Q. Does Hydro believe that the load variation component in its current form results in a fair allocation of energy costs among all customer classes between test years if either an existing large industrial customer shuts down operations or a new large industrial customer begins operations? Please explain why or why not.

A. The issue of the fairness of allocating energy costs among all customer classes between test years was addressed in Hydro's 2006 report "Review of the Operation of the Rate Stabilization Plan" which was filed with the Board in 2006 and included as part of Hydro's June 30, 2009 Application. Page 14 of that report concludes that the load variation component of the plan does not result in a fair allocation of energy costs when measured against the Cost of Service methodology, stated as follows:

One measure of fairness when it comes to evaluating the customer allocations performed in the RSP is the degree to which the RSP adjustment rate anticipates a re-setting of customer base rates using a Cost of Service study. If the change were to be incorporated into a new test year, the RSP adjustment rate should be representative of the change to base rates. Hydro has evaluated both the previous and the existing RSP allocation of customer load variation against the Cost of Service treatment. This evaluation showed that both the previous and existing methods produce widely different results which led Hydro to conclude that the customer allocation for the load variation should be revised so that it is more closely aligned with Cost of Service treatment.

This conclusion would hold true in both cases where, if between test years, either an existing large Industrial Customer shuts down operations or a new large

Industrial Customer begins operations. Hydro considers that its conclusion with regard to the load variation component of the RSP, which was also outlined in its 2006 report, is a fairer method to allocate the load variation balance of the Plan. Please refer to the response PUB-NLH-15.