

1 Q. Further IC-NLH-111 above, is the 2018 revenue deficiency of \$22.6 million included  
2 as part of 2018 rate base for calculation of 2018 revenue shortfall? If it is confirmed,  
3 please detail how the circular impact was captured in the calculations.

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6 A. It is confirmed, the 2018 revenue deficiency of \$22.6 million is included as part of  
7 2018 rate base for calculation of the 2018 revenue shortfall.

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9 The inclusion of the 2018 revenue deficiency in the 2018 rate base increased the  
10 2018 revenue requirement by \$646,900.<sup>1</sup> The iterative process involves calculating  
11 the revenue requirement to be recovered, running a Cost of Service to assign costs  
12 by system and customer, designing rates to recover costs assigned in the Cost of  
13 Service, and calculation of the revenue deficiency. The inclusion of a revenue  
14 deficiency due to the delay in the implementation of final rates requires this  
15 process to be iterated multiple times until the calculated revenue deficiency no  
16 longer significantly changes the total revenue requirement.

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<sup>1</sup> Calculated as 2018 average deferral balance times 2018 WACC  $(\$0 + \$22,578,000)/2 \times 5.73\% = \$646,900$ .