

1 **Q. Please fully explain what evidence Mr. Rolph would expect the Board to assess in**
2 **determining the appropriateness of subsidies between rate payers, tax payers, and**
3 **private third parties such as Nalcor's oil partners. In the response, please**
4 **specifically address any relevant regulatory principles the Board should use in its**
5 **assessment.**

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8 **A.** I was not engaged to consider what evidence the Board should assess in determining the
9 appropriateness of subsidies between ratepayers, taxpayers, and private third parties. As a
10 result, my response to this query is limited to its relevance to my evaluation of
11 Newfoundland and Labrador Hydro's ("Hydro") pricing policy for affiliate common
12 services, common expenses and corporate services.

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14 In that context, I would expect the Board to obtain the following information to determine
15 whether a subsidy existed:

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17 • A description of the common and corporate services rendered or received by
18 Hydro and the common expenses allocated by Hydro to its affiliates;
19 • A breakdown of the costs included in the amounts to be allocated by Hydro to
20 its affiliates for which it renders a common service or a common expense;
21 • The rationale for not applying a mark-up on costs included in the amounts to be
22 allocated by Hydro to its affiliates for which it renders a common service;
23 • A detailed record of the time spent by each employee at Hydro rendering
24 corporate services to each of its affiliates and vice-versa;
25 • An annual reconciliation of the actual costs incurred by Hydro and its affiliates
26 rendering corporate services and the billing rate used to approximate that cost
27 build-up;
28 • The amounts charged to each affiliate that Hydro renders common services,
29 common expenses and corporate services; and
30 • The amounts charged to Hydro by each affiliate that renders corporate services.

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32 By obtaining this information, the Board should be able to assess whether the amounts charged
33 by Hydro and its affiliates for these inter-affiliate transactions are consistent with the arm's
34 length principle and, where they are not, the amount of any subsidy bestowed on any ratepayers,
35 taxpayers, or private third parties.

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37 As to assessing the appropriateness of any subsidy bestowed upon ratepayers, taxpayers, or
38 private interests, it is my opinion that by virtue of its mandate the Board has a duty to balance the
39 interests of ratepayers and the utility based on generally accepted and sound public utility
40 practices and any directives referred to the Board by the provincial government. The key
41 regulatory principles that the Board should be mindful of, as it relates to Hydro's inter-affiliate
42 common services, common expenses and corporate services, include:

- 1 • Just and reasonable: amounts should only be charged for services that are
2 beneficial to the service recipient and the amounts charged should be consistent
3 with the arm's length principle;
- 4 • Cost of service standard: the entity rendering the service or bearing the
5 common expenses should be permitted to set a price to recover its costs of
6 rendering the service or the common expense, including a fair return on the
7 costs incurred, where appropriate; and
- 8 • Prudence standard: the amounts charged should only include prudently
9 incurred costs recognizing that service providers have a responsibility to
10 manage themselves efficiently.