

1 Q. (RSP Application, RSP Evidence, Table 3, page 11) Please provide a table comparing
2 current average rates in cents/kWh for NP and each IC to average rates derived in
3 the cost of service study included in the 2013 GRA. Include columns showing
4 current average rates in cents/kWh, consumption for 2013 (actual for months when
5 available, forecast when not), average 2013 cost of service rates, the ratio of
6 current rates to 2013 cost of service rates, and the amount in Dollars that current
7 rates are under- or over-collecting relative to 2013 cost of service rates. Does Hydro
8 agree that this is an accepted means in the industry for determining cross-subsidies
9 in a rate regime? If not, please provide what Hydro believes is the accepted
10 methodology for determining cross-subsidization in a rate regime and file a table
11 showing the levels of cross-subsidization on this basis.

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14 A. Please see Attachment 1 for the requested data. Since the rates being charged to
15 the customers do not reflect current RSP activity, but some element of previous RSP
16 activity, Hydro does not agree that these numbers represent cross-subsidization.
17 Hydro's base rates are set based upon a Test Year, wherein Newfoundland Power
18 and the IC class pay their assigned cost of service, with no cross subsidization.¹
19 Between approved test years, fuel-related costs are allocated to the customer
20 classes based upon the RSP rules. If the RSP rules are consistent with the cost of
21 service methodology, no cross subsidization would occur. Each class would be
22 assigned its proportion of costs. Hydro would consider the current load variation
23 methodology one which creates cross subsidization, as assigning the load variation
24 to the class in which it occurs is not consistent with the cost causality principles
25 reflected in Hydro's Cost of Service Study. One may consider that there is some

¹ NP is allocated a major portion of the rural deficit, which may be considered subsidization, but this does not relate to the IC.

1 degree of cross-subsidization in the amounts of the RSP Surplus allocated to each
 2 class based upon the direction received from Government. The table below
 3 estimates² the difference in allocation of the load variation using energy ratios
 4 compared with the amount allocated by the Orders in Council.

Load Variation Allocation		
Allocation Methodology	Utility Allocation	Industrial Customer Class Allocation
(\$ millions)		
Based on energy ratios	150.2	11.4
Order in Council	112.6	49.0
Difference	(37.6)	37.6

² Using annual rather than monthly data.

	(a)	(b)	(c) = (a) ÷ (b)	(d)	(e)	(f) = (d) ÷ (e) 2013	(g) = (c) ÷ (f)	(h) = (a) - (d)
	2013 Current Annual Revenue	2013 Current Annual Consumption (kWh) (*)	2013 Current Average Rate (¢/kWh)	2013 Test Year Annual Revenue	2013 Test Year Annual Consumption (kWh)	Test Year Average Cost of Service Rate (¢/kWh)	Ratio of Current Average Rate to Test Year Average Cost of Service Rate	Revenue Over / (Under) Collected
Wholesale:								
Newfoundland Power	\$383,077,694	5,572,794,069	6.874	\$391,416,365	5,594,300,000	6.997	98.24%	(\$8,338,671)
Total Wholesale	<u>\$383,077,694</u>	<u>5,572,794,069</u>	6.874	<u>\$391,416,365</u>	<u>5,594,300,000</u>	6.997	98.24%	<u>(\$8,338,671)</u>
Island Industrial:								
North Atlantic	\$8,986,172	205,129,935	4.381	\$13,863,306	217,900,000	6.362	68.86%	(\$4,877,134)
Corner Brook Pulp & Paper	4,089,374	67,064,428	6.098	6,966,536	80,100,000	8.697	70.12%	(2,877,162)
Teck Resources	2,621,007	71,200,317	3.681	4,689,305	71,800,000	6.531	56.36%	(2,068,298)
Vale	1,564,777	33,015,348	4.740	2,863,265	34,300,000	8.348	56.78%	(1,298,488)
Praxair	328,068	3,800,000	8.633	569,913	4,300,000	13.254	65.14%	(241,845)
Total Island Industrial	<u>\$17,589,398</u>	<u>380,210,028</u>	4.626	<u>\$28,952,325</u>	<u>408,400,000</u>	7.089	65.26%	<u>(\$11,362,927)</u>

(*) - Actuals to July 31, 2013.

Note 1- Columns (a) and (d) include Firm Demand, Firm Energy and Specifically Assigned Charges and RSP Write-offs from normal operation of the RSP.