

1 **Q: Since the existence or the amount of the rural deficit cannot be attributed to the**
2 **electricity use of electricity consumers responsible for funding it, does Mr. Raphals agree**
3 **or disagree that the Board could take considerations such as conservation, efficient use,**
4 **marginal costs or public policy into account in determining the appropriate deficit**
5 **allocation methodology? Please explain.**

6
7 A: The view of Mr Raphals is as follows:

8 I see no reason why the Board could not take factors such as these into consideration. That said, I
9 agree with Mr. Baker that, at the end of the day, the allocation must be perceived as “fair”.¹
10 However, as that perception is an opinion, reasonable people may differ.

11 Mr. Bowman, the Consumer Advocate’s expert, has in effect concluded that, because the rural
12 deficit has become so great, there is no allocation that is fair – regardless of the allocation used,
13 some customers will pay rates that are unreasonable and discriminatory (IN-CA-001). The
14 solution he proposes – allocating a significant part of the rural deficit to the entity responsible for
15 the underlying policy (Hydro’s shareholder) has a certain elegance. Whether or not it is within
16 the Board’s powers to apply such a solution will be for others to decide.

¹ “Fairness cannot be assessed as due to the method used, but instead we must assess fairness on the basis of the result, a shared burden among the classes of customers that is fair to all and not discriminatory.” PUB-NLH-113, Att. 1, page 63 of 83. (Report of the NLPUB on A Referral by NLH for the Proposed Cost of Service Methodology, Feb. 1993, page 60.)