Q. **Overview**

Explain why it is appropriate to use two test years and include references to regulatory precedents on the use of multi-test years.

A. Hydro considers the use of two test years to be supported by both legislation and past practice of the Board. *The Electrical Power Control Act*, *1994*, paragraph 3(a) (ii) states:

> *3. It is declared to be the policy of the province that…*
> *(a) the rates to be charged, either generally or under specific contracts, for the supply of power within the province,*
> *(ii) should be established, wherever practicable, based on forecast costs for that supply of power for 1 or more years…*

Board approval of the use of two test years is not uncommon in establishing customer rates. For example, in Order No. P.U. 13(2013), the Board approved the use of two test years in determining revenue requirements from customer rates for 2013 and 2014 as part of the Newfoundland Power's General Rate Application (GRA).[1] The Board also approved forecast revenue requirements for both 2016 and 2017 as part of the Newfoundland Power's GRA in Order No. P.U. 18(2016).[2]

Hydro's forecast cost of providing service is $673.0 million for 2018 and $692.7 million for 2019. Therefore, customer rates in 2019, set on a 2018 Test Year, would

[1] See page 57 of Order No. P.U. 13(2013).
[2] See page 47 of Order No. P.U. 18(2016).

result in a $19.7 revenue shortfall for Hydro. A revenue shortfall of $19.7 million in 2019 would result in a rate of return on rate base for Hydro of 4.85%.[3] This level of return is below both Hydro's target return on rate base of 5.73% and the bottom of the range of return on rate base of 5.53% for the 2018 Test Year.

Therefore, Hydro has proposed the use of 2018 and 2019 as Test Years such that rates implemented as a result of the current GRA provide a reasonable opportunity for Hydro to recover the cost of providing service for both 2018 and 2019.

[3] Hydro's 2019 Test Year return on rate base and average rate base are forecast to be $134.4 million and $2,364.5 million respectively.