

1 Q. Reference: Evidence, Appendix A

2 Please confirm that the difference in expenses as shown in appendix A is a
3 combination of demand and energy related costs.

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5 A. Hydro confirms that the difference in expenses as shown in Appendix A is a
6 combination of demand and energy related costs, therefore, using the Cost of
7 Service would be considered to be a fair allocation basis. In its amended
8 application to be filed in the Fall, Hydro will recommend that the 2014 net income
9 shortfall be allocated to customers on the basis of the 2015 Test Year Cost of
10 Service.

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12 Once the Board determines the final net income shortfall and the allocation by
13 class, there are a number of ways to deal with the recovery of the shortfall as
14 described in the response to SIR-PUB-NLH-003. One method is to recover the
15 shortfall from an existing deferral account which already has funds collected from
16 customers. If the Board approves the \$29.4 million transfer from the Hydraulic
17 Production Component of the RSP, Hydro is proposing that the split between
18 customer classes for the purposes of funding the net income shortfall be done on
19 the basis of energy, consistent with current RSP rules. This allocation is also similar
20 to the method approved by the Board in the case of Hydro's 2006 GRA in which
21 \$20.7 million of the Hydraulic Production Variation RSP balance owing to
22 customers offsets current costs owing from customers.

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24 Because there are different sharing ratios in the RSP (energy basis) and the Cost of
25 Service (demand, energy and customer) it will be necessary to fine tune the
26 funding of the net income shortfall using one of the methods described in the
27 response to SIR-PUB-NLH-003.