

1 Q. The rates proposed in the Interim Rates Application are based on proposed changes
2 in the currently approved methodology (e.g. the methodologies for the allocation of
3 the RSP load variation balance and the allocation of the rural deficit) which will be
4 ultimately determined in the General Rate Application. Please explain the
5 implications for customers' rates and for Hydro if the proposed changes are not all
6 ultimately approved, and whether Hydro would propose to deal with any shortfall
7 or surplus.

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10 A. If the Board did not approve Hydro's cost of service methodology proposals, the
11 final 2014 Test Year Cost of Service Study and the final 2015 Test Year Cost of
12 Service Study would increase revenue requirements for some classes and decrease
13 revenue requirements for other classes.

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15 For the 2014 Test Year, the cost of service methodology revisions would impact the
16 allocation by class of the final 2014 net income deficiency that will be determined
17 by the Board upon review of 2014 Test Year costs.

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19 For the 2015 Test Year, Board approval of revisions to Hydro's cost of service
20 methodology proposals would impact both the final rates by class to be
21 implemented upon conclusion of the GRA and the allocation of the 2015 net
22 income deficiency by class.

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24 **2015 Rate Implementation**

25 Once the Board has made its rulings on the cost of service methodology and
26 determined if any costs are to be removed from the 2015 Test Year revenue

1 requirement, Hydro will follow the following process for the finalization of
2 customer rates for 2015:

- 3 (i) the final 2015 revenue requirement will be determined by making
4 adjustments, if required, to remove any costs that may be disallowed
5 for inclusion in the 2015 Test Year;
- 6 (ii) the final 2015 Test Year Cost of Service Study will be prepared to reflect
7 the Board's decisions on the cost of service methodology;
- 8 (iii) customer rates will be derived to recover the 2015 Test Year revenue
9 requirement by class in accordance with Government directives and the
10 GRA Order;
- 11 (iv) The 2014 net income deficiency will be recalculated reflecting the
12 approved cost of service methodology and approved 2014 Test Year
13 costs;
- 14 (v) The 2015 net income deficiency will be recalculated reflecting the
15 approved cost of service methodology and approved 2014 Test Year
16 costs based upon the proposed 2015 final rates for the period of delayed
17 implementation; and
- 18 (vi) Hydro will file an application proposing to implement final GRA rates and
19 provide recovery of the net income deficiencies for 2014 and 2015.

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21 Recovery of the 2014 and 2015 net income deficiencies are not reflected in the
22 rates proposed in the 2015 Interim Rates Application. In Hydro's Amended
23 Application, Hydro proposed the credit balance in the RSP Hydraulic Variation
24 Account be used to provide recovery of the 2014 net income deficiency. Hydro still
25 considers this proposal to be appropriate.¹

¹ The credit balance in the RSP Hydraulic Variation Account at year-end 2014 is \$43.4 million. See Appendix A to the Evidence for Hydro's 2015 Interim Rates Application.

- 1 Hydro proposes recovery of the 2015 net income deficiency² through the
- 2 implementation of a rate rider calculated separately from base rates to apply to
- 3 customer rates for a three-year period following rate implementation.

² Hydro also proposes that any portion of the 2014 net income deficiency not approved for recovery using the credit balance in the RSP also be reflected through the proposed rate rider.