

1 Q. [Mel Dean Evidence, page 10, line 1 to page 12, line 5]

2 How would changing Hydro's method of allocating O&M costs to plant in service to  
3 address Mr. Dean's concern affect Hydro's other customers' rates?  
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6 A. The purpose of restating the original plant in service in constant year dollars (say  
7 2013 to match the test year) is to remove the time value of money from the data  
8 used to prorate the total O&M expense between customer classes. Using the original  
9 costs of assets for the plant in service where the ages differ by nearly 50 years,  
10 results in an inequitable distribution of O&M expense.  
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12 As stated in my evidence, V-NLH-083 (page 11, lines 10 to 12) requested Hydro to  
13 rerun the cost of service study with the plant in service restated in 2013 dollars  
14 instead of original costs. Hydro responded that they could not complete this request  
15 within the time frame of this proceeding. Without this information, the exact change  
16 to customer classes is not known. The general effect on other customers is  
17 addressed in the next paragraph.  
18

19 Restating the plant in service in 2013 dollars will increase the dollar value of the  
20 plant in service. Undoubtable the allocation of O&M costs to common, rural and  
21 each of the customers that have specifically allocated charges will change. With the  
22 current allocation method, the older assets in the system attract less than the  
23 equitable amount of the O&M expense, whereas the newer assets get allocated more  
24 than their fair share. One would expect that the 2013 cost of service understates the  
25 amount O&M costs allocated to common cost and the proposal would increase  
26 common O&M costs to the equitable amount. Common costs are allocated to all  
27 customers. The effect to rural class and each industrial customer depends on the  
28 ratio of old assets to new assets. If a customer has a higher ratio of old assets to new  
29 assets, their portion of the O&M costs will increase to the equitable amount.