



1990

REPORT
OF
THE BOARD OF COMMISSIONERS OF PUBLIC UTILITIES
TO
THE HONOURABLE
MINISTER OF MINES AND ENERGY
GOVERNMENT OF NEWFOUNDLAND AND LABRADOR
ON
A REFERRAL BY NEWFOUNDLAND AND LABRADOR HYDRO
FOR
PROPOSED RATES TO BE CHARGED
TO
NEWFOUNDLAND LIGHT & POWER CO. LIMITED
FOR THE PERIOD OF JULY 1, 1990 TO JUNE 30, 1991,
FOR THE PERIOD OF JULY 1, 1991 TO JUNE 30, 1992,
AND FOR A PERIOD COMMENCING JULY 1, 1992.

Deferral of Costs

Mr. Abery testified that in order to phase in the extra costs incurred following last year's Budget and avoid a sudden rate shock, Hydro is proposing to spread these additional costs over a period of eight years. This will be accomplished by deferring some costs each year and amortizing them over the subsequent five years.

For the next three years Hydro is proposing that the rate charged NLP increase by 8% per annum which will result in a domestic rate increase of approximately 4.5% per year, exclusive of any Rate Stabilization Plan adjustments. This will basically match the rate of inflation anticipated so the impact on individual consumers will be more manageable.

If Hydro were to recover all of its increased costs in each of the next three years, rates would have to increase at a substantially higher rate and the impact on individual consumers would be considerably greater than the general rate of inflation.

It would be necessary to have a rate of 47.31 mills for all of 1990 to recover costs, where Hydro is proposing a rate of 45.31 mills commencing on July 1, 1990. In 1991, Hydro would have to charge 52.94 mills for the entire year compared with the proposed 48.93 mills as of July 1. The rate for all of 1992 would have to be 54.25 mills compared with the proposed 52.84 mills on July 1st.

Hydro's proposal results in \$15.2 million being deferred in 1990; \$24.8 million in 1991 and \$15.3 million in 1992. These amounts will be amortized over succeeding years, with the final amount amortized in 1997. Overall, therefore, there will be a much smoother adjustment to the phase out of rural subsidies and the imposition of the guarantee fee.

The following schedule shows how Hydro proposed to defer its costs:

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|-------------------------|---------------|--------------|--------------|---------------|---------------|---------------|---------------|--------------|--------------|
| <u>Year of Deferral</u> | <u>Total</u> | <u>1990</u> | <u>1991</u> | <u>1992</u> | <u>1993</u> | <u>1994</u> | <u>1995</u> | <u>1996</u> | <u>1997</u> |
| PDD - 1989 | 12,482 | 2,496 | 2,496 | 2,496 | 2,496 | 2,496 | - | - | - |
| 1990 | 15,229 | - | 3,046 | 3,046 | 3,046 | 3,046 | 3,045 | - | - |
| 1991 | 24,844 | - | - | 4,969 | 4,969 | 4,969 | 4,969 | 4,968 | - |
| 1992 | <u>15,282</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>3,056</u> | <u>3,056</u> | <u>3,056</u> | <u>3,057</u> | <u>3,057</u> |
| | <u>67,837</u> | <u>2,496</u> | <u>5,542</u> | <u>10,511</u> | <u>13,567</u> | <u>13,567</u> | <u>11,070</u> | <u>8,025</u> | <u>3,057</u> |

The total interest costs for the deferrals over the eight year period is \$17.5 million. (See Transcript page 636)

At the end of the three test years there will be \$49,288,000 still to be collected from Hydro's customers over the following five years.

CONCLUSION

The Board believes that using part of the balance of the estimated \$19 million in the RSP owing to ratepayers as of June 30, 1990, to offset the \$8.941 million loss for PDD from April 1, 1989, to December 31, 1989, will not impinge on the integrity of the RSP and is the most suitable way of dealing with the unforeseen loss of the Government subsidy.

The Board makes this recommendation.

Debt/Equity Ratio

In its 1989 report the Board recommended that Hydro's aim of achieving a debt/equity ratio of 75:25 be deferred.

In its financial plan submitted with this application Hydro's debt/equity ratio target remains at 75:25.

Mr. Carmichael testified that in his opinion the debt/equity ratio should be reduced over time to a level of approximately 75:25 in view of the large capital expenditures that would be incurred by Hydro for future sources of generation, whether that be a Labrador interconnection or thermal generation plants on the Island.

NLP does not believe Hydro's equity base should be strengthened beyond its present level.