

1 Q. Reference: Exhibit 2, Appendix A, page A-4, line 30 and Exhibit 10,
2 page 2, line 15:

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4 Please provide a reconciliation between the regulated average equity of 23.62%
5 shown in Exhibit 2 and the 22.845% regulated average equity shown in Exhibit 10.

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8 A. Hydro incurs depreciation expense on assets that are used to provide service but
9 are not recoverable in rates, i.e., not in operation (NIO) assets. To calculate the
10 2014 Test Year Revenue Requirement, the depreciation expense for NIO assets of
11 \$1.2 million was added back using an adjustment for "cost of service exclusions"
12 (see Exhibit 2, Appendix A, page A-2, line 25).

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14 In the 2014 Test Year Cost of Service (COS) Study, Hydro inadvertently included the
15 depreciation expense for NIO assets in its assigned costs and offset it with an
16 adjustment to return in order to match the total revenue requirement. This created
17 a mismatch in the regulated average equity of between the 2014 Test Year COS
18 Study and the finance schedules of 22.845% versus 23.62%.

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20 Hydro notes that this issue was raised in Grant Thornton's report on Page 36, lines
21 17 through 28. As noted by Grant Thornton, this issue causes an allocation variance
22 in the COS of \$60,000; however, it has no impact on total revenue requirement.