

1 **Q. In Order No. P.U.7(1996-97), the Board stated with respect to the Rural Deficit**
2 **(page 89): "The Board confirms its previous opinion in the February 1993**
3 **(notwithstanding recommendations made in its October 10, 1995 Report which was**
4 **not accepted by Government) that the Rural Subsidy is a form of cross-**
5 **subsidization, and must be dealt with as all other expenses."**

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7 **Is this statement from the Board Order consistent with treating the Rural Deficit in**
8 **a manner such that the evaluation of fairness is appropriately based upon revenue**
9 **to costs ratios? Please explain your response.**

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11 **A.** The Board's statement in Order No. P.U. 7 (1996-97) was made in the context of a
12 proposal to recover the portion of the Rural Deficit allocated to Newfoundland Power's
13 customers by means of a rate surcharge. In proposing the rate surcharge, Newfoundland
14 Power had submitted that the Rural Deficit was akin to a tax. In the cited excerpt, the
15 Board rejected that view, and determined that the Rural Deficit should be recovered in a
16 similar manner to other expenses. The linkage between the Board's statement and the
17 evaluation of fairness of the Rural Deficit allocation is not apparent.

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19 Typically, revenue to cost ratios are used in rate design to assess the extent to which rate
20 reflect the costs to be recovered in rates. They provide an indication of which classes are
21 playing more than their allocated costs, and which classes are paying less.

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23 Revenue to cost ratios are more useful when they include all of the properly allocated
24 costs and all of the revenues. However, when part of the costs are left out of the
25 equation, or not properly classified and allocated, the ratios are not as useful.