

1 Q. Further to response to Request for Information IR-NP-NLH-21, please outline the
2 administrative complexities that would result if the Board approved:
3 (i) the proposed change in Island Industrial Customer rates and RSP rules on an
4 interim basis effective January 1, 2014;
5 (ii) existing customer rates for all other classes of service be made interim
6 effective January 1, 2014; and
7 (iii) a deferral and recovery mechanism whereby, commencing January 1, 2014,
8 Hydro would defer any revenue shortfall between existing and approved
9 rates with such shortfall to be recovered from all customers over a three-
10 year period commencing when final rates become effective.

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13 A. The above methodology accomplishes many of the objectives which Hydro included
14 in its interim rates application. However, it does not address consistency between
15 the RSP and the suggested deferral mechanism. The RSP, for instance, should be
16 calculated with reference to a single Test Year. Additionally, NP is already paying a
17 fuel rider based upon current fuel prices. To address these complexities, Hydro
18 offers for consideration the following modified approach:

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20 Deferral Mechanism

- 21 • Creation of a Revenue Variance Deferral and Recovery Account (Deferral
22 Account);
23 • Commencing January 1, 2014, revenue variances between existing and
24 approved rates would be included in the Deferral Account with such
25 variances to be recovered from Hydro's affected customers, Newfoundland

1 Power¹, Isolated System Government Department Customers, and Labrador
2 Interconnected Rural Customers; and

- Proposed recovery for this Deferral Account would be a three-year period commencing once final rates become effective.

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Rate Stabilization Plan

- 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 IR-IC-NLH-004, Attachment 1. Hydro will apply for this in January 2014 in keeping with of 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¢ per kWh would be applied to the Deferral Account rather than the RSP², until approval of final rates; and
 - Continuation of the existing NP RSP adjustment related to its current plan.

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January 1, 2014 Base Rates

- Approval of Hydro's proposed IC 2013 Test Year base rates and phase-in rates on an interim basis; and
 - Existing customer rates for all other classes of service would be made interim.

¹ Includes impacts on Hydro's Rural Customers other than those specified in the table below.

² 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.

- 1 The following table illustrates how desired objectives can be met using a hybrid
 2 methodology of interim rates for IC and a deferral account for other customer classes.
 3 Hydro believes this methodology is also consistent with direction provided by the
 4 Government in OC2013-089, as amended, and OC2009-063.
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Rate Implementation Methodology				
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 ³	Estimated 3.4% increase due to RSP	Opportunity to earn its return in line with OC 2013-089 and OC 2009-063
NP ⁴	Existing fuel rider to be applied to the deferral account effective January 1, 2014 ⁵	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	Deferral of difference between 2013 Test Year rates and existing rates	No Impact	Opportunity to earn its return in line with OC 2009-063
Labrador Interconnected Rural Customers	N/A	Deferral of difference between 2013 Test Year rates and existing rates	No Impact	Opportunity to earn its return in line with OC 2009-063

³ Difference between base rate and phase-in rate to be offset by funding from the IC RSP Surplus per OC 2013-089, as amended.

⁴ Includes impacts on Hydro's Rural Customers other than those specified below.

⁵ 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.