

1 Q. Please comment on the reasonableness of including changes to the rural deficit
2 allocation methodology in the general rate hearing at this time. Include in this
3 response consideration of the merits of having a separate hearing to consider the
4 rural deficit allocation, as was done in the mid-1990s.

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7 A. A Board hearing was held in 1992 to deal with all matters related to the Hydro's
8 embedded cost of service methodology. The Rural Deficit allocation method was
9 considered and ruled on by the Board at that hearing and was not the subject of a
10 separate hearing as indicated.

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12 This is the first GRA since the Existing Methodology was approved in 1993 in which
13 the full impact of the Rural Deficit allocation will be reflected in the rates of
14 customers on the Labrador Interconnected System. Therefore, Hydro believes it is
15 appropriate at this time to review the fairness of the Rural Deficit allocation
16 methodology.

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18 In the present proceeding, Hydro has proposed a change in the allocation of the
19 Rural Deficit, which is described in Section 4.3.1 of the Evidence to Hydro's
20 Amended Application. In addition, related evidence has been provided in this
21 proceeding by intervenors in the form of expert reports of Mr. James Feehan,
22 Mr. Philip Raphals, Mr. Doug Bowman and Mr. Larry Brockman.

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24 The average annual cost of the Rural Deficit per customer under the Existing
25 Methodology is approximately three times higher for customers on the Labrador
26 Interconnected System than for the customers of Newfoundland Power. An
27 evaluation of the fairness of the Rural Deficit allocation supports a change in the

1 Cost of Service allocation methodology to provide a more reasonable sharing of the
2 Rural Deficit between customers on the Labrador Interconnected System and
3 customers of Newfoundland Power. It is Hydro's opinion that parties have had an
4 opportunity to consider Hydro's evidence on this matter, ask requests for
5 information and file expert testimony and therefore this matter can appropriately
6 be dealt with in the current proceeding.