

1 **Q. Mr. Brockman stated on page 11 of his evidence: “Hydro’s cost to serve**  
2 **Newfoundland Power together with the Rural Deficit allocation is proposed to**  
3 **increase by approximately 145%, from approximately \$215 million in the 2002 Test**  
4 **Year to approximately \$526 million in Hydro’s proposed 2015 Test Year. By**  
5 **comparison, Hydro’s cost to serve Labrador Interconnected customers together**  
6 **with the Rural Deficit allocation is proposed to increase by approximately 37%,**  
7 **from approximately \$15 million in the 2002 Test Year to approximately \$20.5**  
8 **million in Hydro’s proposed 2015 Test Year.”**

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10 **Please explain the relevance of the comparison given that Holyrood fuel is not used**  
11 **in serving Labrador Interconnected Customers when considering the fairness of the**  
12 **allocation methodology for the Rural Deficit between the two customer groups.**

13  
14 **A.** In Mr. Brockman’s opinion, because the Rural Deficit is not causally related to the  
15 customers responsible for funding it, it is difficult to assess the fairness of any allocation  
16 methodology from a traditional cost-of-service perspective.<sup>1</sup>

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18 For that reason, Mr. Brockman believes it is appropriate to consider other criteria,  
19 including the total amounts paid by each class, usage, etc. in the evaluation of the  
20 allocation methodology, as the Board did when it established the Existing Methodology  
21 in 1992. In that context, when considering comparative rate impacts on customer classes,  
22 a longer term view may be equally as relevant as a shorter term view in determining what  
23 is fair.

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<sup>1</sup> Brockman evidence, page 12, line 19 to page 14, line 2.