

Q. NLH-137 CA (Re: Page 5, lines 17-18)

Please quantify the value of determining how much customers are willing to spend for service improvements when, in fact, Rural customers' rates are set based on the rates of Newfoundland Power's customers, not on Hydro's expenditures and are heavily subsidized.

A. The value of this information can be quantified as follows:

- a.** There is value in determining when, and if, expenditures should be made. For example, if customers indicate they are willing to accept a 1% rate increase for improved reliability, but would balk at a 2% rate increase for improved reliability, there would be no need for Hydro to make expenditures for reliability improvements that would increase rates beyond 1%, and no reason for the Board to approve expenditures beyond this level. Of course, it would be necessary for Hydro to be able to quantify the level of reliability improvement resulting from the 1% rate increase in order to gain customer buy-in.
- b.** There is value in prioritizing expenditures. For example, if customers indicate a willingness to pay for programs that will reduce the number of estimated bills, but indicate that they are not willing to pay for improved customer call response, Hydro would allocate its limited funds to bill reading rather than customer call response, and the Board would have the information necessary to make informed decisions regarding expenditure trade-offs.

This value exists regardless of the basis for customer rates, and whether customers are receiving or paying a subsidy. When Hydro spends money, it directly impacts all of Hydro's customers, including Newfoundland Power and its customers. Hydro is requesting a rate increase in this Application, and if approved by the Board, Newfoundland Power's rates will increase, and there will be a flow-through increase for all Rural Customers on the Island Interconnected System of approximately 7.4% (see Mr. Banfield's Evidence, page 6, lines 24 to 31). Hydro's customers with rates that are tied directly to Newfoundland Power rates will see a similar increase, so are directly impacted by Hydro expenditures, regardless of the subsidy they currently receive.