

1    Q.    **Cost of Service**

2            What are the pros and cons of treating each IIC as a separate customer class in the  
3            cost of service considering that after June 2015 there will be only four IICs.

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6    A.    The current IIC rate structure is cost-based with virtually no intra-class cross-  
7            subsidization (i.e., the demand charge is based on fully-allocated demand-related  
8            costs; the energy charge is based on fully allocated energy-related costs; and each  
9            customer has its own directly-assigned facilities charge). If the IIC rate is  
10           disaggregated into individual rates for each customer there would be virtually no  
11           difference in the charges to each IIC versus under the present rate structure and  
12           would result in the need to restructure Hydro's Island Interconnected Cost of  
13           Service study.

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15           On February 5, 2008, Hydro filed a report with the PUB titled *Review of Industrial*  
16           *Customer Rate Design* that discussed a two-part rate structure for the IIC. Although  
17           agreement had not been reached on how to size the first block, Hydro's analysis  
18           demonstrated that the size of the first block can be set individually for each IIC  
19           based on its individual load factor within a single IIC rate without introducing intra-  
20           class cross-subsidization.

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22           Having a single cost-based rate for all IIC customers is seen as preferable to  
23           individual rates for each IIC in terms of:

- 24           • Practicality, in not needing to restructure Hydro's Cost of Service study to  
25           accommodate individual customers and to restructure the Cost of

1 Service study again and again whenever new customers come on line or  
2 existing customers leave the system;

3 • Transparency, in conveying the rate and terms of service to IIC that are  
4 considering taking service as well as to potential investors for use in their  
5 business evaluations. Individual IIC rates could potentially thwart industry  
6 development on the island;

7 • Administrative ease, in not needing to file applications with the Board for  
8 each new IIC coming on to the system; and

9 • Ability to address system or customer complexities that may arise from time  
10 to time.