

1     Q.     On page 7, lines 7-11 of the evidence Hydro states that following Hydro's 2006 general  
2             rate application the Board approved the use of a credit balance in the Hydraulic  
3             Production Variation to reduce rate impacts and that the 2006 approach has "merit in  
4             the current circumstances". Please provide Hydro's opinion as to why the 2006  
5             situation, following a general rate application when the rates were known, is similar to  
6             and should be relied on to support the current application to set rates in advance of  
7             the conclusion of the general rate application.

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10    A.     Board approval of the use of approximately \$20 million in the RSP Hydraulic  
11             Production Variation component to pay down the RSP Historical Plan Balance owing  
12             from customers in 2006 was provided prior to completion of the GRA in 2007.

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14             In P.U. 41(2006), the Board approved, on an interim basis, Hydro's Application for  
15             rates for Newfoundland Power, among others. Rates for Newfoundland Power  
16             incorporated the use of Newfoundland Power's portion of the Hydraulic Production  
17             Variation, which had the effect, at the time, of offsetting current costs owing from  
18             customers.

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20             Board approval in this manner is similar to the treatment that Hydro is currently  
21             seeking. In its Second Interim Rates Application Hydro proposes, "that the Board  
22             approve on an interim basis that \$29.4 million of the RSP credit balance in the  
23             Hydraulic component be provided to Hydro to record as revenue in 2014." This  
24             proposal has the advantage of offsetting amounts deferred from the revenue  
25             shortfall, and to be collected from customers in the future, against funds that have  
26             already been collected from customers and are being held in a deferral account for  
27             payment to customers. Offsetting amounts owing from customers against funds

- 1            owing to customers (in the manner proposed) results in base rates approved by the
- 2            Board better reflecting the current costs of providing service.