Q. (Re: Pre-filed Testimony of Douglas Bowman, page 10): With regard to the "1 1/2 years of free power" analysis, please confirm that this conclusion is based on assuming that the RSP was operated since 2006 under a load variation provision that has not been approved by the PUB.

A. Although a load variation component of the RSP based on load ratio shares has not been approved by the Board, it is not material to a subsidy analysis and Mr. Doug Bowman's conclusions relating to the subsidy. A subsidy analysis is a comparison of revenues from the customer classes to the costs to supply the customer classes. The costs to supply the customer classes on the Island Interconnected System are more closely represented by a load variation component of the RSP that is allocated to customer classes on the basis of energy shares. This is confirmed by Hydro in the 2006 GRA and this 2013 GRA. In Section 5, page 13 of the RSP Evidence dated July 2013 submitted under Hydro's RSP Application, Hydro states: *"Hydro is proposing that the RSP rules be revised effective September 1, 2013 to allocate the net load variation for both NP and IC on customer energy ratios, that is, in the same manner as the fuel price variation is allocated. The bass for this recommendation was provided by Hydro in its June 30, 2006 report, as follows:*

> *One measure of fairness when it comes to evaluating the customer allocations performed in the RSP is the degree to which the RSP adjustment rate anticipates re-setting of customer base rates using a Cost of Service study. If the change were to be incorporated into a new test year, the RSP adjustment rate should be representative of the change to base rates. Hydro has evaluated both the previous and the existing RSP allocation of customer load variation against the Cost of Service treatment. This evaluation showed that both the previous and existing methods produce widely different results which led Hydro to conclude that the customer allocation for the load variation should be revised so that it is more closely aligned with Cost of Service treatment."*

Therefore, allocation of the load variation component of the RSP on the basis of load ratio share is a much better reflection of the costs that the customers impose on the system. This was confirmed by Mr. Brockman, NP's expert witness at the 2009 RSP Application where he states *"Hydro's recommended Cost of Service Approach for dealing with RSP Load Variation Transfers results in rates better reflecting costs"* (see page 24, lines 8 to 9 of Prefiled Evidence of Larry Brockman Testimony on Behalf of Newfoundland Power, September 30, 2009).

In CA-NLH-12 of the RSP Application Hydro compares allocations under the proposed allocation methodology to the current methodology. As shown, NP would have been allocated $150.2 million of the $161.6 million total in the RSP load variation account. Instead, it received only 112.6 million owing to the Orders in Council and PUB Order No. P.U. 26 (2013), representing a cross subsidy of $37.6 million provided by NP customers to the ICs.

The fact that a subsidy has, and will continue to be conveyed by NP and its customers to the ICs is supported on page 4.16 of Volume I of the GRA filing. Table 4.4 shows that based on the 2013 cost of service study, the ICs require a ***rate increase*** of 73.1%, while NP requires a ***rate decrease*** of 4.8%. In Dollar terms, NP is overpaying by $19.9 million, while the ICs are underpaying by $12.2 million. It is proposed that the NP rate be adjusted to reflect the cost of supply[1], while it is proposed that the ICs continue to underpay through September 1, 2015 (see July 2013 Rate Stabilization Plan Evidence, page 1, lines 9 to 10), so the cross-subsidy will continue. As stated on page 2 of the Pre-filed Testimony of the IC experts (lines 6 to 9), *"The rate impacts on industrial customers are extraordinarily high"* even after accounting for "the Government mandated "phase in", over the course of 2013-2015". The reason the ICs are receiving this "extraordinarily high" rate increase is because they are currently paying "extraordinarily low" rates that are subsidized by other customers on the system.

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[1] NP's cost of supply plus an additional 14% to cover the portion of the rural deficit allocated to NP, bringing NP's revenue to cost ratio to 114% (see page 4.4 of GRA Application Volume I, lines 3 to 7).