

1       Q.     Assuming the Board accepted the proposal to have all riders for the  
2             RSP applied equally to IC, NP, and Rural, would Island Interconnected  
3             Rural Rates no longer be the same as those charged by Newfoundland  
4             Power, as is currently the case?

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6       A.     No. There does not appear to be any discretion available to Hydro to  
7             set rates for rural customers differently than those charged by NP to  
8             its customers. However, this does not appear to prevent use of a  
9             simple per kW.h RSP collection.

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11            Mr. Osler and Mr. Bowman address this item at page 64 lines 7-17 of  
12            their pre-filed testimony. In that excerpt, a simple approach is  
13            proposed that does not violate the requirement to set Hydro's rural  
14            rates based on NP's rates. In this regard, Mr. Osler and Mr. Bowman  
15            also note that there is a similar requirement in Yukon for retail rates to  
16            be equalized between two companies, and the rider mechanism  
17            operates without complication in that situation.

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19            Specifically looking at the situation in Newfoundland, if a simple  
20            cents/kW.h collection factor were applied to IC and NP for each kW.h  
21            sold, NP would be required to pass through any collections to their  
22            customers for full recovery within the energy rates they charge. Our  
23            understanding is that Hydro's sales to NP comprise the bulk of the  
24            energy NP provides to its customers (about 10% is from NP's own  
25            generation or power purchased from non-Hydro sources per PUB-3)  
26            but that the energy delivered from Hydro includes both sales and  
27            losses internal to NP's system. As a result, it is likely that an RSP  
28            charge imposed by Hydro on NP's sales would result in an  
29            approximately equal RSP charge (on a cents/kW.h basis) in the rates  
30            charged by NP (and likewise by Hydro to its rural customers). In other  
31            words, the equal cents/kW.h rider would appear to work in this  
32            situation.

1           If there were to be a large variance between the RSP rider that Hydro  
2           should properly charge Rural customers (per the RSP equal cents/kW.h  
3           approach), and the rates Hydro is allowed to charge Rural customers  
4           (in accordance with the Rural rates based on NP rates approach), any  
5           variation that did arise could be set aside in a small deferral account to  
6           be addressed at a later rate hearing.

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8           It is also important to note that only a small part of the RSP arises as a  
9           result of Rural customer usage (on the order of 6.4%).