

1 Q. Please explain in detail, the effect that capital expenditure (capex) has on rates. The
2 response should include an explanation of the effect that each capex factor has on
3 rates including, but not limited to, depreciation, return on debt, and return on
4 equity.

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7 A. The cost of a capital project, once the assets are in service, directly impact a
8 number of the components of Hydro's revenue requirement which is used to derive
9 rates, including return on debt, return on equity, depreciation expense, and
10 operating and maintenance expense. The average net book value of the in-service
11 assets forms a portion of Hydro's rate base. Return on debt and return on equity
12 are calculated on rate base using the Test Year rates of return. Depreciation on
13 Hydro's assets is also a component of revenue requirement.

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15 Hydro's Cost of Service study, which is used to distribute costs among customer
16 classes, is also impacted by capital costs. These costs form the basis of a number of
17 allocations and ratios used in the allocation of costs.