

1 Q. Please describe Hydro's understanding of the role that retroactive ratemaking may
2 play in attempting to make changes, to become effective on January 1, 2008, to the
3 Rate Stabilization Plan.

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6 A. The present Application does not seek retroactive rates *per se*. The rule against
7 retroactive ratemaking prevents a utility from seeking to recover its past costs in a
8 future period.

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10 To some degree, the RSP has always been an exercise in ratemaking with
11 retroactive effects in that past commodity costs were deferred to be collected at a
12 later time. As long as it remains in effect, it is intended that the RSP will continue to
13 reflect the difference between the actual costs and the test year costs.

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15 In recent years, a number of large and unanticipated decreases in Industrial
16 Customer load have caused very large and unanticipated increases in the RSP
17 balance for this customer class. These large balances have occurred not from
18 fluctuations in commodity prices or hydrology, or from changes in customer loads
19 that fall within an expected range; they have occurred as the result of dramatic
20 changes in customer loads occasioned by either the shutdown of significant
21 components of customer operations or, in the case of the Grand Falls paper mill,
22 the complete shutdown of the paper making operation.

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24 The present Application to hold rates steady for this class is not motivated by a
25 desire to recover past losses, rather it is proposed by Hydro that retaining rates at
26 present levels during times of extreme volatility in the Industrial Customer class
27 load, has the advantage of achieving rate stability which is preferable to changing

RSP Components to be charged to Industrial Customers

- 1 rates in accordance with the RSP rules that would otherwise apply which would
- 2 result in unprecedented instability in rates.