

1 Q. Please explain in full the research conducted by Mr. Greneman into the fairness of  
2 allocation of the rural subsidy. Please include in the response research conducted  
3 into potentially analogous matters such as tax policy.  
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6 A. Mr. Greneman has reviewed the issues and position of the parties that led to the  
7 1992 Cost of Service Methodology Order, as well as Hydro's position and position of  
8 the other parties in this proceeding, but has not conducted research regarding the  
9 fairness of the allocation of the rural subsidy as it may exist in other utility systems.  
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11 With regard to potentially analogous matters such as tax policy, Mr. Greneman is  
12 aware of the Board's Order in Newfoundland Power's 1996 General Rate  
13 Application , where the Board deliberated as to whether the transfer of the Rural  
14 Subsidy from Government to Hydro and then on to its customers was a tax or cross-  
15 subsidy. The Board concluded that the rural subsidy was not a tax, but rather, a  
16 form of cross-subsidization (even though it was extreme) and must be dealt with as  
17 all other expenses. Newfoundland Power, in turn, allocated the rural deficit among  
18 its customer classes based on total costs excluding the rural deficit, RSA and MTA.  
19 Newfoundland Power's approach has the same basis as Hydro's proposal to allocate  
20 the rural deficit based on revenue requirement. Refer also to Hydro's response to  
21 NP-NLH-409.