

1 Q. Please confirm that Hydro is proposing that the Board approve rates that reflect
2 Hydro's best forecast of the cost of supply to Labrador Interconnected Customers
3 and that will over-collect Hydro's best estimate of the cost of supply to
4 Newfoundland Power and its customers. Please provide an analysis of the
5 repercussions of this approach with respect to the recovery of the rural deficit
6 amounts from these customer classes.

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9 A. Hydro believes it is using the appropriate cost of supply for establishing Test Year
10 revenue requirements for both customers on the Island Interconnected System and
11 customers on the Hydro Rural Labrador Interconnected System. As explained in
12 Hydro's response to CA-NLH-042, Hydro considers its approach to determining its
13 Test Year revenue requirements to be reasonable.

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15 Additionally, the intent of Hydro's proposal is to allow the accumulation of funds in
16 an account that the Board can use at a later date to affect the best advantage, an
17 easing of the eventual rate required to recover the significant increase in cost of
18 providing service. There is no financial benefit retained by Hydro.

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20 The use of a lower cost of supply for the Island Interconnected System in the 2018
21 and 2019 Test Years to provide the savings resulting from off-island purchases to
22 Island Interconnected Customers through lower customer rates results in a lower
23 revenue requirement for Newfoundland Power and a lower rural deficit allocation
24 to Newfoundland Power. This approach would result in higher rural deficit
25 allocation to Labrador Interconnected System and higher proposed rates for Hydro
26 Rural customers on the Labrador Interconnected System.