

- 1 Q. **2017 General Rate Application - Operations**
 2 Page 3.31, lines 22-25 – Provide a table showing the increase from 2015 TY to 2018
 3 TY and 2019 TY in each of the categories of operating and maintenance costs, fuel
 4 costs, power purchases and return and explain in detail the reasons for the
 5 increases in each category.
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 8 A. Please refer to Table 1 for the breakdown of the rural deficit for the 2015 TY, 2018
 9 TY and 2019 TY in each of the categories of operating and maintenance costs, fuel
 10 costs, power purchases and return.

Table 1 Rural Deficit (\$ millions)

	2015TY	2018TY	Difference	2019TY	Difference
Revenues	61.7	67.1	5.4	68.2	1.0
Costs					
Operating Expenses	46.4	47.3	0.9	48.2	0.9
Fuel	28.3	34.5	6.2	36.0	1.4
Purchased Power	7.3	8.0	0.7	8.6	0.6
Depreciation	14.2	19.6	5.4	21.7	2.1
Return	24.8	25.2	0.3	26.3	1.1
Total	121.1	134.6	13.5	140.8	6.2
Rural Deficit	59.4	67.5	8.1	72.6	5.2

1 **2018 Test Year vs. 2015 Test Year:**

- 2 • **Operating Expenses:** increase of \$0.5 million in direct labour costs and
3 system equipment and maintenance and a \$0.4 million increase in indirect
4 administrative and general expenses throughout all rural deficit areas.¹
- 5 • **Fuel:** \$3.2 million increase in No. 6 fuel due primarily to a price difference of
6 \$64/bbl vs \$86/bbl, \$2.5 million increase in diesel fuel due to a price
7 increase from \$1.01/litre to \$1.15/litre and a \$0.5 million increase in gas
8 turbine fuel due to higher usage.
- 9 • **Purchased Power:** increase in purchased power cost from Hydro Quebec on
10 the L'Anse Au Loup System due to both price and quantity (linked to the
11 price of diesel fuel).
- 12 • **Return:** recovery of costs for new capital investments required to provide
13 service in rural deficit areas, including the allocation of additional return due
14 to capital investments on the Island Interconnected System.

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16 **2019 Test Year vs. 2018 Test Year:**

- 17 • **Operating Expenses:** increase of \$0.5 million in direct labour cost and
18 system equipment and maintenance and a \$0.4 million increase in indirect
19 administrative and general expenses throughout all rural deficit areas.¹
- 20 • **Fuel:** increase in diesel fuel expense due primarily to the increase in average
21 price (\$1.15/litre vs \$1.23/litre).
- 22 • **Purchased Power:** increase in purchased power cost from Hydro Quebec on
23 the L'Anse Au Loup System due to both price and quantity (linked to the
24 price of diesel fuel).

¹ The allocation for indirect operating expenses to cover corporate overhead expenses is based on the share of direct O&M in the rural deficit areas to Hydro's total direct O&M. The increase in Hydro's corporate overheads is outlined in Vol I, Chapter 3, Section 3.7.2.

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- **Return:** recovery of costs for new capital investments required to provide service in rural deficit areas, including the allocation of additional return due to capital investments on the Island Interconnected System.