

1 Q. An extensive negotiation process was undertaken to gain agreement on rate design,
2 cost of service and revenue requirement matters for all of Hydro's systems at the
3 2006 Hydro General Rate Application hearing prior to proposing rates on an interim
4 basis for 2007.

5 Based on this experience, please compare the advantages and disadvantages of
6 approving the proposed interim rates based upon untested costs effective January
7 1, 2014 with the establishment of a deferral account to address a revenue shortfall
8 for 2014. Please give consideration to accepted regulatory principles in discussing
9 the advantages and disadvantages of each approach.

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12 A. Hydro views the advantages and disadvantages of the approval of interim rates
13 versus a deferral account, in the present circumstances of Hydro's Interim Rates
14 Application, as follows:

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Interim Rates Effective January 1, 2014

16 Advantages:

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- 18 • Hydro is currently forecasting its 2014 RORB to be below the lower end of its
19 approved range of return on rate base and interim rates approval will
20 provide Hydro the opportunity to earn a return on rate base that is closer to
21 that which results from the Government directed ROE for the 2013 Test
22 Year;
- 23 • The implementation of interim rates on January 1, 2014 is advantageous for
24 the vast majority of customers affected by the Interim Rates Application in
25 that it results in a rate decrease;
- 26 • It is estimated that the average IC rate increase resulting from the January 1,
27 2014 RSP adjustment will be 3.4% thus resulting in a rate increase which is

1 significantly reduced from the 36.2% increase that would otherwise occur if
2 interim rates were not implemented;

3 • the calculation of the amount of \$49 million contemplates that Hydro's
4 proposed GRA rates for IC would come into effect on January 1, 2014; and
5 • The implementation of interim rates avoids the potential complexities of the
6 RSP if the regulatory deferral mechanism is chosen.

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8 Disadvantages:

9 • The Interim Rate Application results in an earlier rate increase for
10 Government Departments in Isolated Rural Systems which, though cost-
11 based, is a disadvantage for this customer class.

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13 **Deferral Account with Effective Rate Implementation January 1, 2014**

14 Advantages:

15 • Hydro is currently forecasting its 2014 RORB to be below the lower end of its
16 approved range of return on rate base and approval of a deferral account
17 will provide Hydro the opportunity to earn a return on rate base that is
18 closer to that which results from the Government directed ROE for the 2013
19 Test Year.

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21 Disadvantages:

22 • The approval of a deferral account, rather than interim rates, means that the
23 January 1, 2014 rate decrease for the vast majority of customers affected by
24 the Interim Rates Application would not occur on January 1, 2014; and
25 • There are RSP and IC rate phase-in implications that make this option more
26 complex than the interim rates implementation.

1 In general, Hydro views the approval of a deferral account as a retrospective
2 approach which would effect a January 1, 2014 rate implementation of final rates
3 though Board approval would be given later in 2014. Hydro has proposed what it
4 views as a prospective approach in that rates would be implemented on January 1,
5 2014 on an interim basis, with any excess revenues refunded to customers upon
6 approval of final rates. Both are means to achieve a somewhat similar outcome. In
7 2013, Hydro finds itself in somewhat different circumstances than those of NP in
8 2012 whereby there are greater advantages to Hydro and to customers of an
9 interim rate implementation rather than approval of a deferral account.