

1 Q. (page 7 of Second Interim Rates Application Evidence) The evidence states (page 7,
2 lines 14 to 16) "*Hydro proposes that the Board approve on an interim basis that*
3 *\$29.4 million of the RSP credit balance in the Hydraulic component be provided to*
4 *Hydro to record as revenue in 2014*". The evidence goes on to say (page 7, lines 17
5 to 18) "*The actual amount of the 2014 shortfall will be determined upon the*
6 *establishment of final 2014 rates by the Board. The method of recovery will be*
7 *subject to approval of the Board*". Please provide further details on Hydro's
8 proposal and how it provides more certainty to investors. For example, is Hydro
9 proposing that the Board approve a loan of \$29.4 million of the customers' money
10 to Hydro, and if so, under what terms and conditions; i.e., interest rate, term, etc?

11

12

13 A. **Investor Certainty**

14 Hydro's rate of return on equity in 2013 was 0.14 percent, and Hydro's first quarter
15 results for 2014 show a net loss of \$5.9 million. As the GRA is not expected to
16 conclude until 2015, existing rates which are based on a 2007 Test Year will
17 continue to the end of 2014. The approval of an Interim Order by the Board which
18 provides additional revenue for 2014 while awaiting the conclusion of the GRA
19 would send a positive message to Hydro's investors concerning: (i) Hydro's
20 opportunity to earn a reasonable return in 2014; and (ii) the regulatory
21 environment in which Hydro operates.

22

23 **Financing Terms of RSP Transfer**

24 Hydro proposes that the Board approve the same terms for the proposed \$29.4
25 million RSP transfer as it approved for disposition of the RSP hydraulic balance in

1 2006. In that manner, customers are not disadvantaged by the proposed use of the
2 RSP credit balance. The terms approved in 2006 are provided below.

3
4 In P.U. 46(2006), the Board approved (on an interim basis prior to the conclusion of
5 the 2006 GRA) that Hydro shall set up a reserve account to maintain the December
6 31, 2006 Rate Stabilization Plan Hydraulic Variation balance. This balance would be
7 net of the normal 25% December 31, 2006 allocation, with normal Rate Stabilization
8 Plan financing charges applied, until the balance in the account was disposed of
9 later by final Order of the Board.

10
11 In P.U. 8(2007), the Board approved that Hydro distributes the balance of the
12 reserve account, established in P.U. 46(2006), in accordance with the provisions of
13 the special adjustment to the RSP Hydraulic Production Variation Balance approved
14 by the Board. The special adjustment approved the use of approximately \$20
15 million of the credit balance in the RSP Hydraulic Production Variation component
16 be utilized to pay down the RSP Historical Plan Balance owing from customers.