forecast used for setting rates to ensure consistency.
24 The operation of the power system recognizes the significant impact
25 of the variability inherent in the inflow patterns to the various reservoir
26 systems on the Island. The variability also is reflected in the average
27 hydraulic production in the forecast used in the test year. To the
28 extent that the period from 1950 to 1971 is important in operation of

1 the power system it is also important to reflect that period when
2 calculating the average used for forecasting test year production.

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4 (b) The RSP will account for any variances between the forecast
5 hydraulic production and the actual hydraulic production. Therefore,
6 any financial implications of this variance will be accounted for in the
7 RSP. If the RSP did not exist another accounting mechanism would
8 have to be put in place to ensure the financial implications of the
9 variances do not result in either significant financial gain or loss by
10 Hydro due this highly variable and uncontrollable factor. Therefore the
11 RSP itself does not add any more flexibility than any other
12 mechanism. The reality is that the forecast will likely be wrong, but
13 the forecast should be the utility's best estimate using sound utility
14 practice and engineering judgment so that the variances from the
15 forecast will over time average to zero and the balance in the financial
16 accounting mechanism will tend to zero over time.

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18 (c) It is prudent to use the known patterns of the reservoir inflows in the
19 planning of the operation of the power system's hydraulic resources
20 and also to reflect the reality of the average of those inflows in the
21 forecasts. This should not be characterized as conservative or not, as
22 it reflective of the facts of the available information.