

1 Q. **Cost of Service**

2 Given that Teck Resources is shuttering operations in June of 2015 and that Vale
3 and Praxair are ramping up operations in 2015, is it appropriate to use 2015
4 forecast loads in the Test Year? Would it be more appropriate to use 2016 or 2017
5 loads in the Test Year? Please provide a table showing cost allocations and rate
6 increases for the Island Interconnected System customer classes based on the 2015
7 Test Year loads, forecast 2016 loads, forecast 2017 loads and loads averaged over
8 the 2015 through 2017 period.

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11 A. Hydro does not believe it is appropriate to use 2016 or 2017 loads in the Test Year.

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13 In order to maintain the validity of performing a Test Year Cost of Service, Hydro
14 believes that it is necessary to maintain a consistent set of data. For example, an
15 increase in sales necessitates an increase in production at the Holyrood which, in
16 turn, would increase the Test Year revenue requirement. To change just one factor,
17 sales, would not result in appropriate customers' rates.

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19 The RSP, which operates subsequent to rate-setting, also requires a consistent set
20 of data. The RSP accounts for variations in load, hydraulic production and Holyrood
21 fuel price. Adjusting load also requires adjusting Holyrood production in order that
22 all factors used in the calculation of RSP are valid.

Island Interconnected customers' load forecasts for 2016 and 2017 are shown in the following table.

Island Interconnected Sales Forecast (GWh)

	2015	2016	2016 Increase Over 2015	2017	2017 Increase Over 2016
NP	5924.1	6045.9	121.8	6056.6	10.7
Rural	463.9	461.1	-2.8	439.5	-21.6
IC	<u>621.4</u>	<u>777.9</u>	<u>156.5</u>	<u>873.5</u>	<u>95.6</u>
Total Sales	7009.4	7284.9	275.5	7369.6	84.7

As shown in the above table, Newfoundland Power (NP) load is by far the majority of the Island Interconnected System load, representing 85% of total load. In addition to the 2016 forecast increase in IC load of 156.5 GWh, there is also a forecast increase of 121.8 GWh in NP's 2016 load. There will also be, in all likelihood, forecast error in both NP's and IC's 2016 and 2017 load which may be significant. Hydro submits that the 2015 Test Year data provided in its filing is suitable to establish customers' current and future rates.