Q. (Response to IR-NP-NLH-29)

Please provide an analysis of the pros and cons (including the impact of Hydro's rate of return consistent with Table 1 on page 3 of the Interim Rates Evidence) of the following approach to the Interim Rates Application which is a modification of the deferral and recovery mechanism approach outlined in IR-NP-NLH-29. The approach outlined below limits the application of interim rates to NP and the ICs.

<u>Deferral Mechanism</u>

- Creation of a Deferral Account;
- Commencing January 1, 2014, revenue variances between existing and approved rates for the ICs and NP would be included in the Deferral Account with such variances recovered from NP and the ICs; and
- Recovery of funds in this Deferral Account would be decided by the Board in its Order relating to the 2013 GRA.

<u>Rate Stabilization Plan</u>

- Commencing January 1, 2014, RSP calculations will reference the 2013 Test Year, on an interim basis;
- The normal IC RSP adjustment rate would be effective January 1, 2014, and would result in an increase of approximately 3.4% as indicated in IR-IC-NLH-4, Attachment 1. Hydro will apply for this in January 2014 in keeping with the normal operation of the RSP;
- Implementation of Hydro's proposed methodology effective January 1, 2014 for funding the phase-in of IC rates using the IC RSP Surplus, on an interim basis;
- Commencing January 1, 2014, the existing NP RSP Fuel Price Projection rider of 1.634 cents/kWh would be applied to the Deferral Account rather than the RSP, until approval of final rates; and
- Continuation of the existing NP RSP adjustment related to its current plan.

2014 Base Rates

- Approval of Hydro's proposed 2013 Test Year base rates and phase-in rates for the ICs on an interim basis.
- Approval of Hydro's proposed 2013 Test Year base rates for NP on an interim basis.

A. In the response to this RFI it is assumed that IC rates are implemented on an interim basis and in line with the further specification of "Implementation of Hydro's proposed methodology effective January 1, 2014 for funding the phase-in of IC rates using the IC RSP Surplus, on an interim basis." NP rates are implemented on an interim basis and with the deferral of difference between 2013 Test Year rates and existing rates. In this regard, this scenario has similar results to Hydro's response to IR-NP-NLH-029 with the exception that Isolated Systems – Government Departments and Labrador Interconnected Rural customers' rates are not affected. There is no material difference in Hydro's rate of return under the scenario outlined than that shown in Table 1 of the Interim Rates Evidence.

Please refer to the table below for what, in Hydro's view, is a summary of the requested scenario in a format similar to that shown in response to IR-NP-NLH-029.

Proposed Rate Implementation				
Customer Class	**RSP Impacts**	**Base Rate Impacts**	**Customer Rate Impacts January 1, 2014**	**Effect on Hydro**
IC	Normal January 1, 2014 implementation	January 1, 2014 Interim base rate and phase-in rate implementation[1]	Estimated 3.4% increase due to RSP	Opportunity to earn its return in line with OC 2013-089 and OC 2009-063
NP[2]	Existing fuel rider to be applied to the deferral account effective January 1, 2014[3]	Interim approval of rates and deferral of difference between 2013 Test Year rates and existing rates	No Impact	Opportunity to earn its return in line with OC 2009-063
Isolated Systems – Government Departments	N/A	No Impact	No Impact	No Impact[4]
Labrador Interconnected Rural Customers	N/A	No Impact	No Impact	No Impact[5]

[1] Difference between base rate and Phase-in rate to be offset by funding from the IC RSP Surplus per OC 2013-089, as amended.
[2] Includes impacts on Hydro's Rural Customers other than those specified below.
[3] As the Deferral Account is calculated using 2013 Test Year base rates which include the 2013 Test Year fuel price, the collection of NP's existing fuel rider (which is based on the 2007 Test Year) should be applied against the Deferral Account.
[4] No impact in relation to Hydro's Interim Rates Application.
[5] No impact in relation to Hydro's Interim Rates Application.

Pros and cons of this particular scenario are as follows:

Pros:

- Results in similar rate of return on rate base as Hydro's Interim Rates Application;
- Implementation of the proposed NP demand and energy rate is deferred which seems to address concerns of NP and CA; and
- IC base rates, phase-in rates and funding from RSP Surplus are implemented.

Cons:

- Hydro's return on rate base is lower than under that outlined in response to IR-NP-NLH-029, but is in line with the return on rate base which would have resulted from the Interim Rates Application.