Q. Reference: Exhibit 2, Table 3, page 6:

In PUB-NLH-487 (Rev 1), Hydro estimated a reduction in 2014 average rate base of $73.7 million due to capital assets not being in service in 2014. The corresponding reduction in 2014 revenue requirement is $2.1 million. According to Undertaking #150, the $2.1 million reduction does not include any reduction related to amortization associated with the assets. This implies a rate of return on rate base associated with the reduction of 2.85% ($2.1 million / $73.7 million).

Please explain why this implied rate of return on rate base of 2.85% is substantially less than the GRA Compliance rate of return on rate base of 7.18% for the 2014 test year.

A. The 2014 Revenue Requirement contained in PUB-NLH-487 (Rev 1) was based on different assumptions than the 2014 Revenue Requirement used for the GRA Compliance Application. PUB-NLH-487 (Rev 1) was completed prior to Order No. P.U. 13(2016) and Order No. P.U. 49(2016) and therefore does not reflect the decision and direction of the Board from those orders, whereas the 2014 Revenue Requirement used for the GRA Compliance Application does reflect those orders of the Board. The 2014 capital asset reduction of $73.1 referenced in the GRA Compliance Application, Exhibit 2, Table 7, page 11, results in a revenue requirement reduction of $5.3 million which is a rate of 7.18%.[1]

[1] $73,142,000 * 7.18% = $5,251,595 reduction in revenue requirement.