Q. **Reference: Application**

Provide a table that compares the 2027 Rural Deficit allocated to each customer class to the 2027 Rural Deficit allocation by customer class assuming that industrial customers were not excluded from contributing toward the Rural Deficit and identify any material assumptions and/or caveats.

A. As noted by Newfoundland and Labrador Hydro ("Hydro") in its Application, Government of Newfoundland and Labrador ("Government") established several policies which discouraged rate differentials throughout the province, one of which directed that electricity rates charged to rural areas conform to those rates approved for Newfoundland Power Inc. ("Newfoundland Power") customers. Formal direction is provided in Order in Council OC2003-347.[1] As per the Order in Council, the Lieutenant Governor in Council directs the Board of Commissioners of Public Utilities to:

> Continue to fund the financial deficit resulting from providing electrical services to Newfoundland and Labrador Hydro's rural customers through the electricity rates charged to Newfoundland and Labrador Hydro's other electricity customers, including its Labrador interconnected retail customers and Newfoundland Power**, but excluding the industrial customers. [emphasis added]**

In addition, per s. 3(a)(iv) of the *Electrical Power Control Act, 1994*, Island Industrial customers do not contribute towards the cost of the Rural Deficit.

Accordingly, Hydro's Cost of Service Study and proposed rates reflect the legislated and Government-directed allocation of the Rural Deficit. Any alternative allocation methodology that includes Industrial customers would be inconsistent with the current legislative and policy framework. As a result, Hydro has not prepared a Rural Deficit allocation for 2027 that assumes Industrial customers contribute toward the Rural Deficit.

[1] Government of Newfoundland and Labrador, *Order in Council OC2003-347*, July 8, 2003.