

1 **Q. Reference: Volume III, Exhibit 10, Section A 9.0, Rural Rate Alteration, page 5**

2 Explain why the Rural Rate Alteration balance, which is not related to supply cost variances,
3 should be included in the LT SCVDA.

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6 **A.** Newfoundland and Labrador Hydro (“Hydro”) agrees that the Rural Rate Alteration is not a
7 supply cost variance. It is a revenue adjustment that captures changes in Hydro Rural revenues
8 arising from changes in rural rates and Rural Island Interconnected load between test years.

9 Hydro proposes to retain this adjustment in the Long-Term Supply Cost Variance Deferral
10 Account (“SCVDA”) because the account maintains customer-specific balances for charges,
11 credits, and other adjustments affecting the amounts ultimately owing between Hydro and its
12 customers. The Rural Rate Alteration is separately calculated under its own formula and is not
13 included in the demand-and-energy allocation of supply cost variances.

14 The adjustment is allocated between Newfoundland Power Inc. (“Newfoundland Power”) and
15 regulated Labrador Interconnected customers in the same proportion as the Rural Deficit in the
16 approved test year Cost of Service Study. The amount allocated to Newfoundland Power is
17 recorded in its Long-Term SCVDA balance, while the Labrador Interconnected portion is
18 removed from the account and written off to Hydro’s net income or loss. No portion is allocated
19 to Island Industrial customers.

20 Including the Rural Rate Alteration in the Long-Term SCVDA therefore preserves its existing
21 treatment, allows related customer charges and credits to be administered within one
22 customer-balance mechanism, and avoids establishing a separate deferral account. The
23 adjustment remains separately identifiable, and disposition of the Long-Term SCVDA balances
24 remains subject to further Board of Commissioners of Public Utilities approval.

25 This treatment is also consistent with the previous deferral account, the Rate Stabilization Plan,
26 which recorded and recovered supply cost variances on the Island Interconnected System. The

- 1 Rural Rate Alteration balance, whether owing from or due to customers, was included in the
- 2 calculation of the annual rate change for Newfoundland Power.