

Q. Page 17, Lines 9 to 11: What approach would Mr. Brockman recommend to adjusting the 2013 Test Year to address the growth in Industrial Customer load beyond 2013? Please provide the reasons for your response.

A. Mr. Brockman believes that the guiding principle of adjusting the loads in the test year is to normalize them to the extent practical within the spirit of Order in Council, OC2013-089, which requires that Hydro's General Rate Application be *based on a 2013 test year*.¹ Mr. Brockman would normalize all loads, including Newfoundland Power's, so that each customer's load and the pattern of the load is what would have been expected in a normal weather year.² Adjusting the test year in this manner will improve Hydro's 2013 proposed test year so it provides a more reasonable basis for establishing rates for a future period.

Adjusting the Industrial Customer loads to allow the proposed test year to better reflect a future period is complicated by the fact that the load is being ramped up throughout the 2013 test year, and beyond. Mr. Brockman has reviewed two adjustment approaches that appear reasonable in this regard.

The first approach is to use the December 2013 Industrial Customer load. This approach avoids use of future year data to adjust the 2013 test year. The second approach is to include some of the load data for Industrial Customers and Newfoundland Power beyond 2013 to create normalized loads for each customer for the entire year.³ The extent to which growth beyond 2013 should be incorporated into the 2013 test year is a matter of judgement.

The second approach is consistent with practice before the United States Federal Energy Regulatory Commission ("FERC") with respect to the adjustment of historic test years.⁴ Using that approach, it would be appropriate to use the expected load of the Industrial Customers 6-9 months into 2014 to create a "normalized" load for the test year. By the time Hydro's 2013 General Rate Application is heard by the Board, 6 months of actual load data will likely be known.

Mr. Brockman asked Newfoundland Power to use the version of the cost-of-service model Hydro supplied to Newfoundland Power in the response to Request for Information NP-NLH-130 to make an initial estimate of the results of normalizing the

¹ See Attachment 15 of the response to Request for Information PUB-NLH-051 for a copy of OC2013-089.

² While Newfoundland Power believes that its load and the Industrial Customer load should be adjusted, the Company has not determined whether or not it would be appropriate to adjust Hydro's Rural load.

³ Adjusting test year will involve adjusting elements of the cost of service study that are impacted by load changes such as Holyrood fuel costs, customer billing determinants, and cost of service classification and allocation factors.

⁴ Regulations governing the FERC, which sets rates for interstate gas pipelines, permit adjustments to the historic test year "for changes in revenues and costs which are known and measurable with reasonable accuracy at the time of a [rate case] filing, and which are expected to take effect within 9 months of the end of the historic test year." *Federal Energy Regulatory Commission Cost of Service Rates Manual (June 1999)*, page 7.

loads, billing determinants, and associated Holyrood fuel consumption. Two scenarios were examined. Scenario 1 uses weather-normalized loads for Newfoundland Power, and uses the December 2013 Industrial Customer load to normalize test year based on the monthly loads being equal throughout the entire 2013 test year.⁵ Scenario 2 adjusts the 2013 test year by incorporating 2015 forecast load.⁶

Table 1 shows the results for the two scenarios.

Table 1 Normalized Test Year Load Alternatives⁷			
Test Year Scenario	Customer Class	Average Unit Demand Cost (\$/kW billed)	Average Unit Energy Cost (¢/kWh billed)
Proposed Test Year	Newfoundland Power	9.12	4.79
	Industrial Class	9.13	4.78
Scenario 1	Newfoundland Power	8.71	5.13
	Industrial Class	7.53	5.13
Scenario 2	Newfoundland Power	7.98	5.88
	Industrial Class	7.75	5.87

Normalizing Hydro's 2013 test year by using either Industrial Customer load in December 2013 or by using the Industrial Customer load forecast for 2015 should provide better matching of Hydro's rates to its expected load and therefore provide a more reasonable basis for estimating Hydro's test year revenue and expenses. This should also reduce the need for transfers to and from the Rate Stabilization Plan, which would result in more stable customer rates.

⁵ The December 2013 Industrial Customer load was from the response to Request for Information IC-NLH-030.

⁶ Forecast 2015 energy requirements for Newfoundland Power and the Industrial Customers are provided in the response to Request for Information NP-NLH-007. Forecast 2015 demand requirements are provided in the response to Request for Information NP-NLH-010.

⁷ Estimated Cost of Service results exclude the recovery of the Rural Deficit.