

1     Q.     On page 7, lines 19-21 of the evidence Hydro states that a proposal on the method of  
2             recovery of the actual 2014 shortfall can be addressed through the general rate  
3             application negotiation process. Please explain in detail the options available, in  
4             Hydro's opinion, to deal with the recovery of the shortfall.

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7     A.     Once a shortfall amount has been determined, there are a number of ways to deal  
8             with its recovery. One method would be to defer the shortfall and recover the  
9             amount through future rates paid by customers. This is similar to the method  
10            approved by the Board in the case of Newfoundland Power in its 2013 – 2014  
11            General Rate Application. In Order No. P.U. 13(2013), the Board approved the  
12            amortization of the forecast 2013 revenue shortfall over three years, commencing  
13            in 2013.

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15            Another method of dealing with a shortfall is to recover the shortfall from an  
16            existing deferral account which already has funds collected from customers. For  
17            example, in its Second Interim Rates Application Hydro proposes, “that the Board  
18            approve on an interim basis that \$29.4 million of the RSP credit balance in the  
19            Hydraulic component be provided to Hydro to record as revenue in 2014.” This  
20            proposal has the advantage of repaying the shortfall by using amounts already  
21            collected from customers. This is similar to the method approved by the Board in  
22            the case of Hydro’s 2006 GRA in which \$20.7 million of the Hydraulic Production  
23            Variation RSP balance owing to customers offset current costs owing from  
24            customers. Offsetting amounts owing from customers against funds owing to  
25            customers (in the manner proposed) results in base rates approved by the Board  
26            better reflecting the current costs of providing service.

1 Another method to deal with the shortfall recovery is to employ a combination of  
2 the two methods outlined above. Depending on the level of the shortfall owing  
3 from customers, it may be appropriate (or there may only be enough funds  
4 available) to offset only a portion of the shortfall which would reduce (but not  
5 eliminate) the amortization expense included in customers' future rates.