

1 **Q. Preamble:**

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3 **[Pre-filed evidence of C. Douglas Bowman, June 1, 2015, page 32]**

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5 **In section 12h), entitled, “Board’s Position on Payment of Rural Deficit”, Mr.**  
6 **Bowman quotes the Board as stating:**

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8 **Under these circumstances, the only effective means of implementing the**  
9 **provincial power policy is to transfer some or all of the rural deficit to NLH**  
10 **or its shareholder, Government ....**

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12 **The quotation from the reference source (PUB-NLH-339, att. 1, p. 10-11) continues:**

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14 **The Board notes that a number of witnesses supported social policies being reflected**  
15 **as a cost to Government with the proposed options varying from adjusting**  
16 **shareholder return to recovering this cost through appropriate taxation. The Board**  
17 **is not inclined to adjust NLH’s regulated 3% ROE in this Application and is of the**  
18 **view that taxation is a prerogative of Government beyond the control of this Board.**  
19 **The Board feels strongly, however, that discussions involving NLH and Government**  
20 **around future funding options for the rural deficit should constitute part of the**  
21 **evidentiary record.”**

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23 **On page 33 of his pre-filed evidence, Mr. Bowman states:**

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25 **“In summary, the rural rate deficit has become a significant burden. It**  
26 **results in unreasonable and discriminatory rates for the subsidizing**  
27 **customers. Now that Hydro has mandated ROE commensurate with that of**  
28 **NP, I recommend that the Board consider directing a portion of Hydro's**  
29 **return toward payment of the rural subsidy, a subsidy mandated by**  
30 **Government, Hydro's shareholder.”**

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32 **Q. Is Mr. Bowman’s recommendation at page 33 of his pre-filed evidence consistent**  
33 **with OC2009-063? Why or why not?**

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35 **A. Mr. Doug Bowman is not a legal expert, so is unable to render a legal opinion on the**  
36 **consistency of his recommendation with the Public Utilities Act, the Board’s authority to**  
37 **follow his recommendation, or the consistency with OC2009-063.<sup>1</sup> However, he can state**  
38 **the following:**

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40
  - *OC2009-063 states: “in calculating the return on rate base for Newfoundland and*
- 41 *Labrador Hydro, to set the same target return on equity as was most recently set*

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<sup>1</sup> Mr. Doug Bowman was asked a similar question in NLH-CA-005. This response attempts to address both IN-CA-001 and NLH-CA-005.

- 1 • *for Newfoundland Power through a General Rate Application or calculated*  
2 *through the Newfoundland Power Automatic Adjustment Mechanism*". This does  
3 not appear to preclude the Board from allocating a portion of Hydro's return  
4 towards the rural rate subsidy.
- 5 • As noted in NLH-CA-005, Section 80. (2) of the Public Utilities Act states: "*The*  
6 *return shall be in addition to those expenses that the board may allow as*  
7 *reasonable and prudent and properly chargeable to operating account, and to all*  
8 *just allowances made by the board according to this Act and the rules and*  
9 *regulations of the board.*" Mr. Doug Bowman believes that the Board considered  
10 Section 80. (2) of the Public Utilities Act at Hydro's 2006 GRA when it ordered  
11 (Order No. P.U. 8(2007)) a return on equity of 4.47%, significantly less than the  
12 8.8% Hydro is now proposing in the Amended 2013 GRA (Amended 2013 GRA,  
13 Volume I, Section 3.3.7, pages 3.17 and 3.18). It is not clear that Hydro has  
14 earned the right to make a higher return on equity than the 4.77% approved in  
15 Order No. P.U. 8(2007); OC2009-063 directs that Hydro's return be 8.8%, but in  
16 no way suggests that Hydro has earned it;
- 17 • The rural rate subsidy is a significant burden on those customers required to pay.  
18 It is causing an increase over and above the cost of supply of about 13% to the  
19 bills of NP and Labrador Interconnected Customers under the proposed allocation  
20 methodology, and 12% to NP and 42% to Labrador Interconnected Customers  
21 under the currently approved allocation methodology;
- 22 • The rural rate subsidy results in rates that are unreasonable and discriminatory.  
23 The Board refers to its statutory obligations in Section 3.3 (a) (i) of the EPCA  
24 which states "*the rates to be charged ... should be reasonable and not unjustly*  
25 *discriminatory*" (PUB-NLH-339, Attachment 1, page 10 of 14). In Mr. Doug  
26 Bowman's opinion, a subsidy that adds 42% to the cost of supply is contrary to  
27 this statutory obligation. Such a rate cannot be considered reasonable and non-  
28 discriminatory;
- 29 • A review of the allocation methodology for the costs of the rural rate subsidy is  
30 documented in a 1993 report on Hydro's cost of service methodology (PUB-  
31 NLH-113, Attachment 1). The subsidy itself was addressed in the 2003  
32 Discussion Paper for the Minister of Mines and Energy prepared by Hydro in  
33 response to Board Order No. P.U. 7(2002-2003) (see PUB-NLH-339, Attachment  
34 1, page 1 of 14). The Board's Order required Hydro to develop an evidentiary  
35 record on the rural deficit issue and "*to document appropriate consultation with*  
36 *Government*" and "*to address the magnitude of the rural subsidy, comparative*  
37 *practices elsewhere, as well as future funding options for the rural deficit*". Hydro  
38 states in its evidentiary record: "*it appears, from the Board's perspective, that*  
39 *funding options from subsidizing ratepayers and end users are reaching or have*  
40 *reached maximum levels*" (PUB-NLH-339, Attachment 1, page 10 of 14). Mr.  
41 Doug Bowman agrees that funding options have reached maximum levels noting  
42 that the rural deficit has climbed from \$38.8 million at the time the evidentiary  
43 record was prepared in 2003 to \$64.1 million in the 2015 test year.

- 1       • The Board identifies options that might be pursued to fund the rural deficit (PUB-  
2       NLH-339, Attachment 1, page 10 of 14 and 12 of 14), including transferring some  
3       or all of the rural deficit to Hydro or its shareholder, Government; and reflecting  
4       social policies as a cost to Government with proposed options varying from  
5       adjusting shareholder return to recovering the cost through taxation. The Board  
6       states that it *“is not inclined to adjust NLH’s regulated 3% ROE in this*  
7       *Application”* (PUB-NLH-339, Attachment 1, page 10 of 14). It is important to  
8       note that the Board does not say it does not have the authority to adjust Hydro’s  
9       ROE.
- 10      • It has now been 12 years since the 2003 evidentiary record was prepared, and the  
11      costs of the rural subsidy continue to grow. Mr. Doug Bowman believes that there  
12      is no value in conducting another review on the rural rate subsidy – nothing has  
13      changed except that it is now much larger. It is now time to take action. As the  
14      Board states: *“the only effective means of implementing the provincial power*  
15      *policy is to transfer some or all of the rural deficit to NLH or its shareholder,*  
16      *Government”*(PUB-NLH-339, Attachment 1, page 10 of 14).
- 17      • Mr. Doug Bowman therefore recommends that the Board consider taking the  
18      steps necessary to transfer some, or all, of the rural deficit to Hydro or  
19      Government as the *“only effective means for addressing this issue”*.