

1 Q. At Schedules I and II of the Finance Evidence in Hydro's 2013 General Rate
2 Application it is indicated that the achieved rates of return on rate base for 2009
3 through 2012 ranged from 6.29% to 7.46%. The forecast rate of return on rate base
4 for 2013 is indicated to be 6.68% (the forecast 2013 return was subsequently
5 reduced to 6.28% in the response to Request for Information NP-NLH-027 in
6 Hydro's 2013 General Rate Application). The average of these achieved/forecast
7 returns for the 5 years ending in 2013 is 6.85%, or less. Table 1 in the Interim Rates
8 Evidence indicates that if implementation of new rates is delayed to March 1, 2014,
9 Hydro forecasts a return on average rate base of 7.00%.

10 Given these data, please explain in detail why Hydro considers the current
11 circumstances sufficiently extraordinary to justify the implementation of interim
12 rates based upon an untested 2013 Test Year.

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15 A. Order in Council OC2009-063¹ dated March 17, 2009 directed that the target return
16 on equity for Hydro would be the same as was set for NP. The response to IR-NP-
17 NLH-010 details the regulatory events, the elapsed time for the Court of Appeal
18 case and the Government direction given over the 2009 to 2013 period culminating
19 in the rates policy directives of April 4, 2013. Because of these extraordinary
20 events, Hydro believes that the comparison of the average achieved/forecast
21 returns for the five years ending in 2013, as is posed in the question, is not the
22 appropriate comparator.

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24 NP's 2013 Return on Rate Base, Exhibit 10 of Volume 2 of its 2012 GRA evidence,
25 shows WACC at existing rates of 7.37% in comparison to proposed of 8.64% in its
26 GRA filing. In its GRA filing on September 14, 2012, NP requested that the Board

¹ Refer to CA-NLH-024, Attachment 4.

1 approve the implementation of a deferral and recovery mechanism whereby NP
2 would be able to earn its full 2013 revenue commencing January 1, 2013.

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4 As shown in response to NP-NLH-027, Hydro's Return on Rate Base or Weighted
5 Average Cost of Capital (WACC) in 2013 is 6.26% in comparison to the proposed
6 RORB of 7.83% in its GRA filing. Hydro requests interim rates in order to have the
7 opportunity to earn a return on rate base that is closer to that which results from
8 the Government directed ROE for the 2013 Test Year.

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10 In its GRA filing, NP requested a deferral and recovery mechanism to achieve a
11 higher return when its existing WACC was 14.7%² below its proposed target. In its
12 filing, Hydro requested implementation of interim rates to achieve a higher return
13 when existing WACC was 20.1%³ below its proposed target. Hydro considers the
14 current circumstances sufficiently similar to those of NP to justify the
15 implementation of interim rates based upon its 2013 Test Year.

² $((8.64\% - 7.37\%)/8.64\%)$

³ $((7.83\% - 6.26\%)/7.83\%)$