

1 Q. **Evidence - Application for Deferral and Recovery of 2014 Capacity-Related Supply**  
2 **Costs, page 7, lines 9-15.**

3 Please explain why Hydro has chosen to request deferred recovery of costs in this  
4 application and provide a proposal for recovery of other costs (such as consulting  
5 and legal costs related to the Board's Inquiry) in a separate future application.

6 Please specifically address the issue of regulatory efficiency in the response.

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9 A. As Hydro noted in its May 12, 2014 evidence in the Second Interim Rates  
10 Application, Hydro is expected to incur additional consulting and legal costs as a  
11 result of the ongoing review, and there will also be additional unbudgeted costs  
12 incurred in 2014 and 2015 to address the recommendations of Liberty Consulting  
13 and the Board resulting from that proceeding. For example, several external  
14 consultants have already been engaged by Hydro or the Board as a result of the  
15 outage inquiry, including: Liberty Consulting, ERA Consultants, Ventyx, and AMEC  
16 Americas Limited. McInnes Cooper, an external legal firm, has also been retained  
17 to provide assistance to Hydro as part of the review process. The work of these  
18 consultants is ongoing. Similarly, Hydro expects to incur additional operations and  
19 maintenance costs in both 2014 and 2015 as a result of specific recommendations  
20 related to corrective and preventative maintenance requirements, including  
21 additional internal salaries, overtime, consultants and materials.

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23 As the extent of these actual and forecast costs for 2014 and 2015 is not fully  
24 established, and since some of these costs will be incurred during the 2015 Test  
25 Year, Hydro submits it is more appropriate and efficient from a regulatory  
26 perspective to address the recovery of these types of costs as part of the overall  
27 consideration of these cost categories in the updated General Rate Application.

1 In contrast, the specific capacity-related costs that were incurred in January to  
2 March 2014 are known. As these non-capital expenses are analogous to past  
3 precedents in which the Board has approved recovery for Major Extraordinary  
4 Repairs, Hydro submits that a separate, stand-alone application is the appropriate  
5 mechanism to seek Board approval for the deferred recovery of these increased  
6 and unanticipated capacity-related costs.

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8 Hydro submits this breakdown enhances regulatory efficiency by segregating the  
9 extensive known capacity-related costs (which have already been incurred) into a  
10 discrete regulatory process. The inclusion of the treatment of these costs within a  
11 General Rate Application process would, in Hydro's submission, be very  
12 cumbersome and lead to regulatory inefficiency.

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14 Please also see Hydro's response to CA-NLH-001.