Q. **Reference: Schedules F.1.2 – G.1.2, Class Revenue-to-Cost Ratios**

a) Explain whether Hydro targets unity or a revenue-to-cost ratio bandwidth (say of 95% - 105% or 90% - 110%) in the translation of class allocated cost to rate design. As part of the response, discuss the rationale for the tolerance band.

b) Explain how long Hydro's revenue-to-cost ratio bandwidth has been in effect, including when it last undertook a review as part of a public proceeding. As part of the response, provide Hydro's evidence (including evidence of any external consultant prepared on behalf of Hydro, the PUB or other intervenor).

c) Provide a consolidated table that compares the revenue-to-cost ratios by class including and prior to rate mitigation flowing from the current 2027 Test Year. As part of the response, explain the drivers of any variance in revenue-to-cost ratios between the two scenarios.

d) Provide a consolidated table that compares the revenue-to-cost ratios by class: i) flowing from the 2017 approved GRA; ii) the current 2026 proposed GRA prior to rate mitigation; and iii) the current 2026 proposed GRA including rate mitigation. As part of the response, explain the drivers of the variance between the 2017 approved GRA and the proposed 2026 GRA.

A. **a)** As shown in Schedule F 1.2 of the 2027 Cost of Service Study, filed as part of Newfoundland and Labrador Hydro's ("Hydro") 2026 General Rate Application ("GRA"), the targeted ratio for Island and Labrador Industrial Customers is 1.00. The Rural Deficit and the associated allocation of the Rural Deficit result in a range of Revenue-to-Cost Ratios. This occurs because rate changes for customers in the rural isolated areas are based on changes to Newfoundland Power Inc.'s ("Newfoundland Power") rates, which do not recover the full cost to serve.

b) Hydro does not target either unity or a specific Revenue-to-Cost Ratio bandwidth for customer classes affected by the Rural Deficit allocation. Because customers in the rural isolated systems are charged rates that do not recover their allocated cost of service, the resulting Revenue-to-Cost Ratios are not expected to converge to a prescribed target range. Instead, the Revenue-to-Cost Ratios reflect the interaction between the approved Rural Deficit allocation methodology, allocated costs, and the revenues recovered under the existing rate structure.

c) Table 1 compares the Revenue-to-Cost Ratios from Schedule F 1.2 in the 2027 Mitigated Cost of Service Study, the 2027 Unmitigated Cost of Service Study, and the 2019 Test Year Cost of Service Study.[1]

Table 1: Comparison of Revenue to Cost Ratios

System/Customer	2027 Test Year Revenue to Cost Coverage (Mitigated)[2]	2027 Test Year Revenue to Cost Coverage (Unmitigated)[3]	2019 Test Year Revenue to Cost Coverage[4]
Newfoundland Power	1.11	1.09	1.14
Island Industrial	1.00	1.00	1.00
Labrador Industrial	1.00	1.00	1.00
Rural Labrador Interconnected	1.11	1.09	1.14
Rural Island Interconnected	0.79	0.58	0.70
Island Isolated	0.17	0.17	0.15
Labrador Isolated	0.27	0.27	0.24
L'Anse-au-Loup	0.42	0.42	0.42

The Unmitigated Revenue-to-Cost Ratio would be virtually the same as the Revenue-to-Cost Ratios for most of the classes in the Mitigated Cost of Service Study, as Hydro would need to design rates to collect enough revenue to match the heightened Revenue Requirement.

The Rural Island Interconnected System decreased from 0.79 to 0.58. This is because without mitigation, there are higher costs on the system that are closer to the overall

[1] "2017 General Rate Application," Newfoundland and Labrador Hydro, rev. July 4, 2018 (originally filed July 28, 2017), vol. III, exh. 15. http://www.pub.nl.ca/applications/2017/NLH2017GRA/applications/NLH%202017%20General%20Rate%20Application%20-%20Volume%20III%20-%20Revision%205%20-%202018-07-04.PDF
[2] Sch. F 1.2, 2027 Test Year Cost of Service Study.
[3] Sch. G 1.2, 2027 Test Year Cost of Service Study (excluding Rate Mitigation).
[4] *Supra f.n. 1.*

revenue collected. Compared to 2019, the Revenue-to-Cost Ratio increased by 0.9, due to increasing rates on the Island Interconnected System

Compared to the 2019 Test Year, for Newfoundland Power and Labrador Interconnected the Revenue-to-Cost Ratio decreased by approximately 0.03 as a result of changes in both the magnitude of the deficit and the allocation of that deficit across customer classes.

d) Please refer to part c) of this response.