

1     Q.     If the Board were to approve only the change to the RSP proposed in the Amended  
2           Interim Rates Application, basing the RSP calculation on proposed 2013 test year  
3           values, would IC rates in Hydro's opinion be consistent with the IC rate phase-in  
4           intended in the Government's Order-in-Council (OC2013-089, as amended)? If not,  
5           why not?

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8     A.     If the Board were to approve only the change to the RSP proposed in the Amended  
9           Interim Rates Application, basing the RSP calculation on proposed 2013 Test Year  
10          values, in Hydro's opinion IC rates would not be consistent with the IC rate phase-in  
11          intended in the Government's Order-in-Council (OC2013-089, as amended) since  
12          Hydro's base rates would not be implemented as requested.

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14          In its Amended Interim Rates Application, Hydro has requested interim base rates  
15          for IC effective on January 1, 2014. Hydro believes it is necessary for the Board to  
16          approve this request in keeping with the spirit and intent of Government's directive  
17          on this matter. Section 2 of OC2013-089, as amended, states as follows:

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19                 *On August 31, 2013 the Island industrial customers' Rate Stabilization*  
20                 *Plan will be credited with \$49 million, the estimated Rate Stabilization*  
21                 *Plan amount required to phase-in industrial customer rates, based on*  
22                 *Newfoundland and Labrador Hydro's General Rate Application.*

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24          Hydro's GRA requested rates effective January 1, 2014 and it should be inferred that  
25          it was on this basis that the amount of \$49 million was allocated to IC from the RSP

1 Surplus<sup>1</sup>. Further, Section 4 of OC013-089, as amended, contemplated that RSP  
2 Surplus funds, once allocated, would be drawn down to fund the shortfall in Hydro's  
3 revenues:

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5 *Over the three year Island Industrial rate phase in period, the shortfall*  
6 *in Newfoundland and Labrador Hydro's revenues when compared to*  
7 *revenue at the Board of Commissioners of Public Utilities-approved*  
8 *Island industrial customer rates, shall be funded from the Island*  
9 *industrial customer Rate Stabilization Plan;*

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11 Given that the calculation of the \$49 million is based on Hydro drawing down the  
12 funds commencing January 1, 2014, if this does not occur, IC will be left with an  
13 unintended amount in its RSP account which was not contemplated in the allocation  
14 of the \$49 million to the IC. Since there is a clear statement in the Government  
15 directive on the basis of the \$49 million (being the estimated amount necessary to  
16 phase in IC rates) and clear Government direction on the use of the \$49 million  
17 (funding Hydro's revenue shortfall), Hydro views the implementation of new IC base  
18 rates on January 1, 2014 as integral to the rates policy directive.

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<sup>1</sup> Refer to the response to PUB-NLH-007 in the RSP proceeding, included as Appendix D in Hydro's Interim Rates Evidence filed November 18, 2013.