

1 Q. Hydro's Amended GRA, Volume I, Section 4, page 4.14:

2 On lines 20 to 22, it states:

3 *"Hydro is proposing the Rural Deficit commencing January 1, 2014 be allocated by*
4 *system based upon revenue requirement. Fairness in rates is commonly assessed*
5 *based on revenue to cost ratios"*

6 In the 1992 Cost of Service Methodology Order, when the Board approved the rural
7 deficit allocation, it states on page 57:

8 *"Hydro proposes to allocate the Rural Deficit incurred in serving Rural Customers on*
9 *the basis of their revenue requirement. Such a method results in the same revenue*
10 *to cost ratio for all of Hydro's other customers regardless of whether they are served*
11 *by the Island or Labrador Interconnected Grid. "*

12 Further, in the 1992 Cost of Service Methodology Order, it states on page 63:

13 *"Hydro's proposed method of deficit allocation is not in accordance with generally*
14 *accepted cost of service methodology since the cost bases of the subsidizing classes*
15 *are not obtained in a uniform manner."*

16 Please confirm that Hydro's current proposal for the rural deficit allocation is no
17 different from its proposal that the Board concluded was not in accordance with
18 generally accepted cost of service methodology in the 1992 Cost of Service
19 Methodology Order.

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22 A. Following a review of all methodologies presented during the hearing, the Board
23 stated on page 83 of the Report of the Board of Commissioners of Public Utilities to
24 the Honourable Minister of Mines and Energy Government of Newfoundland and
25 Labrador (the "COS Methodology Report"):

Hydro's proposed method of deficit allocation is not in accordance with generally accepted cost of service methodology since the cost bases of the subsidizing classes are not obtained in a uniform manner. NP and IC proposals also are not in accordance with generally accepted cost of service principles for the same reasons. In addition, NP and IC's proposals use arbitrary methods of allocation."

The Board also stated on pages 82-83 of the COS Methodology Report:

The Board agrees with the views of all parties that the allocation be based on fairness. The problem that arises here is that those being allocated the costs have not caused the costs and cannot use any mechanism in their own use of electricity to control them. Therefore an allocation method cannot be based on causality nor evaluated as fair on that basis.

On page 84 of the COS Methodology Report, the Board provided guidance on assessing fairness when it stated:

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.

Hydro's review of the fairness of the rural deficit allocation methodology is provided in Section 4.3.1 of the evidence to its Amended Application and in Hydro's response to CA-NLH-166. Hydro has concluded that the current approved methodology does not provide a reasonable sharing of the rural deficit between customers.

At the 1992 Cost of Service Hearing, Hydro proposed that the rural deficit be allocated on the basis of revenue requirement. Hydro also considers the use of an allocation based on total number of customers as an option that may also be reasonable. Use of either of these approaches would result in the rural deficit reflected in rates on a per customer basis being comparable for customers of Newfoundland Power and customers on the Labrador Interconnected System. Hydro believes the rural deficit should be allocated so that the amount paid per

customer per class is relatively comparable, irrespective of whether the customers pay higher or lower rates and irrespective of whether the customers have low kWh usage or high kWh usage.

Table 1 provides a comparison of the rural deficit impact per customer under the current method compared to an allocation based on revenue requirement and an allocation based on the number of customers served.¹

Table 1

Average Annual Cost per Customer Comparison²			
	Existing Method	Revenue Requirement Method	Number of Customers Method
Labrador Interconnected	\$653.15	\$207.60	\$235.23
Newfoundland Power	<u>\$216.64</u>	<u>\$236.46</u>	<u>\$235.23</u>
Difference	(\$436.51)	\$28.86	\$ –

Table 1 shows that average customer impacts are more comparable on a revenue requirement allocation basis than the existing methodology. The existing methodology results in materially higher billing impacts for customers on the Labrador Interconnected System primarily because they have higher electricity usage as a result of living in an area of the Province where the climate is materially colder. Hydro believes that the existing methodology does not provide a reasonable sharing of the rural deficit between customers on the Labrador Interconnected System and customers of Newfoundland Power. The use of the number of customers as the allocator eliminates the average cost difference per customer.

¹ Source: Table 4.3 on page 4.10 of the Evidence to Hydro's Amended Application.

² Total 2015 Test Year deficit allocated divided by number of customers in Labrador Interconnected and number of customers served by Newfoundland Power.

1 Hydro believes that either the revenue requirement approach or the average cost
2 per customer approach provide a more reasonable sharing of the rural deficit
3 between the customers on the Labrador Interconnected System and the customers
4 of Newfoundland Power than the current approved methodology. Hydro also
5 believes both of these methods meet the fairness standard presented by the Board
6 in the COS Methodology Report when it stated “we must assess fairness on the
7 basis of the result, a shared burden among the classes of customers that is fair to all
8 and not discriminatory.”