

1 Q. Provide the Forecast Cost of Service and the actual Cost of Service for
2 Hydro for each of 1992, 1993, 1994, 1995, 1996, 1997, 1998, 1999 and
3 2000.

4

5

6 A. On a forecast basis, the following Cost of Service studies are available and
7 are attached:

8 (a) 1992 Forecast, resulting from the 1992 Rate Hearing;

9 (b) 1992 Forecast, resulting from the 1993 Methodology Hearing;

10 (c) 1993 Forecast;

11 (d) 1994 Forecast; and

12 (e) 1995 Forecast.

13

14 Actual Cost of Service studies are attached for

15 (f) 1992;

16 (g) 1993;

17 (h) 1994;

18 (i) 1995; and

19 (j) 1999 (Revised).

20

21 The actual Cost of Service for 1996 is not available. During 1996 there was
22 a major interconnection, namely the St. Anthony / Roddickton system, to the
23 Island Interconnected system. It is not possible to produce a meaningful
24 annual cost of service in light of this major system being included in both
25 Isolated Systems and the Island Interconnected System at different times
26 during the year.

1 Cost of Service Studies for 1997, 2000, and 2001 are not currently available.
2 During 1998 Hydro commenced a major redesign of its cost of service model
3 using new software. Once the new software was completed priority was
4 given to producing the actual 1999 Cost of Service in response to Order No.
5 P.U. 23 (1999-2000) and subsequently to producing the 2002 Cost of
6 Service in light of Order No. P.U. 25 (2000-2001). It should be noted that it is
7 generally a matter of 8-10 weeks of effort from start to finish to complete a
8 Cost of Service Study. However, the actual Cost of Service Studies for 1997
9 and 2000, as well as the forecast Cost of Service Study for 2001, are in
10 progress.

11
12 The Cost of Service for 1998 is not available. During 1998 there was a
13 complete reorganization of the corporation into business units.
14 Simultaneously, we began a phased implementation of a new integrated
15 accounting system. Because the recording of operating expenses by
16 business unit was not standardized for 1998, it is not practical to perform the
17 analysis required for Cost of Service purposes.

18
19 Hydro filed the 1999 Actual Cost of Service in response to Order No. P.U. 23
20 (1999-2000). A revised 1999 Actual Cost of Service is attached reflecting
21 revisions to:

- 22 (a) peak data;
- 23 (b) interest expense;
- 24 (c) purchased power expense; and
- 25 (d) loss on disposal of Roddickton assets.

26
27 Small corrections were also made to operating expenses.

- 1 Q. Provide a Table showing the same information as requested in 18 above
2 assuming implementation in 1994 of the 1993 Report and assuming that the
3 Industrial Customers' contribution to the resulting Rural subsidy had been
4 reduced by 20% in 1995, by 40% in 1996, by 60% in 1997, by 80% in 1998
5 and by 100% in 1999.
6
7
- 8 A. Please see the response to IC-18.

1 Q. What is the cost implication, in dollars, for each of Hydro's classes of
2 customer of its proposal of a new accounting treatment for the net salvage
3 value of assets and for certain changes in the service lives of certain assets
4 as referenced in paragraph 14(12) of the Application.

5

6

7 A. Customer cost implications related to the change in service lives are
8 attached. Please note that these amounts do not incorporate any changes to
9 revenues, or any related impacts associated with interest and return on rate
10 base, from those filed in Exhibit JAB-1.

11

12 In 2002, there are no cost impacts for the proposed change to the treatment
13 of net salvage value.

NEWFOUNDLAND AND LABRADOR HYDRO
2002 Forecast Cost of Service
Proposed Changes in Service Lives - Cost Impacts (\$000)

	Before Deficit & Revenue Credit Allocation	After Deficit & Revenue Credit Allocation	
	Total System		
1	Newfoundland Power	(2,528)	(2,491)
2	Island Industrial	(531)	(530)
3	Labrador Industrial	6	6
4	CFB - Goose Bay Secondary	-	-
5	Rural Labrador Interconnected	18	29
	Rural Deficit Areas		
6	Island Interconnected	15	-
7	Island Isolated	10	-
8	Labrador Isolated	20	-
9	L'Anse au Loup	4	-
10	Subtotal	<u>49</u>	<u>-</u>
11	Total	<u><u>(2,986)</u></u>	<u><u>(2,986)</u></u>

1 Q. (1) How does Hydro propose over the medium and longer term to reduce
2 the debt to equity ratio?

3

4 (2) If and to the extent that the reduction is intended to be achieved
5 increasing equity, what is proposed to be the source of such equity?

6

7 (3) Have there been any discussions with the Government of
8 Newfoundland relative to reducing or eliminating dividends in the
9 future so as to increase equity? If so, provide particulars of any such
10 discussions.

11

12 (4) If and to the extent that the reduction is intended to be achieved by
13 reducing debt, what is to be the source of funds for such reduction?

14

15

16 A. (1) It is Hydro's objective to move toward an appropriate debt equity ratio
17 over time. Mr. Osmond on Page 6 lines 12-16 of his evidence
18 indicates that Hydro is asking the Board to "make it clear that Hydro
19 should be allowed the opportunity to earn an appropriate ROE as
20 outlined by Hydro's financial advisors. Hydro, at each of its future rate
21 applications, would be outlining its recommendations to the Board for
22 achieving reasonable, medium and long term financial targets."

23

24 As Hydro's ROE improves over time, in conjunction with a stable
25 dividend policy, then Hydro's retained earnings would increase
26 thereby improving the debt/equity ratio.

- 1 (2) An increase in Hydro's retained earnings would be the source of such
2 equity.
3
- 4 (3) There have been no discussions with the Government of
5 Newfoundland to reduce or eliminate dividends in the future so as to
6 increase equity. Several times each year Hydro meets with the
7 Deputy Minister of Finance to discuss Hydro dividends required by the
8 Province and the financial impacts on both the Province and Hydro.
9
- 10 (4) Please see response to (2) above.

- 1 Q. Reproduce Schedule II of the evidence of K.C. McShane including
2 Newfoundland and Labrador Hydro using the same parameters as with the
3 utilities already included in the Schedule, including notes a/,b/ and c/.
4 Provide the Hydro numbers on a consolidated basis, and on a utility only
5 operation basis.
6
7
8 A. Please see attached.

**CAPITAL STRUCTURE RATIOS
OF MAJOR INVESTOR-OWNED CANADIAN ELECTRIC UTILITIES
(1999)**

<u>Company</u>	<u>Long-term Debt a/</u>	<u>Short-Term Debt</u>	<u>Preferred Stock Classified as Debt b/</u>	<u>Preferred Stock b/</u>	<u>Common Stock Equity c/</u>
CU Inc.	50.0	1.0	1.6	7.5	40.0
Maritime Electric	53.9	4.3	0.0	0.0	41.8
Newfoundland Power	51.0	3.5	0.0	1.8	43.7
Nova Scotia Power	40.0	12.9	0.0	9.3	37.8
TransAlta Utilities	49.7	1.9	0.0	9.1	39.3
West Kootenay Power	59.1	0.0	0.0	0.0	40.9
Averages	50.6	3.9	0.3	4.6	40.6
Newfoundland & Labrador Hydro (Utility)	71.0	8.4	0.0	0.0	20.6
Newfoundland & Labrador Hydro (Consolidated)	61.3	2.8	0.0	0.0	35.9

a/ Includes current portion of long-term debt.

b/ Includes minority interest in preferred shares of subsidiary companies.

c/ Includes minority interest in common shares of subsidiary companies.

d/ Long-term debt is net of the sinking fund.

Source: Annual Reports to Stockholders.

CAPITAL STRUCTURE (IC-51)

- 1 Q. Provide a complete list of the assumptions as to net income, dividends,
2 changes in debt and changes in equity implicit in the proposal that Hydro's
3 ROE enable it to target a debt/equity ration of 80/20 as referred to at line
4 15-19 of the evidence of W. E. Wells at p. 16.
5
6
7 A. Please see response to IC-49.

1 Q. What does the Royal Bank Financial Group currently recommend to
2 its RRSP customers as an appropriate level of return on equity investment
3 to use for retirement planning purposes?
4

5
6 A. There is no one appropriate level of return on equity investment to use for
7 retirement planning purposes. The targeted level of return is dependant upon
8 factors such as client risk tolerance, cash flow needs and current market
9 conditions.

1 Q. Provide the actual depreciation for the Island Interconnected System for the
2 years 1992 to 2000 inclusive plus the estimate for 2001.

3

4

5 A. The following table provides the depreciation expense for the Island
6 Interconnected system.

7

8

NEWFOUNDLAND AND LABRADOR HYDRO

9

DEPRECIATION EXPENSE

10

ISLAND INTERCONNECTED

11

1992 - 2001

12

13

Year

Amount

14

1992 Actual

19,025

15

1993 Actual

19,895

16

1994 Actual

20,815

17

1995 Actual

21,714

18

1996 Actual

26,060

19

1997 Actual

27,331

20

1998 Actual

28,063

21

1999 Actual

29,498

22

2000 Actual

28,716

23

2001 Estimate

27,965

1 Q. Adjust the response to IC 23 (*sic*). as required for each year assuming each
2 of the following scenarios: Note reference changed to IC-192.

3 1) Hydro's application is adjusted to charge \$25 per barrel No. 6 fuel price
4 for inclusion in Hydro's 2002 base rates.

5 2) Hydro's application is adjusted to charge \$15 per barrel No. 6 fuel price
6 for inclusion in Hydro's 2002 base rates.

7 3) Hydro's application is adjusted to retain the current RSP cap at \$50
8 million (examine this scenario under two options - assuming Hydro's 2002
9 base rates include No. 6 fuel price at \$20 per barrel and at \$25 per
10 barrel).

11

12 A. 1) Please see response to PUB-53.0.

13

14 2) The RSP reports for the years 2002 to 2005 with No. 6 fuel at \$15 per
15 barrel are attached.

16

17 3) The RSP reports show the balances assuming no cap. However,
18 retaining the current RSP cap at \$50 million, under either of the proposed
19 scenarios, would result in Hydro being required to initiate an appearance
20 before the Board. As stated in the Board's Report, dated August 6, 1985,
21 such an appearance would be required

22 " ...if the net balance of provisions created by the Rate
23 Stabilization Plan, to the extent that they are applicable
24 to retailers, reaches \$50 million (either positive or negative).
25 At that appearance, Hydro would either propose alternative
26 rates or present facts relevant to examining the need for an
27 alteration of rates in light of the circumstances at that time."

28

29 As outlined in Hydro's application, this is one of the matters currently
30 before the Board.

- 1 Q. Provide a pro forma Rate Stabilization Plan Report for April 2002 on the
2 assumption that the Board grants this application in its entirety, hydraulic
3 production is down from forecast 5% from now until April 30, 2002, fuel prices
4 are up from forecast 5% from now until April 30, 2002, fuel consumption is up
5 to match the fall in hydraulic production and sales are as forecast.
6
- 7 A. Please see attached reports.