

1 Q. In Order No. P.U. 1 (2015) the Board states:
2 *“As a result of the filing of the amended general rate application on November 10,*
3 *2014 it is likely that the proceeding, which began with the filing of the original*
4 *general rate application on July 30, 2013, will not conclude until late 2015 at the*
5 *earliest.”*

6 Please explain the implications for Hydro if rates are not implemented until after
7 2015.

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10 A. **Financial Implications**

11 The continuation of 2007 base rates for all of 2015 would result in a net loss for
12 Hydro of \$34.6 million, a forecast 2015 net income deficiency of \$67.8 million and a
13 return on rate base of 3.33%.¹ Approval of the proposed interim rates to become
14 effective April 1, 2015 will permit Hydro to recover slightly less than 60% of the
15 2015 forecast net income deficiency.

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17 The 2013 GRA filed in July 2013 proposed new rates to become effective January 1,
18 2014. There has been no change in base rates yet approved for any customers with
19 the exception of the Labrador transmission rate approved on an interim basis
20 effective January 1, 2015. The Board has approved a \$45.9 million deferral account
21 to provide the opportunity to recover the 2014 net income deficiency in the future,
22 subject to the Board’s prudence review. Delayed approval of new rates for 2015 is
23 creating another material net income deficiency for 2015. The cumulative effect of
24 delayed rate implementation from January 1, 2014 to December 31, 2015 is an

¹ See Finance Evidence, Schedule II, Page 1 of 1, Lines 34 and 43 of Hydro’s Amended Application.

1 under-recovery from customers of approximately \$113.7 million in costs (excluding
2 No. 6 fuel, which is recovered through the RSP).

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4 The impact on Hydro's creditworthiness as a result of a continued denial of the
5 Board to permit cost recovery would need to be considered over the longer term.
6 Because the Province has unconditionally guaranteed Hydro's existing long-term
7 debt, there is linkage between Hydro's creditworthiness (which is influenced by
8 Hydro's ability to achieve financial targets consistent with an investment-grade
9 utility) and the credit rating of the Province. To the extent that credit rating
10 agencies continue to view Hydro to be self-supporting, then the Province's credit
11 rating is not likely to be affected. A poor financial position for Hydro over the long-
12 term could adversely impact the Province's credit rating and thereby, increase the
13 borrowing costs of the Province, and hence Hydro's own borrowing costs.

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15 **Phase-in of Island Industrial Customer (IIC) Rates**

16 If existing rates remain in place beyond 2015, then Hydro will not be permitted to
17 phase-in IIC rates in accordance with Government directives. The IIC rate phase-in is
18 required to be completed by August 31, 2016.

19
20 **Intergenerational Equity**

21 Delayed implementation of Hydro's 2015 base rates to 2016 would further increase
22 amounts that Hydro will propose for deferred recovery from customers.² Not only
23 could this add to any potential rate increase relating to Hydro's 2015 net income
24 deficiency, it further compounds the issue of intergenerational equity,

² On December 24, 2014, the Board issued Order No. P.U. 58(2014), approving the deferral of \$45.9 million with respect to Hydro's 2014 revenue requirement.

1 If existing rates remain in effect, customers' rates for 2015 will not reflect the costs
2 associated with the service provided in that period. In this circumstance, 2007 base
3 rates will be in place for all of 2015. Rates charged to customers in 2014, and now
4 potentially 2015, will not accurately reflect the costs associated with the service
5 provided in that period. This places an increased cost burden on future customers
6 to fund recovery of costs incurred in previous years estimated at \$113.7 million.