

1 Q. Please provide the revised 2014 revenue deficiency (in the form of Exhibit 2, Table 3
2 on page 6) assuming that the 2014 revenue deficiency was excluded from deferred
3 costs (i.e., not included in rate base).

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6 A. In the 2013 Amended GRA, the 2014 Revenue Deficiency was originally assumed to
7 be paid out of the RSP on December 31, 2014. Hydro did not receive approval for
8 this approach. Therefore, the balance remained in the RSP and customers received
9 interest at Hydro's 2007 Test Year Weighted Average Cost of Capital (WACC)
10 (7.44%). Given the 2014 Revenue Deficiency was due to Hydro at the end of 2014
11 but will not be paid until mid-2017, Hydro included the 2014 Revenue Deficiency in
12 rate base in its Compliance Application. Please see Hydro's response to NP-NLH-
13 004.

14

15 This approach is consistent with Order No. P.U. 14(2014), which states:

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17 *Rate base is the amount of investment on which a regulated utility*
18 *is allowed to earn fair return. Rate base comprises primarily*
19 *depreciated investment in plant and equipment plus working*
20 *capital as well as certain deferred assets/costs attributable to*
21 *future operations.*

22

23 Should Hydro be required to pay WACC on a higher RSP balance *owing to*
24 customers, but at the same time not be permitted to collect WACC on an amount
25 *owing from* customers (i.e., the 2014 Revenue Deficiency) through its inclusion in

- 1 rate base, as is the premise of this question, Hydro's 2014 Revenue Requirement
- 2 would be decreased by approximately \$1.0 million.¹

¹ Hydro excluded the balance fuel supply deferral for purposes of the calculation because the balance of the fuel supply deferral was consistently treated as an average rate base item in both the 2013 Amended Application and the GRA Compliance Application.