

1 **Q. Hydro states in NP-NLH-401 “Newfoundland Power’s approach to allocation of the**  
2 **rural deficit among its classes is comparable to the revenue requirement approach**  
3 **proposed by Hydro”. Does Newfoundland Power agree with this statement?**  
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5 A. No. Newfoundland Power does not agree with the statement. Newfoundland Power  
6 allocates the Rural Deficit among its classes proportionally based on the total cost of  
7 service for each class (excluding Rate Stabilization Account adjustments and the  
8 Municipal Tax adjustment).  
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10 Although the method for allocating the Rural Deficit among Newfoundland Power’s  
11 classes of customers is essentially a “revenue requirement approach”, the purpose for  
12 which it is used differs from the purpose of the revenue requirement approach proposed  
13 by Hydro for allocating the Rural Deficit.  
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15 Newfoundland Power’s methodology allocates its portion of the Rural Deficit *within a*  
16 *single system* based on a single cost of service study and relatively uniform rates within  
17 the classes. The purpose of Hydro’s proposed methodology, on the other hand, is to  
18 allocate the Rural Deficit *between two systems* that are considered separately for cost of  
19 service purposes. In Mr. Brockman’s opinion, a methodology for allocating the Rural  
20 Deficit between different systems should account for differences in the circumstances and  
21 characteristics of the customers on the different systems.