

1 Q. Please explain in full Hydro's view of whether the Board understood the relative
2 impacts of the rural deficit allocation in the 1992 Cost of Service Methodology
3 Order on (i) customers served by the Labrador interconnected system and (ii) the
4 Island interconnected system.

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7 A. Hydro has proposed a change in the rural deficit allocation for the 2015 Test Year
8 based upon its review of fairness of the impact on customer rates of the allocation
9 methodology.

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11 Hydro assumes the Board understood the relative impacts of the rural deficit
12 allocation at the time of filing its report in 1993. However, customers' rates on the
13 Labrador Interconnected System did not reflect recovery of any of the rural deficit
14 until September 2002.¹ In 2002, approximately \$5.0 million of the rural deficit was
15 allocated to the Labrador Interconnected System.² However, the impact of the
16 initial allocation of the rural deficit to the Labrador Interconnected System was
17 largely offset by the assignment of a revenue credit of \$3.7 million from secondary
18 energy sales to CFB Goose Bay (the Secondary Revenue Credit).

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20 In Order No. P.U. 7(2002-2003), the Board ruled that the Secondary Revenue Credit
21 be applied to reduce the rural deficit rather than applied as a credit against the cost
22 of serving the Labrador. The phase-out of the Secondary Revenue Credit as a
23 reduction in the revenue requirement of the Labrador Interconnected System was

¹ There was no rate proceeding to implement the approved Cost of Service methodology for the period 1993 to 2001.

² Source: Hydro Compliance Filing to Board Order No. P.U. 7(2002-2003).

1 concluded in 2011 concurrent with the phase-in of uniform rates for customers on
2 the Labrador Interconnected System.

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4 This is the first GRA in which (i) uniform rates are in place for customers on the
5 Labrador Interconnected System and (ii) none of the Secondary Revenue Credit is
6 specifically assigned to reduce the revenue requirement for the Labrador
7 Interconnected System. A number of factors have changed with respect to the
8 impact of the rural deficit on customer rates since 1993. It is difficult for Hydro to
9 assess whether the Board at the time of its 1993 report would have anticipated
10 that, under the approved methodology, the customers on the Labrador
11 Interconnected System would pay an average of \$437 per year more towards the
12 rural deficit than that required from the customers of Newfoundland Power.³

³ See Table 4.3 on page 4.10 in the Evidence to the Amended Application.