

1 Q. In the Amended Interim Rate Application Hydro proposes to implement the
2 Industrial Customer's 2013 General Rate Application proposed rates and use the
3 Industrial Customer RSP Surplus to phase in these rates. What are the advantages
4 and disadvantages to Hydro and to the Industrial Customers of implementing this
5 methodology but accumulating any variances in a deferral account until there is a
6 final Order of the Board resulting from the General Rates Application, at which time
7 the appropriate transfers can be made to the Rate Stabilization Plan and to the
8 Industrial Customer RSP Surplus?

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11 A. Hydro would not be disadvantaged if, instead of approving Hydro's request for
12 proposed rates for IC at this time, the Board approved a deferral and recovery
13 mechanism effective January 1, 2014 for both NP and IC, whereby any
14 revenue shortfall is accumulated in a deferral account for disposition pending
15 a final order of the Board. Hydro submits that approval of a deferral and
16 recovery mechanism effective January 1, 2014 is necessary in order not to be
17 financially disadvantaged. In the Evidence related to Hydro's Amended
18 Interim Rates Application, page 8, Lines 11 to 16, it is stated as follows:

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20 *...the revised proposal provides Hydro with the opportunity to earn a
21 return on rate base that is closer to that which results from the
22 Government directed ROE for the 2013 Test Year. As Hydro returns to the
23 capital markets in 2014 to fund its infrastructure renewal and new assets
24 construction program estimated at \$763 million over the 2014 to 2017
25 period, it is critical that it is in a sound financial position.*

1 As shown in response to IR-PUB-NLH-052, Hydro's ROE for 2013 is 0.14%.¹ It
2 is therefore important that early in 2014, prior to going to the capital markets,
3 Hydro be able to demonstrate a strong financial performance for 2014.

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5 Implementation of the interim rates for IC as proposed by Hydro results in a
6 slight average increase of approximately 1%² in IC bills with effect from
7 January 1, 2014. Hydro has requested that the January 1, 2014 RSP rate
8 adjustment for IC become effective on this date since it is in keeping with the
9 spirit and intent of OC2013-089, Section 5³ as well as in the overall principle of
10 a phase in of IC rates. Hydro believes that there would be a disadvantage to
11 IC if this increase is deferred requiring a larger increase in IC bills at a later
12 date. Notwithstanding this potential increase, if the outstanding issue related
13 to the Segregated Load Variation⁴ is resolved through the GRA process, the
14 increase could possibly be offset by the IC share of the load variation balance⁵.

¹ Unaudited.

² Estimated to be 1.2% increase for Teck Resources and 1.0% increase for Industrial Customers excluding Teck Resources. Estimate is based on the assumption that the calculation of the RSP uses Hydro's proposed 2013 Test Year as requested by Hydro in its Amended Interim Rates Application.

³ OC2013-089, Section 5 states "Notwithstanding Items 1) through 4) above, effective January 1, 2014, the Island Industrial Customers will be subject to Rate Stabilization Plan rate changes in accordance with the Board of Commissioners of Public Utilities-approved methodology;

⁴ Segregated Load Variation refers to the accumulation of the load variation in the RSP subsequent to August 31, 2013. Refer to Order No. P.U. 29(2013).

⁵ Refer to the response to IR-IC-NLH-015.