

- 1 Q. Provide the lead-lag study used to determine the cash working capital  
2 allowance (JCR, page 3, lines 24-26).  
3
- 4 A. Attached is the lead-lag study used to determine the cash working capital  
5 allowance.

**Lead Lag Summary**

	<b>2000</b>	<b>2001</b>	<b>2002</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Forecast</b>
Revenue Lag	39.81	39.58	39.46
minus: Expense Lag	20.48	20.25	20.09
Net Lag	<u>19.33</u>	<u>19.33</u>	<u>19.37</u>
divide by 365 days	5.30%	5.30%	5.31%
		<b>2001</b>	<b>2002</b>
Other Costs		90,204,655	89,761,640
less: Loss on disposal		<u>1,175,069</u>	<u>790,549</u>
		89,029,586	88,971,091
Power Purchases		<u>15,332,535</u>	<u>15,265,882</u>
Regulated O&M and Power Purchases		<u>104,362,121</u>	<u>104,236,973</u>
Working Capital - %		<u>5,526,422</u>	<u>5,534,983</u>
Less: HST Adjustment		<u>2,315,327</u>	<u>2,439,389</u>
Net Working Capital Required		<u>3,211,095</u>	<u>3,095,594</u>
Working Capital Percentage		<u>3.08%</u>	<u>2.97%</u>
Average Working Capital Percentage			<u>3.0%</u>

**Notes:**

1. Lead/lag analysis was performed on the actual revenue and expenditure streams during 2000. Those leads and lags were then applied to the distribution of revenues and expenditures forecast to occur in 2001 and 2002 to project the anticipated working capital requirement for the test year.

## Revenue 2000

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Customer	2000		LAG			Total Lag	Weighted Average
	Actual	%	Service	Billing	Collection		
NP	191,688	66.13%	15.2	7.6	13	35.8	23.67
<b>Industry</b>							
Corner Brook	11,294	3.90%	15.2	7.6	16.8	39.6	1.54
Deer Lake	685	0.24%	15.2	7.6	16.8	39.6	0.09
Abitibi - S	16,781	5.79%	15.2	7.6	15.4	38.2	2.21
Abitibi - GF	4,312	1.49%	15.2	7.6	14.3	37.1	0.55
North Atlantic	7,204	2.49%	15.2	7.6	14	36.8	0.91
CFB - Goose Bay	3,176	1.10%	15.2	7.6	17.9	40.7	0.45
Iron Ore CC	4,008	1.38%	15.2	7.6	16.1	38.9	0.54
<b>Rural</b>	49,454	17.06%	15.2	7.0	34.7	56.9	9.71
<b>Other</b>	1,259	0.43%	-15.2	6.0	38.8	29.59	0.13
<b>TOTAL</b>	<b>289,860</b>	<b>100.00%</b>					<b>39.81</b>

<b>Other Revenue Sample</b>	<b>\$</b>	<b>%</b>	<b>Service</b>	<b>Billing</b>	<b>Collection</b>	<b>Total</b>	<b>Wtd Ave</b>
Dept Works, Services	198	13.41%	-15.2	8.9	38.4	32.1	4.31
Newtel - Microwave	207	14.02%	-15.2	9.2	61.9	55.9	7.84
Newtel - Pole Attach	921	62.40%	-15.2	4.8	25.0	14.6	9.11
Regional Cable	150	10.16%	-15.2	5.3	91.9	82	8.33
	<b>1476</b>	<b>100.00%</b>					<b>29.59</b>

Sample size exceeds budgeted Other Revenue because payments from Hydro to others for joint pole use are netted against Other Revenue.

**Notes:**

1. Payment terms: Newfoundland Power - 10 days after invoice mailed, but not earlier than 20th of month  
CFB Goose Bay - 30 days after invoice mailed  
Other Industrial Customers - 20 days after invoice mailed
2. Rural collection lag based on average days sales in accounts receivable
3. Negative service period is due to invoices being rendered in advance

Operating Expenses 2000

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	<b>\$ 000s</b>	<b>%</b>	<b># days</b>	<b>Weighted Average</b>
Salaries & Benefits	54,151	50.8%	12.6	6.4
Materials Maintenance	18,977	17.8%	45.5	8.1
Professional Services	3,815	3.6%	-8.7	-0.3
Miscellaneous	4,759	4.5%	0.9	0.0
Travel	2,704	2.5%	45.0	1.1
Transportation	2,391	2.2%	45.0	1.0
Office Supplies	2,081	2.0%	45.0	0.9
Equipment rentals	1,400	1.3%	45.0	0.6
Insurance	1,037	1.0%	-182.5	-1.8
Property rentals	998	0.9%	-30.0	-0.3
Customer costs	420	0.4%	0.0	0.0
<b>Subtotal</b>	<b>92,732</b>	<b>86.97%</b>		<b>15.8</b>
<b>CF(L)Co Recoveries</b>	<b>-1,774</b>	<b>-1.7%</b>	<b>30</b>	<b>-0.5</b>
<b>Power Purchases</b>	<b>15,667</b>	<b>14.7%</b>	<b>35.3</b>	<b>5.2</b>
<b>Total Cash outflow</b>	<b>106,625</b>	<b>100.00%</b>		<b>20.48</b>

NOTE: 45 days is used as estimate where no detailed analysis performed

Salaries & Benefits: 50.8%

	2000		Overall	
	Actual	%	Weighted Average	Weighted Average
Salaries, Wages, OT	51,649	84.15%	12.9	10.9
Fringe Benefits	7,461	12.16%	10.3	1.3
Employee Future Benefits	2,244	3.66%	12.9	0.5
Other	20	0.03%	45.0	0.0
<b>TOTAL</b>	<b>61,374</b>	<b>100.00%</b>		<b>12.6</b>
Capitalized Salaries	-7,219			
Salaries & Fringe Benefits	54,155			

Payroll Dec 31, 2000 YTD Actuals			Weighted			
	\$	%	Service	Payment	Total	Average
Net Pay	27,745,679	56.2%	7	4	11	6.2
Receiver General	15,071,900	30.5%	7	8	15	4.6
PSPP	2,644,699	5.4%	7	8	15	0.8
HB Group	983,118	2.0%	7	23	30	0.6
GWL (LTD & Life)	751,163	1.5%	7	8	15	0.2
CSB	641,438	1.3%	7	4	11	0.1
Receivables (PC etc)	543,594	1.1%	7	4	11	0.1
Credit Union	442,085	0.9%	7	4	11	0.1
Union Dues	314,958	0.6%	7	8	15	0.1
Blue Cross (Dental)	91,630	0.2%	7	8	15	0.0
Garnishees	56,082	0.1%	7	4	11	0.0
Citadel (AD&D)	46,135	0.1%	7	8	15	0.0
Social Clubs	36,192	0.1%	7	8	15	0.0
Rent	3,041	0.0%	7	4	11	0.0
Poll Tax	1,884	0.0%	7	8	15	0.0
Charitable Donations	1,017	0.0%	7	8	15	0.0
<b>Gross Wages</b>	<b>49,374,615</b>	<b>100.0%</b>				<b>12.9</b>

Fringe Benefits Sample			Weighted			
	\$	%	Service	Payment	Total	Average
Matching UIC, PSPP etc	6205147	83.20%	7	8	15	12.5
Labrador Travel	127451	1.71%	-182.5	109	-73.5	-1.3
Blue Cross ASO	760992	10.20%	-15.2	-1	-16.2	-1.7
Basic Life& AD&D	364225	4.88%	7	8	15	0.7
	7457815	100.0%				<b>10.3</b>

**Notes:**

1. Employees are paid bi-weekly on the Thursday following the Sunday pay period end date.
2. Remittances are made to the Receiver General within 3 working days of the end of the period (1st-7th, 8th-14th, 15th-21st, 22nd-end) in which a pay day falls.
3. Remittances to PSPP are due 10 days after the pay period end date.
4. Remittances to HB Group are made on the 5th of the following month.
5. Remittances for CSBs, Employee Receivables, Credit Union deposits, Garnishees and Rent are remitted on payday.
6. Cheques for all other remittances are cut on payday and mailed. Assume at least Monday before received and deposited.
7. Fringe benefits payments for basic life insurance and AD&D are cut on payday and mailed
8. Blue Cross ASO payment are paid monthly in advance
9. Labrador travel is paid annually in pay period 8.
10. Negative service period is due to payments being made in advance

System Equipment Maintenance: 17.8%

	2000 Actual	Inventory Issues	Direct Purchases	%	Weighted Days Average	
Maintenance Materials	17780	3305	14475	94.13%	45.5	42.9
Tools & Operating Supplies	489	92	397	2.58%	45.0	1.2
Freight	412		412	2.68%	45.0	1.2
Lubricants & Chemicals	296	202	94	0.61%	45.0	0.3
	<u>18977</u>	<u>3599</u>	<u>15378</u>	<u>100.00%</u>	<u>45.5</u>	

Maintenance sample	Area/BU	Amount	Weight	Service	Billing	Payment	Total	Wtd Ave
Guilfords Ltd	Holyrood	137,906	6.6%	30.4	60.8	30	121.2	8.0
Flowserve	Holyrood	282,767	13.5%	30.4	76	30	136.4	18.4
General Electric	Holyrood	240,170	11.4%	-180.0	1.0	30.0	-149.0	-17.0
Coastal Roofing	1280	96,452	4.6%	15.2	15.2	30	60.4	2.8
Newcan Contracting	1280	37,580	1.8%	15.2	15.2	30	60.4	1.1
NFLD Vegetation	1349	883,498	42.1%	15.2	1	30	46.2	19.4
Tornngait Services	1349	201,369	9.6%	15.2	25	30	70.2	6.7
PCO Services	1325	12,130	0.6%	15.2	7.1	30	52.3	0.3
Rhodia Canada	1325	17,215	0.8%	15.2	7.1	30	52.3	0.4
Proweld Industries	1293	18,941	0.9%	15.2	15.2	30	60.4	0.5
Enerfin Inc	1293	81,205	3.9%	15.2	15.2	30	60.4	2.3
Asea Brown Boveri	1293	28,843	1.4%	15.2	15.2	30	60.4	0.8
General Electric	1293	61,920	2.9%	15.2	15.2	30	60.4	1.8
<b>TOTAL</b>		<u>2,099,996</u>	<u>100.00%</u>					<u>45.5</u>

**Notes:**

1. System Equipment Maintenance expense is adjusted for inventory issues to arrive at total direct purchases.
2. Judgemental sample of representative large dollar value transactions selected.

Professional Services: 3.6%

	2000 Actual	%	Weighted Average	Overall Weighted Average
Consultants	1,870	49.02%	37.7	18.5
Audit	38	1.00%	37.7	0.4
Legal	12	0.31%	37.7	0.1
PUB	1,036	27.16%	-34.2	-9.3
Software	859	22.52%	-81.7	-18.4
<b>TOTAL</b>	<b>3,815</b>	<b>100.00%</b>		<b>-8.7</b>

Consultants Sample	B.U.	\$	Weight	Service	Billing	Payment	Total	Wtd Ave
MUN	1303	51,609	11.0%	45	7	30	82	9.0
Duerden & Keane	1303	28,666	6.1%	15.2	11	30	56.2	3.4
Gartner Group	1240	93,576	20.0%	-182.5	0	0	-182.5	-36.5
Fosters	1210	103,630	22.1%	46	23	46	115	25.5
Bristol Comm	1186	40,210	8.6%	15.2	45.6	30	90.8	7.8
Total Comm	1186	54,484	11.6%	15.2	45.6	30	90.8	10.6
Criterion	1214	65,156	13.9%	3	50	30	83	11.6
Hay Management	1214	14,503	3.1%	7	30.4	30	67.4	2.1
Morneau Sobeco	1214	16,150	3.5%	60.8	30.4	30	121.2	4.2
<b>TOTAL</b>		<b>467,984</b>	<b>100.00%</b>					<b>37.7</b>

PUB sample	\$	%	Service	Billing	Payment	Total	Weighted Average
Annual Assessment	504,456	61.81%	-182.5	27	27	-128.5	-79.4
Fosters	179,871	22.04%	46	23	46	115	25.3
Annual Review	86,169	10.56%		147	12	159	16.8
Hearings	45,655	5.59%	30	7	19	56	3.1
<b>TOTAL</b>	<b>816,151</b>	<b>100.00%</b>					<b>-34.2</b>

Software sample	\$	%	Service	Billing	Payment	Total	Weighted Average
JDEdwards	214,800	37.49%	-182.5	-29	66	-145.5	-54.5
MITI	184,373	32.18%	-182.5	-70	30	-222.5	-71.6
xWave	132,146	23.06%	182.5	-9	30	203.5	46.9
IBM	41,630	7.27%	-182.5	21	127	-34.5	-2.5
<b>TOTAL</b>	<b>572,949</b>	<b>100.00%</b>					<b>-81.7</b>

**Notes:**

1. Negative service period is due to payments being made in advance
2. Negative billing period is due to invoice being rendered in advance of service period.

Miscellaneous: 4.5%

	2000 Actual	%	Weighted Average Lag	Overall Weighted Average
Staff Training	1152	24.21%	45.0	10.9
Sundry	437	9.18%	45.0	4.1
Diesel fuel Hydro	81	1.70%	45.0	0.8
Energy Mgmt	25	0.53%	45.0	0.2
Employee expenses	375	7.88%	12.9	1.0
Taxes - municipal	1122	23.58%	-95.6	-22.5
- Payroll	1048	22.02%	27.3	6.0
Inventory Loss	465	9.77%	0.0	0.0
Donation	54	1.13%	30.0	0.3
<b>TOTAL</b>	<b>4759</b>	<b>100.00%</b>		<b>0.9</b>

Municipal Taxes sample	\$	%	Service	Billing	Payment	Total	Wtd Ave
Finance	157,461	25.2%	-182.5	31	1	-150.5	-37.9
Rocky Harbour	20,556	3.3%	-182.5	41	30	-111.5	-3.7
Harbour Breton	40,110	6.4%	-182.5	41	30	-111.5	-7.1
Port aux Choix	27,810	4.4%	-182.5	46	30	-106.5	-4.7
Triton	20,625	3.3%	-182.5	46	30	-106.5	-3.5
Port Saunders	16,680	2.7%	-182.5	118	30	-34.5	-0.9
Burgeo	28,224	4.5%	-182.5	52	30	-100.5	-4.5
St. Albans	23,603	3.8%	-182.5	55	30	-97.5	-3.7
Wabush	26,998	4.3%	-182.5	70	30	-82.5	-3.6
Labrador City	69,850	11.2%	-182.5	70	30	-82.5	-9.2
St. Anthony	44,672	7.1%	-182.5	74	30	-78.5	-5.6
Happy Valley	127,543	20.4%	-182.5	105	30	-47.5	-9.7
La Scie	21,486	3.4%	-182.5	111	30	-41.5	-1.4
<b>TOTAL</b>	<b>625,618</b>	<b>100.00%</b>					<b>-95.6</b>

#### Payroll Taxes

Paid monthly, on average 12.1 days after month-end, plus service lag of 15.2 days = 27.3 days

#### Employee expenses

Mainly overtime meals and similar items paid through payroll - 12.9 days

#### Notes:

1. Negative service period is due to payments being made in advance



Power Purchases: 14.7%

	2000		Service	Bill	Payment	Total	Wtd Days
	Actual	Weight					
Star Lake	9,639,705	61.5%	15.2	3.4	19	37.6	23.1
CF(L)Co	2,354,146	15.0%	15.2	1	14	30.2	4.5
Abitibi	1,297,200	8.3%	15.2		20	35.2	2.9
Rattle Brook	1,269,887	8.1%	15.2	6.2	10.4	31.8	2.6
Fogo + Others	481,462	3.1%	15.2		20	35.2	1.1
3rd & 4th Expansion O&M	172,811	1.1%	15.2		20	35.2	0.4
CF(L)Co Interest	217,916	1.4%	15.2	1	14	30.2	0.4
L'Anse-au-Loup	228,081	1.5%	15.2		20	35.2	0.5
Deer Lake	6,066	0.0%	15.2		20	35.2	0.0
<b>TOTAL</b>	<b>15,667,275</b>	<b>100.00%</b>					<b>35.6</b>

Deferred fuel 293,603 (non-cash)

**Total** 15,960,878

**Note:**

1. Payment terms:  
CF(L)Co. - 15th of month  
Others - 20th or next business day

Revenue 2001

Customer	Forecast \$ 000's	%	LAG			Total Lag	Weighted Average
			Service	Billing	Collection		
NP	197,860	66.84%	15.2	7.6	13	35.8	23.93
<b>Industry</b>							
Corner Brook	11,980	4.05%	15.2	7.6	16.8	39.6	1.60
Deer Lake	506	0.17%	15.2	7.6	16.8	39.6	0.07
Abitibi - S	17,134	5.79%	15.2	7.6	15.4	38.2	2.21
Abitibi - GF	4,777	1.61%	15.2	7.6	14.3	37.1	0.60
North Atlantic	7,475	2.53%	15.2	7.6	14	36.8	0.93
CFB - Goose Bay	3,155	1.07%	15.2	7.6	17.9	40.7	0.43
Iron Ore CC	5,006	1.69%	15.2	7.6	16.1	38.9	0.66
<b>Rural</b>	47,019	15.88%	15.2	7.0	34.7	56.9	9.04
<b>Other</b>	1,099	0.37%	-15.2	6.0	38.8	29.59	0.11
<b>TOTAL</b>	<u>296,011</u>	<u>100.00%</u>					<u>39.58</u>

**Notes:**

1. Payment terms: Newfoundland Power - 10 days after invoice mailed, but not earlier than 20th of month  
CFB Goose Bay - 30 days after invoice mailed  
Other Industrial Customers - 20 days after invoice mailed
2. Rural collection lag based on average days sales in accounts receivable
3. Negative service period is due to payments being made in advance

Operating Expenses 2001

	\$ 000s	%	# days	Weighted Average
Salaries & Benefits	54,614	52.4%	12.6	6.6
Materials Maintenance	17,484	16.8%	45.5	7.6
Professional Services	4,506	4.3%	-8.7	-0.4
Miscellaneous	4,495	4.3%	0.9	0.0
Travel	2,295	2.2%	45.0	1.0
Transportation	2,174	2.1%	45.0	0.9
Office Supplies	1,943	1.9%	45.0	0.8
Equipment rentals	1,488	1.4%	45.0	0.6
Insurance	849	0.8%	-182.5	-1.5
Property rentals	612	0.6%	-30.0	-0.2
Customer costs	475	0.5%	0.0	0.0
<b>Subtotal</b>	<b>90,935</b>			<b>15.6</b>
<b>CF(L)Co Recoveries</b>	<b>-1,906</b>	<b>-1.8%</b>	<b>30</b>	<b>-0.5</b>
<b>Power Purchases</b>	<b>15,228</b>	<b>14.6%</b>	<b>35.3</b>	<b>5.2</b>
<b>Total Cash outflow</b>	<b>104,257</b>	<b>100.00%</b>		<b>20.25</b>

NOTE: 45 days is used as estimate where no detailed analysis performed

HST Payable	2001 Forecast	Est. HST payable	Lag # days	\$
Revenue	296,450	44,467	31.28	3,811
O&M	89,030	13,354	-15.2	-556
less: Salaries	54,614	8,192	15.2	341
Misc (Don., Write-offs, taxes)	2,741	411	15.2	17
Insurance	849	127	15.2	5
Customer costs	450	68	15.2	3
Fuel - No 6	101,021	7,071	-30.4	-589
Diesel etc	7,924	1,189	-15.2	-49
Power Purchases, less expor	15,228	2,284	-25.4	-159
Capital	89,084	13,363	-15.2	-556
less: Capitalized Salaries/OH	5,661	849	15.2	35
IDC	2,048	307	15.2	13
		<u>91,683</u>		<u>2,315</u>

Revenue - accrual basis	296,011
less: Dec 2001 Ind&Utility	26,253
plus: Dec 2000	26,692
Revenue - billed basis	296,450

Power Purchases: 14.6%

	2001		Service	Bill	Payment	Total	Wtd Days
	Estimate	Weight					
Star Lake	8,608,387	56.5%	15.2	3.4	19	37.6	21.26
CF(L)Co	2,652,568	17.4%	15.2	1	14	30.2	5.26
Abitibi	1,297,200	8.5%	15.2		20	35.2	3.00
Rattle Brook	1,249,989	8.2%	15.2	6.2	10.4	31.8	2.61
Fogo + Others	457,790	3.0%	15.2		20	35.2	1.06
3rd & 4th Expansion O&M	210,112	1.4%	15.2		20	35.2	0.49
CF(L)Co Interest	213,232	1.4%	15.2	1	14	30.2	0.42
L'Anse-au-Loup	524,665	3.4%	15.2		20	35.2	1.21
Deer Lake	13,704	0.1%	15.2		20	35.2	0.03
<b>TOTAL</b>	<b>15,227,647</b>	<b>100.00%</b>					<b>35.34</b>

Deferred fuel 104,888 (non-cash, non recurring)

**Total** 15,332,535

**Note:**

1. Payment terms:  
CF(L)Co. - 15th of month  
Others - 20th or next business day

Revenue 2002

Customer	\$ 000's	%	LAG			Total Lag	Weighted Average
			Service	Billing	Collection		
NP	213,830	66.84%	15.2	7.6	13	35.8	23.93
<b>Industry</b>							
Corner Brook	17,236	5.39%	15.2	7.6	16.8	39.6	2.13
Deer Lake	565	0.18%	15.2	7.6	16.8	39.6	0.07
Abitibi - S	19,155	5.99%	15.2	7.6	15.4	38.2	2.29
Abitibi - GF	5,336	1.67%	15.2	7.6	14.3	37.1	0.62
North Atlantic	8,072	2.52%	15.2	7.6	14	36.8	0.93
CFB - Goose Bay	2,991	0.94%	15.2	7.6	17.9	40.7	0.38
Iron Ore CC	3,085	0.96%	15.2	7.6	16.1	38.9	0.38
Rural	48,583	15.19%	15.2	7.0	34.7	56.9	8.64
Other	1,072	0.34%	-15.2	6.0	38.8	29.59	0.10
<b>TOTAL</b>	<b>319,925</b>	<b>100.00%</b>					<b>39.46</b>

Operating Expenses - 2002

	<b>\$ 000s</b>	<b>%</b>	<b># days</b>	<b>Weighted Average</b>
Salaries & Benefits	56,051	53.8%	12.6	6.77
Materials Maintenance	16,763	16.1%	45.5	7.32
Professional Services	4,340	4.2%	-8.7	-0.36
Miscellaneous	4,133	4.0%	0.9	0.03
Travel	2,375	2.3%	45.0	1.03
Transportation	1,923	1.8%	45.0	0.83
Office Supplies	1,939	1.9%	45.0	0.84
Equipment rentals	1,558	1.5%	45.0	0.67
Insurance	849	0.8%	-182.5	-1.49
Property rentals	626	0.6%	-30.0	-0.18
Customer costs	325	0.3%	0.0	0.00
<b>Subtotal</b>	<b>90,881</b>			<b>15.46</b>
<b>CF(L)Co Recoveries</b>	<b>-1,910</b>	<b>-1.8%</b>	<b>30</b>	<b>-0.55</b>
<b>Power Purchases</b>	<b>15,266</b>	<b>14.6%</b>	<b>35.4</b>	<b>5.18</b>
<b>Total Cash outflow</b>	<b>104,237</b>	<b>100.00%</b>		<b>20.09</b>

NOTE: 45 days is used as estimate where no detailed analysis performed

<b>HST Payable</b>	<b>2002 Forecast</b>	<b>Est. HST payable</b>	<b>Lag # days</b>	<b>\$</b>
Revenue	317,464	47,620	31.28	4,081
O&M	88,971	13,346	-15.2	-556
less: Salaries	56,051	8,408	15.2	350
Misc (Don., Write-offs, tax)	2,729	409	15.2	17
Insurance	849	127	15.2	5
Customer costs	325	49	15.2	2
Fuel - No. 6	99,330	6,953	-30.4	-579
Diesel etc	8,102	1,215	-15.2	-51
Power Purchases, less exp	15,266	2,290	-25.4	-159
Capital	118,705	17,806	-15.2	-741
less: Cap. Salaries/OH	5,722	858	15.2	36
IDC	5,530	830	15.2	35
		<u>99,910</u>		<u>2,439</u>

Revenue - accrual basis	319,925
less: Dec 2002 Ind&Utility	28,714
plus: Dec 2001 " "	26,253
Revenue - billed basis	317,464

Power Purchases: 14.6%

	2002		Service	Bill	Payment	Total	Wtd Days
	Forecast	Weight					
Star Lake	8,695,426	57.0%	15.2	3.4	19	37.6	21.42
CF(L)Co	2,574,393	16.9%	15.2	1	14	30.2	5.09
Abitibi	1,326,848	8.7%	15.2		20	35.2	3.06
Rattle Brook	1,263,192	8.3%	15.2	6.2	10.4	31.8	2.63
Fogo + Others	449,659	2.9%	15.2		20	35.2	1.04
3rd & 4th Expansion O&M	135,072	0.9%	15.2		20	35.2	0.31
CF(L)Co Interest	182,458	1.2%	15.2	1	14	30.2	0.36
L'Anse-au-Loup	625,131	4.1%	15.2		20	35.2	1.44
Deer Lake	13,704	0.1%	15.2		20	35.2	0.03
<b>TOTAL</b>	<b>15,265,882</b>	<b>100.00%</b>				<b>35.38</b>	

**Note:**

1. Payment terms:  
 CF(L)Co. - 15th of month  
 Others - 20th or next business day

1 Q. For each of the utilities named (KCM, page 28, lines 26-28), for the years  
2 1992 to 2000 provide:

3

4 (a) the return on equity allowed by the appropriate regulator; and

5 (b) the return on equity actually earned by the utility.

6

7 A. (a) & (b)

8 Ms. McShane does not have a database that includes all of the values

9 requested. Please see discussion below for the individual utilities.

10

11 **BC Hydro:** Under Special Direction 8, the BCUC is required to ensure  
12 electricity rates are sufficient to allow BC Hydro to achieve an annual rate of  
13 return on equity equal to the return allowed, on a pre-income tax basis, by  
14 the most comparable investor-owned energy utility regulated under the  
15 Utilities Commission Act (i.e., BC Gas Utility Ltd.). To illustrate, the allowed  
16 return for fiscal 1995 was 12.74%. At the present time, however, BC Hydro  
17 is subject to a rate freeze which expires in September 2001; consequently,  
18 no allowed returns have been derived by the BCUC in the past several years.

19

20 Ms. McShane does not have utility-only earned returns for BC Hydro. DBRS  
21 reported the following actual returns on equity for the consolidated operations  
22 of BC Hydro.

23

1992	1993	1994	1995	1996	1997	1998	1999
27.9%	16.2%	16.5%	13.4%	30.6%	36.0%	31.9%	40.4%

24

25 Source: DBRS, *The Canadian Electric Industry Utility*



1       **SaskPower**: SaskPower is not regulated on a rate base/rate of return basis.  
2       It must submit applications to the Saskatchewan Rate Review Panel, which  
3       conducts independent reviews of rate change requests, and, in turn, makes  
4       recommendations to the government on the reasonableness of the request.  
5       SaskPower has established the following financial targets.

- 6
- 7               ROE:                               Minimum 10%
- 8               Return on Capital:               Minimum 9.25%
- 9               Capital Structure:               Maximum 35% debt
- 10              Interest Coverage:              Minimum 2 times

11

12       SaskPower's earned returns from 1992-2000 were:

13

1992	1993	1994	1995	1996	1997	1998	1999	2000
12.0%	8.6%	9.1%	8.3%	14.4%	12.6%	12.6%	12.3%	10.3%

14

15       Source:        1992-1999: DBRS, *The Canadian Electric Utility Industry*  
16                      2000:            *Annual Report to Shareholders*

17

18       **Sask Energy**: Sask Energy, like SaskPower, is not regulated on a rate  
19       base/rate of return basis. Sask Energy has set the following financial targets:

- 20
- 21               ROE:                               12% distribution and transmission
- 22               Capital Structure:               40% debt (distribution)
- 23   35% debt (transmission)

24

1           Sask Energy’s earned returns for 1999 and 2000 were:

2  
3  
4  
5  
6

	<u>1999</u>	<u>2000</u>
Distribution	3.3	4.5
Transmission	17.2	14.2

7           Source:       2000 Annual Report to Shareholders

8  
9

10           **EPCOR Utilities**: EPCOR’s transmission rates are rate base/rate of return  
11           regulated by the AEUB; its generation was rate base/rate of return regulated  
12           by the AEUB until January 2001 and is now subject to long-term contracts  
13           which are intended to recover the cost of service including a return of long  
14           Canadas plus 4% on a 45% common equity ratio.

15

16           The returns that have been allowed by the AEUB are as follows:

17

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
13.25%	13.25%	12.50%	11.88%	11.25%	a/	a/	9.25%	9.25%	b/	b/

18

19           a)       negotiated settlement

20           b)       negotiated settlement

21

1 EPCOR Utilities' ROEs from 1992-2000:

2

1992	1993	1994	1995	1996	1997	1998	1999	2000
13.2%	7.0%	22.8%	24.3%	17.8%	14.9%	16.0%	15.1%	17.0%

3

4 Source: 1992-1999: DBRS, *The Canadian Electric Utility Industry*  
5 2000: *Annual Report to Shareholders*

6

7

8 **HydroOne:** HydroOne was created from Ontario Hydro effective April 1,  
9 1999 to house the regulated transmission and distribution operations.  
10 HydroOne's transmission and distribution operations were only subject to  
11 rate base/rate of return regulation subsequent to that date. In its Transitional  
12 Rate Order dated March 31, 1999, the Ontario Energy Board approved a  
13 common equity return of 9.35% for transmission and distribution for both  
14 1999 and 2001. For distribution rates, for 2001, HydroOne is using an ROE  
15 of 9.88% as specified in the OEB's *Electricity Distribution Rate Handbook*,  
16 which prescribed the same ROE for the Municipal Electrics under its  
17 jurisdiction. HydroOne earned a return on average equity of 10.1% in 2000,  
18 the only year for which a full year's data are available subsequent to its  
19 creation. Ms. McShane does not have actual ROEs for the Municipal  
20 Electrics for the limited time period during which rate base/ROE regulation  
21 has been in effect.

22

23

24 **Northwest Territories Power:** NWTPC has been subject to rate base/rate  
25 of return regulation since its operations were transferred from the Federal to  
26 the Territorial government in 1987. Legislation provides that it is entitled to

1           earn a rate of return on the equity financing the rate base equal to the rate of  
2           return earned by a private sector utility of similar risk.

3  
4           NWTPC's last rate case was settled at the following ROEs:

5  
6                           1995/1996           11.75%  
7                           1996/1997           11.75%  
8                           1997/1998           11.5%

9  
10           The actual returns on equity for NWTPC for 1992-2000 were:

11

1992	1993	1994	1995	1996	1997	1998	1999	2000
6.24%	10.47%	11.65%	12.06%	11.38%	9.39%	11.0%	11.2%	10.0%

12  
13  
14           **Yukon Energy:** Yukon Energy's most recent allowed returns on equity were:

15  
16                           1996           10.75%  
17                           1997           9.45%  
18                           1998           9.138%  
19                           1999           9.138%  
20                           2000           9.138%

21  
22           Ms. McShane has not compiled the earned returns of YEC.

1 Q. Provide evidence that a 1% level of debt guarantee fee is appropriate.  
2 Provide any studies undertaken in the determination of the level of the debt  
3 guarantee fee.

4

5 A. We are not aware of any studies undertaken in the determination of the level  
6 of the debt guarantee fee.

7

8 In her evidence K. McShane states: "The test for whether the guarantee fee  
9 is a legitimate component of the cost of debt is whether the cost inclusive of  
10 the guarantee fee is less than or equal to the cost at which the utility could  
11 raise debt on the strength of its own financial parameters. At the forecast  
12 utility capital structure, the cost of debt to Hydro, absent the Provincial  
13 guarantee, would be more than 100 basis points higher than the debt cost  
14 calculated with the guarantee fee." This statement in effect supports the  
15 appropriateness of the level of the debt guarantee fee. Please refer to the  
16 answer for NP-172 for additional support for this statement.

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