

1 Q. **Exhibit 13 – Cost of Service Expert Evidence**

2 Page 14 of 60, lines 5-8 and page 9, lines 1-12 – On page 7 it is stated that smaller  
3 U.S. firms directly assign actual or estimated costs of each facility to the customer  
4 that the facility serves and on page 9 an alternative of tracking and charging actual  
5 expenses is outlined. Comment on whether, assuming that actual costs can be  
6 determined, this approach is a fairer and more equitable approach for all customers  
7 for recovery of such costs than the current or proposed approach by Hydro.

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9 A. This response has been provided by CA Energy Consulting.

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11 The testimony in Exhibit 13 does not mention fairness except in the context of the  
12 allocation of common transmission costs relative to costs directly assigned to  
13 certain customers (See page 16 of 60, line 8.) In contrast, the question invites  
14 comments on the fairness of various mechanisms for sharing those directly assigned  
15 costs. The testimony notes that there are trade-offs involved in selecting a method  
16 for sharing O&M costs.

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18 The issues involve: 1) timing (direct charging of actual O&M cost matches cost  
19 timing with revenue timing and produces the expectation that new transmission  
20 lines would incur low costs while old lines would incur high costs); 2) materiality  
21 (large utilities take less notice of direct assignment than smaller utilities, finding  
22 such accounting detail not worth the effort); and 3) utility cost accounting methods  
23 (utilities do not necessarily record O&M costs in adequate detail to be able to assign  
24 actual costs to individual customers). Additionally, direct assignment of actual costs  
25 exposes individual customers to the risk that their transmission assets might be  
26 unexpectedly costly to maintain. Given these tradeoffs, no single method can claim  
27 to be superior with regard to fairness.