

1 Q. Assume upon conclusion of Hydro's General Rate Application, the Board approved:
2 (i) a deferral account to permit recovery of a 2014 revenue shortfall resulting from
3 delayed implementation of customer rates; and
4 (ii) the recovery of the balance in the 2014 revenue shortfall deferral account over a
5 three-year period commencing once final rates became effective.
6 Does Hydro agree that the scenario presented above would provide Hydro the
7 opportunity to earn a just and reasonable return in 2014? If not, why not.

8

9

10 A. Hydro agrees that if the Board approved a deferral account to permit recovery of a
11 2014 revenue shortfall with effect from January 1, 2014, along with the requested
12 implementation of interim rates for IC effective January 1, 2014, it would provide
13 Hydro with the opportunity to earn a return on rate base that is closer to that which
14 results from the Government directed ROE for the 2013 Test Year. As described in
15 the response to IR-PUB-NLH-052, Hydro's actual ROE for 2013 was 0.14%¹,
16 therefore it is necessary that improved financial results be achieved in 2014. In
17 Hydro's Evidence page 8, lines 13 to 16, it is stated "As Hydro returns to the capital
18 markets in 2014 to fund its infrastructure renewal and new assets construction
19 program estimated at \$763 million over the 2014 to 2017 period, it is critical that it
20 is in a sound financial position."

21

22 In Section 14(iii) of its Amended Application filed February 11, 2014, Hydro made
23 application that the Board make "an Order pursuant to Section 70 of the Act
24 approving a deferral mechanism whereby Hydro would defer any revenue shortfall
25 between interim and final rates with such deferral to be dealt with when final rates
26 become effective". Hydro has requested Board approval of the deferral mechanism

¹ Unaudited.

1 in response to the current Application in order that improved financial results can
2 be reported throughout 2014. Hydro submits that the final determination of the
3 amount of the revenue shortfall based on the final order of the Board and the
4 definition of the recovery period may be determined later in the year. However,
5 Hydro is seeking Board approval of its Amended Application at this time in order to
6 have an immediate positive impact on its reported 2014 forecast financial
7 performance.