

1 **Q. Preamble: At page 16 of his pre-filed evidence, Mr Brockman states:**

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3 **Hydro's proposal to change the Rural Deficit allocation may be taking the**
4 **Labrador Interconnected rates in the wrong direction.**
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6 **Is it Mr Brockman's view that the Board should base its decision in the Amended**
7 **GRA on future decisions that it may, or may not, make? If so, please provide**
8 **examples of regulators in Newfoundland and Labrador or elsewhere that have**
9 **followed this approach.**
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11 **A.** It is not Mr. Brockman's view that the Board should base its decision in the Amended
12 GRA or future decisions that it may, or may not, make.
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14 It is Mr. Brockman's view that the Board should give consideration to the direction in
15 which rates are likely to move in future. Since the allocation of the Rural Deficit cannot
16 be determined based on traditional cost-of-service causality principles, the Board must
17 determine the appropriate allocation based on other criteria. Among the ratemaking
18 criteria which Mr. Brockman believes the Board will consider in relation to Labrador
19 rates is efficiency. This will involve consideration of marginal costs and of anticipated
20 changes in the average cost of supply.¹
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22 Current rates for Labrador Interconnected customers are below marginal generation costs,
23 and average costs to service these customers are increasing. If rates in Labrador do not
24 reflect the higher marginal cost of supply on the Labrador system, customers will make
25 inefficient decisions based their current low average electricity price. This suggests
26 changing the allocation of the rural deficit at this time to minimize the impact of
27 increasing costs and prices may be inappropriate.
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29 The Board has routinely considered efficiency in the setting of rates.²

¹ Economic theory suggests pricing at marginal costs makes best use of the resources available to provide services to customers. Also, from an individual customer's perspective, their decisions regarding purchasing appliances or completing building efficiency upgrades is impacted by the price of electricity.

² See, for example, Order No. P.U. 7 (2002-2003), pages 27-30 and Order No. P.U. 14 (2004), pages 22-24.