Q. Both Messrs P. Bowman (page 4, lines 34-37) and Dr. Wilson (Page 29) recommend that, if the load component remains in the Rate Stabilization Plan, the Board should approve Hydro's proposal to allocate the load variation costs in proportion to customer energy ratios in the same manner as fuel price variation is allocated. Does Mr. Brockman agree with this recommendation? If yes, explain why in detail. If no, explain in detail why not.

A. Mr. Brockman agrees that, if the load component remains in the Rate Stabilization Plan ("RSP"), Hydro's proposal to allocate the load variation costs in proportion to the customer energy ratios in the same manner as fuel price variation (the "2013 GRA Proposal") is reasonable.

Table 1 outlines the methods that have been used to allocate the revenue and fuel components of the load variation portion of the RSP to date, as well as the 2013 GRA Proposal.

Table 1
Load Variation Methodologies
(1986 – Present)

Load Variation Allocation Methodologies		
Effective Date	**Fuel Component**	**Revenue Component**
January 1, 1986	allocated based on approved cost of service methods[1]	specifically assigned to class[1]
January 1, 2004	specifically assigned to class[2]	specifically assigned to class[2]
2013 GRA Proposal	allocated based on approved cost of service method for allocating fuel costs[3]	allocated based on approved cost of service methods for allocating fuel costs[3]

In its 2006 review of the operation of the RSP, Hydro indicated an intention to revise the customer allocation for the load variation component "so that it is more closely aligned

[1] See Grant Thornton's report, *Board of Commissioners of Public Utilities – Historical Review of the Rate Stabilization Plan of Newfoundland and Labrador Hydro, January 1st 1986 – December 31st 2009 (Updated to December 31, 2012)*, page 6, lines 23 to 34, and page B-1.

[2] Ibid., page B-2.

[3] The approved cost of service method for allocating fuel costs is based on energy ratios.

with Cost of Service treatment."[4] The allocation methodology contemplated at that time is the same as the 2013 GRA Proposal. As part of a settlement agreement reached during Hydro's 2006 GRA, it was agreed that a further review of the RSP would be completed, with any identified changes to be implemented by January 1, 2008. However, for a number of reasons, completion of the 2007 RSP review was delayed and the changes to the load variation allocation methodology were never implemented.

The January 1, 2004 allocation methodology (the "2004 Methodology") resulted in the marginal cost consequences of load variations being assigned to the class in which the load variation occurred. In Mr. Brockman's opinion, this approach was reasonable from a marginal cost perspective. However, as a result of major changes in Industrial customer loads and the shutdown of certain Industrial customer operations in 2007 and 2008, the results produced by the 2004 Methodology were not reasonable. Ultimately, the resulting large load variation transfers were addressed by the Board and, more recently, in an Order in Council issued by the Provincial Government.

The 2013 GRA Proposal will align the operation of the load variation component with the embedded cost approach of Hydro's Cost of Service Study. The change emphasizes embedded cost, rather than marginal cost, principles. Although the result of the proposed change will result in the impact of customer load variation muting marginal price signals to Hydro's customers, it will avoid the unreasonable results produced by the 2004 Methodology. In Mr. Brockman's opinion, this is reasonable in the circumstances.

[4] See Hydro's report, *Review of the Operation of the Rate Stabilization Plan for the Period January 1, 2004 to December 31, 2005*, page 14.