

1 **Q. Re: Cost of Service Study, Exhibit 9, s. 4.1.1, page 22**

2 The document states: “As a practical matter, it is recommended that the CDM
3 costs for the Island Interconnected customers (both rural and industrial) be
4 allocated among the same customer groups and in the same manner as are
5 fuel costs in the RSP. That is, the CDM costs for the Island Interconnected
6 customers should be allocated to Newfoundland Power, the Industrial
7 Customers, and Rural Island interconnected customers based on year-to-date
8 energy sales. The Rural Island Interconnected portion should be added to the
9 CDM costs for the L’Anse au Loup, Island Isolated and Labrador Isolated
10 Systems, and allocated to Newfoundland Power and the Labrador
11 Interconnected Rural customers. As with the RSP costs, the Labrador
12 Interconnected portion would not be recovered.”

13 Please explain why Rural Island Interconnected CDM costs should be recovered
14 from customers on a) the L’Anse au Loup system and b) the Labrador Isolated
15 system.

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18 **A.** Hydro’s approved Cost of Service methodology assigns the rural deficit¹ to NP and
19 Labrador Interconnected Rural Customers. Between Test Years, when deferral or
20 recovery mechanisms are in place, costs associated with the rural deficit areas are
21 assigned in the same proportion as the last approved Test Year. These rural
22 amounts are added together, in the case of the proposed CDM recovery
23 methodology referenced above, and assigned to NP and Labrador Interconnected
24 Rural Customers. The resultant NP rate changes are passed along to Hydro’s Rural
25 Customers in accordance with the approved automatic rate change policies.

¹ The difference between costs incurred to serve Rural Customers and the revenue received from those customers, for all systems except Labrador Interconnected.