

1     **Q.     2013 General Rate Application, Deferral and Recovery Mechanisms**

2             Does Hydro believe that the existence of cost deferral and recovery mechanisms  
3             reduce or eliminate Hydro’s business risks?

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6     **A.**     In Board Order No. P. U. 14(2004), page 41, it is stated “The Board concurs with the  
7             view that NLH and NP have similar business risks...” Cost deferral and recovery  
8             mechanisms that are approved by the Board for use in this jurisdiction generally  
9             help reduce business risk of the utilities. Such mechanisms, however, can also  
10            protect customers from overpaying. For example, if the quantity or price of fuel  
11            Hydro incurs at Holyrood is lower than that included in the forecast Test Year, these  
12            savings would be returned to customers through the RSP mechanism.

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14            Despite the cost deferral and recovery mechanisms that are in place, Hydro still has  
15            considerable business risk. Given its aging asset base, remote service territory,  
16            harsh environment and weather conditions there is substantial overall risk of  
17            unexpected cost increases. Hydro also faces significant additional net income risk  
18            from variations in thermal efficiencies, power purchases, diesel fuel and other  
19            energy supply costs. In its present Application, Hydro has requested approval of  
20            additional deferral and recovery mechanisms to reduce some of these business  
21            risks and thus provide its shareholder a reasonable opportunity to earn a fair return  
22            on its equity investment.