Q. **2013 General Rate Application, Rural Rates**

Further to PUB-NLH-87, explain the factors that have caused the Cost of Service allocation for IOC to decrease from the 2007 test year.

A. Please see the Table below for the changes in the Cost of Service revenue requirement for IOC from the 2007 Test Year to the 2013 Test Year.

	2007 Test Year	**2013 Test Year**	**Difference**
Labrador Industrial Revenue Requirement ($) COS Schedule 1.2, Page 1 of 6	2,873,961	2,108,486	(765,475)
Allocated Revenue Requirement			
Firm Excluding Return ($) COS Schedule 3.2E, Page 1 of 4, Line 2	2,106,206	1,542,177	(564,029)
Non- Firm Excluding Return ($) COS Schedule 3.2E, Page 1 of 4, Line 3	10,389	9,225	(1,164)
Allocated Return on Debt ($) COS Schedule 3.2E, Page 1 of 4, Line 14	694,532	399,764	(294,768)
Allocated Return on Equity ($) COS Schedule 3.2E, Page 1 of 4, Line 26	62,834	157,320	94,486
Total Allocated Revenue Requirement ($)	2,873,961	2,108,486	(765,475)

The major factors for the decrease in the Labrador Industrial Revenue Requirement from 2007 to 2013 are:

- A reduction in Firm allocated revenue requirement primarily related to lower depreciation expense mainly due to the methodology and service life change as approved in Board Order No. P.U. 40(2012); and decreased IOC energy allocation resulting from the 2013 load forecast shown on Schedule III of the Regulated Activities evidence; and
- The decrease in allocated Return on Debt results from a net decrease in production and transmission demand rate base combined with a decrease in

the Return on Debt. The decrease in production and transmission demand rate base was offset by an increase in Return on Equity.