Q. (Exhibit 13 – 2013 Cost of Service Study)
With reference to the Labrador Interconnected System, please specifically demonstrate how the increase in capital spending over 2007 to 2013 of approximately $39 million in system upgrades results in the requested rate increase sought in the Application.

A. The increase in capital spending is only one factor causing the requested rate increase sought in this Application. Please see the response to CA-NLH-090. The more material variances directly impacted by capital spending are Return on Debt, Return on Equity, and depreciation expense. The increase in capital spending resulted in an increase of $26.2 million in the net book value component of rate base. The table below provides a comparison of the 2007 and 2013 Labrador Interconnected return on rate base calculations. The increases in Return on Debt and Return on Equity are a result of increased rate base (includes capital spending) as well as changes in the approved rates of return. The net change in depreciation expense from 2007 to 2013 was a decrease of $95,949 resulting from the increase in capital spending offset by the favourable impacts of the depreciation methodology changes approved in Board Order No. P.U. 40 (2012).

	2007 Test Year	2013 Test Year	Increase (Decrease)	Due to Rate of Return	Due to Rate Base
Rate Base $	45,949,135	73,610,526	27,661,391	73,610,526	27,661,391
Return on Debt %	6.905%	5.618%	(1.287%)	(1.287%)	6.905%
Return on Debt $	3,172,788	4,135,439	962,652	(947,367)	1,910,019
Return on Equity %	0.625%	2.211%	1.586%	1.586%	0.625%
Return on Equity $	287,182	1,627,529	1,340,347	1,167,463	172,884