

1 Q. RE: Role as Instrument of Public Policy

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3 60.1 How does Hydro reconcile its role as an instrument of public policy
4 with generally accepted public utility practices, particularly with regard
5 to the objectives of:

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7 1) Consumer rationing (“rates are designed to discourage the
8 wasteful use of public utility services while promoting all use
9 that is economically justified in view of the relationships
10 between the private and social costs incurred and benefits
11 received “)¹ and

12 2) Fair Cost Apportionment (“burden of meeting total revenue
13 requirements must be distributed fairly and without
14 arbitrariness, capriciousness, and inequities among the
15 beneficiaries of the service and so as, if possible, to avoid
16 undue discrimination”)?¹ (WEW, p. 6, lines 27-31)

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19 A. 60.1 Rate design is always a balancing of competing objectives. Bonbright
20 et al also discuss several aspects of social principles of ratemaking in
21 an earlier section of their book, pp. 164 – 178. They recognize that
22 involving social aspects into rate design can negatively impact
23 objectives such as consumer rationing and fair cost apportionment.

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25 The long standing policy of uniform rates for customers served from
26 the Island Interconnected System can be considered such a social
27 policy concept as it leads to varying levels of intra-class subsidization.

¹ James C. Bonbright, Albert L. Danielsen, and David R. Kamerschen, Principles of Public Utility Rates (Arlington, Virginia: Public Utilities Reports, Inc., 1988, p. 385.

1 Rates could be designed to track costs very closely but such rates
2 would likely not be readily understood by consumers or easy to
3 administer and therefore inconsistent with those rate design
4 objectives.

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6 The long standing policy of life-line rates for customers served from
7 isolated systems is certainly consistent with including public policy
8 concepts in rate design. Pricing service well below its cost of service is
9 contrary to the consumer rationing objective and puts significant costs
10 on other customers. It has been argued that such costs are more
11 correctly paid by government if they requested such an approach.

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13 Hydro endorses the cited objectives of accepted public utility
14 practices, subject to Hydro's role as an instrument of public policy.
15 Hydro recognizes that in some instances, the Provincial Government
16 determines all use that is economically justified in view of the
17 relationships between the private and social costs incurred and
18 benefits received.