

1 Q. Further to response to Request for Information NP-NLH-160:

2

3 Did Hydro consider implementing a deferral account as an adjustment mechanism
4 for its target return on equity to reflect any future changes to Newfoundland
5 Power's approved target return on equity for ratemaking purposes? If so, please
6 identify the advantages and disadvantages of this approach.

7

8

9 A. Hydro did consider implementing a deferral account as an adjustment mechanism
10 for its target return on equity (ROE) to reflect any future changes to Newfoundland
11 Power's approved target return on equity for ratemaking purposes. However, this
12 approach is not recommended.

13

14 Any Newfoundland Power rate change automatically requires a rate change to
15 Hydro's rural customers on the Island Interconnected System and the Isolated
16 Systems. A change in Newfoundland Power's approved ROE would result in a
17 change in Hydro's customer rates for Labrador Industrial Transmission customers
18 and Labrador Interconnected customers. Hydro considers it more efficient to
19 implement a single rate change for all classes simultaneously, versus deferring this
20 change to a future date.

21

22 A change in Test Year ROE would also result in a change in the Test Year rural deficit
23 allocated to the Labrador Interconnected customers and Newfoundland Power.
24 Hydro believes it would be administratively complex to defer the impacts of this
25 change and flow it through to customers at a later date. The deferral account
26 approach also creates concerns with respect to intergenerational equity, which are
27 not present under the proposed adjustment mechanism.