

1 Q. Please provide a revised balance for the NP RSP deferred balance to be paid out to
2 customers assuming a short-term (promissory note) interest rate is applied through
3 2014 and 2015 (until the assumed date of distribution). Please indicate the net
4 effect of this assumption on the 2014 and 2015 cost of capital and revenue
5 requirement.

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8 A. The impact of using short-term interest rate to calculate financing charges on the
9 NP RSP deferred balance for 2014 and 2015 is a reduction in the plan balance of
10 \$14.5 million (\$132.5 million versus \$118.0 million).¹ The RSP has no impact on the
11 cost of capital used to calculate return in the revenue requirement.

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13 In Order No. P.U. 7(2002-2003), the Board ordered the change in the financing
14 charge used in the RSP from embedded cost of debt to Hydro's Weighted Average
15 Cost of Capital (WACC). The WACC is applied to RSP balances for both NP and
16 Island Industrial Customers (IIC).

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18 Hydro does not consider it appropriate to apply a higher financing rate to the IIC
19 RSP Surplus balance of which approximately \$38 million has already been utilized to
20 the benefit of the IIC (i.e., WACC) than the financing rate to be applied to the NP
21 RSP Surplus.

¹ The initial balance in the NP RSP Surplus was \$112.5 million effective September 1, 2013.