

1 Q. **Cost of Service**

2 (*Expert Report on Newfoundland and Labrador Hydro's 2013 General Rate*
3 *Application* prepared by Mel Dean, April 25, 2014) It is stated (page 12, lines 3 to 5):
4 "*In order to achieve an equitable distribution of O&M expenses between Hydro's*
5 *customers, all original costs should be restated in constant year dollars (2013 or*
6 *other year)*". Is Hydro aware of any jurisdiction in North America that reports its
7 costs in constant year dollars? Are there any applicable guidelines or standards that
8 support or prohibit reporting in constant year dollars?

9

10

11 A. In *Fair Value* states, in the United States, the fair value of the utility's rate base is
12 taken into consideration for ratemaking purposes. One example is Indiana, where
13 Ind. Code Section 8-1-6(a) prescribes:

14

15 **Valuation of property**

16 Sec. 6 (a) The commission shall value all property of every public utility
17 actually used and useful for the convenience of the public at its fair value,
18 giving such consideration as it deems appropriate in each case to all
19 bases of valuation which may be presented or which the commission is
20 authorized to consider by the following provisions of this section. As one
21 of the elements in such valuation the commission shall give weight to the
22 reasonable cost of bringing the property to its then state of efficiency. In
23 making such valuation, the commission may avail itself of any
24 information in possession of the department of local government finance
25 or of any local authorities. The commission may accept any valuation of
26 the physical property made by the interstate commerce commission of
27 any public utility subject to the provisions of this act.

1 The determination of fair value of plant in service may be accomplished by
2 considering market value, indexing to current year dollars or a combination of
3 both.

4
5 In the above example, Indiana utilities are not reporting their costs in constant
6 year dollars for book or balance sheet purposes, but rather, to determine fair
7 value for ratemaking. Similarly, Mr. Dean is proposing to restate original costs in
8 constant year dollars solely for the purpose of allocating O&M expenses. The
9 concept proposed by Mr. Dean is not much different than when a utility
10 performs, for example, a minimum-system or zero-intercept regression analysis
11 to determine the cost of minimum or zero size conductors or gas mains. For
12 such an exercise, the unit cost of plant by type and vintage is usually indexed to
13 current dollars in order to put all regression points on a consistent footing.