

1 Q. (RSP Evidence, page 6, lines 11 to 12) Does the \$49 million figure relate in any way
2 to long-standing cost of service and rate design principles used in this Province? In
3 particular, provide a review of the interim rates that have been charged ICs over the
4 past several years to determine if they meet the Province's primary rate design
5 criteria such as: 1) generating the required revenues; 2) fairness; and 3) sending
6 efficient price signals. Provide a similar review for the phase-m rates proposed for
7 ICs beginning September 1, 2013.

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10 A. The \$49 million that is allocated to Industrial Customers has been directed by
11 Government as it is "the estimated Rate Stabilization Plan amount required to
12 phase-in industrial customer rates, based on Newfoundland and Labrador Hydro's
13 General Rate Application."¹ Phasing-in the Industrial Customer rate increase
14 employs the rate design criterion of gradualism. As outlined in the response to
15 PUB-NLH-14, there is little discretion in setting Industrial Customers' rates over the
16 three-year phase-in period however, rate design criteria can be considered in the
17 determining the form of the final approved Industrial Customer rate based on the
18 2013 Test Year. Hydro anticipates that this issue will be addressed as part of its
19 current GRA filing.

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21 The base rates that have been in place since January 1, 2007, were designed and
22 approved by the Board in light of rate design criteria considered in Hydro's last GRA.
23 Since that time, base rates have not changed, as that generally occurs through a
24 GRA.

¹ OC2013-089, as amended, Subsection 2

25 In December 2007 Hydro requested, and the Board approved, that existing
26 Industrial Customer rates, including the RSP, become interim effective January 1,
27 2008. Interim rates were requested since “Hydro determined that there was
28 potential volatility in its Industrial Customers’ rates both for 2008 and in future
29 years”². The rates in place at that time, assumed the forecast level of Island
30 Industrial Customers’ load that was included in the 2007 Cost of Service. The
31 interim rates that have been charged to Industrial Customers over the past several
32 years were based on forecast Holyrood fuel cost for industrial customer load that
33 never materialized. This reduction in fuel costs mainly results in the RSP Surplus of
34 \$160 million which accumulated over the period January 1, 2007 to August 31,
35 2013. A decision on whether or not there is a further review of interim rates that
36 have been charged to Industrial Customers over the past several years is within the
37 discretion of the Board. Please refer also to the response to PUB-NLH-5 and PUB-
38 NLH-6.

² Hydro Application to the Board dated December 20, 2007.