

1 Q. **General Topics**

2 Volume II, Exhibit 10 page 9 of 13. Why is the “rate year” defined as the “year  
3 following the test period”? Is not the concept of a test year the relevant period for  
4 the setting of rates, not the following year?

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7 A. The half year rate convention in determining average rate base results in large  
8 capital additions being under-recovered in rate setting. By moving to an annualized  
9 approach, the utility is provided the opportunity to recover the full cost of its  
10 approved capital investments in customer rates. As a result, Hydro has proposed  
11 annualizing rate base in the event of a significant capital addition. This approach  
12 was taken in the Amended 2013 Application; the Holyrood Gas Turbine was not in  
13 service for the full 2015 Test Year but it was in service for 12 months in the  
14 following year. As a result, the Holyrood Gas Turbine was partially recovered in the  
15 2015 Test Year and the Board approved that Hydro could fully recover the Holyrood  
16 Gas Turbine for rate setting purposes.