

1 Q. **Reference: Interim Rates Application, Schedule 1 – Evidence, Revision 1**

2 The Alberta Utilities Commission has used a test to evaluate an interim rates
3 application in “ENMAX Power Corporation; 2015 Interim Distribution and
4 Transmission Tariff Application” dated November 12, 2014 (see
5 <http://www.auc.ab.ca/applications/decisions/Decisions/2014/2014-311.pdf>). The
6 test is identified below and includes two parts. The first part of the test relates to
7 quantum and need for the rate increase and the second part of the test relates to
8 the general public interest. Does the interim rates component (2.8% effective July 1,
9 2018) of Hydro’s 2018 Interim Rates Application meet this test? Please elaborate
10 the response for each of the Deferral Account Scenario and the Expected Supply
11 Scenario, as applicable.

12

13 Part One

14 i) Is the identified revenue deficiency probable and material?

15

16 ii) Can all or some portion of any contentious items be excluded from the amount
17 collected?

18

19 iii) Is the increase required to preserve the financial integrity of the applicant or to
20 avoid financial hardship to the applicant?

21

22 iv) Can the applicant continue safe utility operations without the interim
23 adjustment?

24

25 Part Two

26 i) Do the interim rates promote rate stability and ease rate shock?

1 ii) Do the interim adjustments help maintain intergenerational equity?

2

3 iii) Can interim rate increases be avoided through the use of carrying costs?

4

5 iv) Are the interim rate increases required to provide appropriate price signals to
6 customers?

7

8 v) Is it appropriate to apply the interim rider on an across-the-board basis?

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10

11 A. As noted in the question, the Alberta Utilities Commission (AUC) has established a
12 two-part test applicable to interim rate applications. It is Hydro's opinion that its
13 request for interim rates for 2018 meets the requirements of this test under both
14 the Deferral Account Scenario and the Expected Supply Scenario.

15

16 **Part One: Quantum and Need**

16

17 i) Is the identified revenue deficiency probable and material?

17

18 Yes. As noted in Hydro's Application, the continuation of existing 2015 Test Year
19 rates for all of 2018 would result in a 2018 net loss for Hydro and a return on
20 rate base below the lower end of the approved range of return on rate base of
21 6.41% (midpoint of 6.61%).¹

22

23 The continuation of 2015 Test Year base rates in 2018 will result in a revenue
24 deficiency which is both probable and material. This was acknowledged this in
25 Order No. P.U. 7(2018), page 5 "*The Board acknowledges Hydro's argument that*

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¹ Hydro's 2015 rate of return on rate base of 6.61% was approved by the Board in P.U. 22(2017).

1 *if it is not provided rate relief in 2018 its earnings will be below the bottom of*
2 *both the existing approved range of return on rate base and the proposed range*
3 *of return on rate base.”*

- 4
5 ii) Can all or some portion of any contentious items be excluded from the amount
6 collected?

7 Hydro’s proposal for 2018 interim rates reflects recovery of only 25.9% of the
8 increased costs relative to the approved 2015 Test Year under the Deferral
9 Account Scenario, and 34.5% under the Expected Supply Scenario. This
10 approach has effectively excluded in excess of 65% of the cost increases from
11 Hydro’s proposed interim rates.

12
13 If upon final testing of 2018 costs the Board determines that 2018 cost
14 adjustments are required, then these amounts would be applied to reduce the
15 2018 net income deficiency to be recovered through customer rates in future
16 years. Hydro’s proposed approach ensures that: (i) customers do not pay rates
17 in 2018 that exceed the approved cost of providing service in 2018; and (ii) the
18 amount of 2018 costs to be recovered from customers in future years is
19 reduced

- 20
21 iii) Is the increase required to preserve the financial integrity of the applicant or to
22 avoid financial hardship to the applicant?

23 Yes. As discussed in Part One i), the continuation of existing 2015 Test Year rates
24 for 2018 would result in a 2018 net loss for Hydro and a return on rate base
25 below the lower end of the approved range of return on rate base of 6.41%.

1 The approval of the proposed interim increase in base rates will reduce financial
2 uncertainty for 2018 and reduce Hydro's borrowing costs.

3

4 iv) Can the applicant continue safe utility operations without the interim
5 adjustment?

6 Yes. While Hydro is committed to the delivery of safe, reliable, and least-cost
7 power, it is not appropriate, in Hydro's view, to continue with uncertainty with
8 respect to cost recovery.

9

10 **Part Two: Public Interest Factors**

11 i) Do the interim rates promote rate stability and ease rate shock?

12 Yes. The proposed interim rates avoids higher rates in 2019 when final rates are
13 implemented.

14

15 ii) Do the interim adjustments help maintain intergenerational equity?

16 Yes. Approval of interim rates in 2018 to increase Hydro's base rate revenues
17 will help maintain intergenerational equity. If increased interim base rates are
18 not implemented, then customer rates for 2018 will recover less than the costs
19 associated with the service provided in that period. Denial of Hydro's proposal
20 to implement increased interim base rates in 2018 will further increase the 2018
21 revenue deficiency and place an increased cost burden on future customers to
22 fund recovery of costs incurred in the previous year.

23

24 iii) Can interim rate increases be avoided through the use of carrying costs?

25 This is not a reasonable approach in the current circumstances. Carrying costs
26 do not address the existence of a significant net income deficiency that must be
27 recovered from customers as existing customer base rates for 2018 do not

1 recover the forecast 2018 revenue requirement. The use of carrying costs also
2 does not address customer rate stability concerns.

3
4 iv) Are the interim rate increases required to provide appropriate price signals to
5 customers?

6 Yes. As stated in Hydro's evidence, the cost to provide reliable service has
7 increased since the approval of the 2015 Test Year, primarily as a result of
8 increased capital investment to provide ongoing reliable service to customers.
9 Current customer rates based on the 2015 Test Year do not reflect this
10 increased cost of providing service to customers.

11
12 v) Is it appropriate to apply the interim rider on an across-the-board basis?

13 The 2018 Utility Customer Interim Rates Application only seeks interim rates
14 from a single customer, Newfoundland Power. If the proposed interim Utility
15 Rate is approved, Newfoundland Power will then file an application for recovery
16 of the additional supply costs from their various customer classes.

17
18 **Conclusion**

19 Hydro submits that its proposal for 2018 interim rates meets the two-part test
20 originally established by the Alberta Utilities Commission for consideration of
21 interim rate adjustments. Hydro has shown that its revenue deficiency for 2018 is
22 both probable and material. Approval of the proposed interim Utility Rate will
23 provide less than 35% recovery of the increased cost of service relative to the
24 approved 2015 Test Year.

25
26 Hydro does not believe it is appropriate to make further adjustments to reduce the
27 level of recovery in 2018 interim rates. If upon final testing of 2018 costs, the Board

1 determines that 2018 cost adjustments are required, then these amounts would be
2 applied to reduce the 2018 net income deficiency to be recovered through
3 customer rates in future years.

4

5 Delayed implementation of increased base rates will further increase the 2018
6 revenue deficiency to be recovered from customers upon establishment of final
7 customer rates. Hydro believes that approval of the proposed base Utility Rate
8 effective July 1, 2018, on an interim basis, provides a reasonable balance of the
9 interests of both the utility and its customers.