

1 Q. Page 15, footnote 36: Explain how Hydro plans to reflect the higher rural deficit
2 allocation in the 2015 Labrador Interconnected rates. In the response include the
3 percentage impact on the 2015 Labrador Interconnected rates of the higher
4 allocation.

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7 A. The reduced 2015 revenue requirement from Newfoundland Power (NP) results in a
8 reduced allocation of the Rural Deficit to be recovered from the rate to NP using the
9 proposed revenue requirement approach. The update to the Rural Deficit
10 allocation to reflect the revised 2015 Test Year revenue requirement would
11 increase the required rate increase to customers on the Labrador Interconnected
12 System from 2.1% to 3.4%.

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14 Hydro has proposed to maintain the 2.1% increase for the purpose of establishing
15 interim rates. Upon the Board's final determination of revenue requirement for
16 setting customer rates, any net income deficiency from customers on the Labrador
17 Interconnected System will be proposed to be recovered through future rates.

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19 The net income deficiency to be recovered from Labrador Interconnected
20 customers would be partially offset if the Board approves disposition of the RSP
21 load variation balance as proposed in the 2015 Interim Rates Application and/or
22 approves the disposition of the 2014 year-end credit balance in the RSP Hydraulic
23 Variation Account to provide recovery of the 2014 net income deficiency. Because
24 customers on the Labrador Interconnected System pay a portion of the Rural
25 Deficit, a portion of the credit balances allocated to Hydro Rural would
26 appropriately be credited to reduce the net income deficiency to be recovered from
27 these customers.