

1 Q. Provide the studies that support Hydro's expected cost recovery levels over
2 the long-term for the Isolated Rural Systems (Hamilton Prefiled Testimony,
3 page 5, lines 4 to 10).

4

5 A. The recovery levels referred to are identified as "may be achievable over the
6 long term". These ratios simply reflect the current cost recovery levels and
7 assume continuation of policies such as lifeline rates for Domestic and
8 General Service customers. It would take a change in such polices to
9 significantly increase the levels of cost recovery indicated. There was no
10 detailed study conducted to arrive at these levels.

1 Q. Provide the plan referred to on page 6, lines 20 to 22 of Mr. Hamilton's
2 Prefiled Testimony.

3

4

5 A. The plan referred to is the five-year plan to address rural rate design issues.
6 This plan has not been prepared. It will be prepared and filed at Hydro's next
7 hearing as indicated.

1 Q. On page 14, lines 3 to 14 of Mr. Hamilton's Prefiled Testimony, he indicates
2 that the rate for secondary service is based on the greater of 90% of the
3 customer's avoided fuel cost or Hydro's opportunity cost based on revenues
4 it would receive by selling the power elsewhere. Provide Hydro's opportunity
5 cost for the past two years. How does Hydro verify the customer's fuel cost?
6 Is the boiler plant separately metered?

7
8
9 A. Hydro's opportunity costs for the past two years are as follows:

10		
11	January to December 1999	24.5069 mills/kWh
12	January to May 2000	24.5069 mills/kWh
13	June to December 2000	2.9992 mills/kWh

14
15
16 Rates are based on the opportunity to sell energy outside of Labrador
17 adjusted for average system losses from the Quebec Labrador border to the
18 bulk delivery point (Happy Valley 25 kV).

19
20 CFB Goose Bay provides a monthly statement to Hydro of the cost of fuel for
21 the CFB Goose Bay boiler plant.

22
23 The CFB Goose Bay electric boiler is metered separately from the CFB
24 Goose Bay firm load.

1 Q. On page 15, lines 22 to 28 of Mr. Hamilton's Prefiled Testimony he states
2 that transformer ownership discounts for the Labrador Interconnected
3 System have been revised to reflect relative rate levels between the systems.
4 Why are the discounts based on rate levels rather than the costs of the
5 transformers?

6

7

8 A. The demand charges for the Labrador Interconnected System are less than
9 one-third of those on the Island Interconnected System. Hydro therefore
10 proposes to offer transformer ownership discounts more in line with the
11 proposed demand charges for the Labrador Interconnected System.

1 Q. On Schedule 1, page 2 of 12 of Mr. Hamilton's Prefiled testimony, rates are
2 listed for Government Departments and Agencies on Isolated Systems.
3 Domestic rates are included on this table. Are there Government
4 Departments and Agencies in the Domestic class?

5

6 A. Yes, some Government Departments and Agencies such as the Royal
7 Canadian Mounted Police, school boards, and health boards provide
8 residential housing for their employees in the Isolated Areas.

1 Q. What are the revenue/cost ratios associated with the long-term rate
2 structures shown in Schedule III of Mr. Hamilton's Prefiled Testimony? Use
3 the 2002 cost of service study results as the denominator.

4

5 A. The revenue/cost ratios for the long-term rate structures for the Labrador
6 Interconnected System based on the 2002 cost of service study are:

7

8 Domestic 95%

9 General Service 108%

1 Q. Schedule V, page 2 of 2 of Mr. Hamilton's Prefiled Testimony indicates that
2 Hydro may disconnect a service if the customer has a bill which has not been
3 paid in full within 30 days of issuance. How many customers has Hydro
4 disconnected because bills have not been paid? On average, how many
5 days in arrears is a customer before Hydro disconnects service? Is this
6 consistent with NP Rules and Regulations? How does this compare to
7 practices in other Canadian utilities?

8

9

10 A. For the period January 1, 2000 – December 31, 2000 there were 133
11 customers disconnected for non-payment.

12

13 On average Hydro customers will be in arrears 90 and 60 days for domestic
14 and general service classes respectively as calculated from the invoice date
15 before a disconnect work order is issued.

16

17 Hydro applies the same Rules and Regulations as Newfoundland Power in
18 regards to disconnection of service.

19

20 During 1995 Hydro conducted a survey of three other Canadian Utilities
21 (Newfoundland Power, Sask Power and Alberta Power) in regards to
22 credit/collection policies. The findings show that Hydro's practices are
23 consistent with that of the other utilities contacted.

1 Q. Mr. Hamilton includes market efficiency as one of Hydro's desired rate
2 design criteria (page 2, lines 12 to 15 of his Prefiled Testimony). Show how
3 Hydro's proposed rates lead to greater market efficiency.

4

5 A. Page 3, lines 4 – 14 of Mr. Hamilton's evidence outlines several constraints
6 that impact on the desired rate design criteria, such as the use of lifeline
7 blocks on market efficiency. The five-year plan for rural rate design, to be
8 filed at Hydro's next hearing, will address items such as the pricing of energy
9 beyond the lifeline blocks. The Island Interconnected rates track
10 Newfoundland Power's rates and therefore do not attempt to reflect Hydro's
11 costs. The proposed rate restructuring for Labrador Interconnected System
12 customers will move their rates toward more market efficient rates.
13 Newfoundland Power and Industrial Customer rates are the unit costs
14 derived in the COS Study.

- 1 Q. Explain the firming up charge for secondary energy supplied by Corner Brook
2 Pulp & Paper Limited under the rate for Newfoundland Power (Schedule A,
3 page 1 of 27).
4
5
6 A. Please see response to CA-67.

1 Q. For the customer groups subject to the Rate Stabilization Plan, provide a
2 table showing the average rate in cents/kWh, the average rate including the
3 Rate Stabilization Plan adjustment in cents/kWh, and the average rate that
4 would have been paid if all costs included in the rate Stabilization Plan were
5 recovered in the year (as opposed to only one third). Provide these data for
6 each of the past 10 years and projected for the next five years.

7

8 A. Please see response to IC-191 for historic and projected rates. The attached
9 table shows what rates would have been if all costs included in the Rate
10 Stabilization Plan were recovered in the year (as opposed to only one third)

1 Q. What is the reason for having a three-block energy rate for Domestic Diesel
2 customers (Schedule A, page 10 of 27)?

3

4

5 A. The first block of 700 kWh is the lifeline portion of the rate. The portion above
6 1000 kWh is priced to better reflect the actual energy cost. The second block
7 from 701 kWh to 1000 kWh provides a transition between the first and third
8 blocks.

1 Q. How is the monthly average cost of fuel for the energy source in the current
2 month determined? What does the 10% following the administrative and
3 variable operating and maintenance charge refer to and what is its
4 justification (Schedule A, page 3 of 27)?

5

6 A. The monthly average cost of fuel is determined by dividing the total cost of
7 fuel used by that source type (ie diesel, gas turbine, Holyrood) in the current
8 month by the volume of fuel used by the source type in the current month.

9

10 The 10% charge is explained in the answer to IC-44.

1 Q. Clause 4 of the Rules and Regulations indicates that Hydro returns a
2 customer's security only after the customer ceases to take service. What do
3 other Canadian jurisdictions do in this regard?

4
5

6 A. Hydro refunds a customer's security deposit after a customer has
7 demonstrated a good credit history of greater than two years. Newfoundland
8 Power, BC Hydro, Nova Scotia Power, NB Power and ATCO Electric all have
9 provisions to refund customer security deposits once a good credit rating has
10 been established.

- 1 Q. Clause 9 (o) of the Rules and Regulations (Schedule B, page 12 of 15) refers
2 to an \$8.00 application fee related to new services. Provide clarification
3 regarding the application of this fee.
4
- 5 A. The application fee is the administrative cost of processing a customer
6 application for new service. This fee was proposed by Newfoundland Power
7 and incorporated in the Rules and Regulations effective January 1, 1997.
8 Hydro, with minor exceptions, has the same set of Rules and Regulations as
9 Newfoundland Power.

1 Q. Clause 10 (c) of the Rules and Regulations (Schedule B. page 12 of 15)
2 indicates that Hydro **may** charge an interest rate of prime plus five percent
3 on delinquent accounts. What criteria will be used by Hydro when assessing
4 this charge, and how does this interest rate compare to other Canadian
5 jurisdictions?
6

7 A. Hydro does not currently charge Rural customers interest on delinquent
8 accounts. Our previous customer services system was unable to perform
9 this function. However with the implementation of our new customer services
10 system, we are planning to implement this charge before the end of the year.
11 When implemented, Hydro will charge the full amount as outlined in Clause
12 10 (c) of the Rules and Regulations similar to Newfoundland Power. From
13 information Hydro has available, BC Hydro, Winnipeg Hydro, and NB Power
14 charge 1.5% per month. The amount Hydro charges could be either less or
15 more depending on the applicable prime interest rate.

1 Q. Under what conditions would Hydro relieve a customer of its responsibility to
2 pay all or part of the amount of an under billing (Schedule B, page 12 of 15,
3 Clause 10 (g) of Rules and Regulations)?

4

5

6 A. In general Hydro's current practice is to recoup all under billings, however
7 where a period of time exceeding one year has elapsed, only the portion
8 owing in the current calendar year will be collected.

1 Q. With regard to Generation Outage Power (Schedule C, pages 24 and 15(sic)
2 of 71), provide the cost analysis supporting the rate; i.e., show how the rate
3 reflects the cost to supply this power. Provide Hydro's Generation Outage
4 Power sales amounts (in kWh) and dollars by customer in each of the past
5 five years.

6

7

8 A. Please see responses to NP-183 and IC-44 part 3 for the basis of the rate.
9 The Generation Outage Power sales and dollar amounts for the past five
10 years are shown on the attached table classified as emergency and
11 exceptional as they were the categories under the existing contracts that will
12 be covered by Generation Outage Power in the proposed contracts.

**Newfoundland And Labrador Hydro
Generation Outage Power Statistics**

kWh by Customer

	1996	1997	1998	1999	2000
ACI - Grand Falls:					
Emergency	31,025,627	2,886,596	954,795	312,653	1,006,630
Exceptional	315,110	6,027	514,196	149,699	217,581
Total ACI - Grand Falls	31,340,737	2,892,623	1,468,991	462,352	1,224,211
Corner Brook P&P:					
Emergency	N/A	N/A	N/A	94,554	89,618
Exceptional	N/A	N/A	N/A	1,110,355	1,246,042
Total Corner Brook P&P	N/A	N/A	N/A	1,204,909	1,335,660
Deer Lake Power:					
Emergency	1,731,831	762,884	20,936	N/A	N/A
Exceptional	2,666	1,621,471	69,186	N/A	N/A
Total Deer Lake Power	1,734,497	2,384,355	90,122	N/A	N/A
Grand Total (kWhs)	33,075,234	5,276,978	1,559,113	1,667,261	2,559,871

Revenue by Customer

	1996	1997	1998	1999	2000
ACI - Grand Falls:					
Emergency	\$1,459,175	\$138,140	\$37,468	\$13,156	\$61,087
Exceptional	49,090	4,721	51,110	17,963	23,930
Total ACI - Grand Falls	\$1,508,265	\$142,861	\$88,578	\$31,119	\$85,017
Corner Brook P&P:					
Emergency	N/A	N/A	N/A	\$2,911	\$5,125
Exceptional	N/A	N/A	N/A	112,177	167,324
Total Corner Brook P&P	N/A	N/A	N/A	\$115,088	\$172,449
Deer Lake Power:					
Emergency	\$75,248	\$33,686	\$705	N/A	N/A
Exceptional	3,634	198,015	17,235	N/A	N/A
Total Deer Lake Power	\$78,882	\$231,700	\$17,940	N/A	N/A
Grand Total (Revenue)	\$ 1,587,147	\$ 374,562	\$ 106,518	\$ 146,207	\$ 257,466

N/A refers to not applicable. Effective in 1999 Deer Lake Power was integrated with Corner Brook Pulp & Paper so data is shown under Corner Brook P & P for 1999 and 2000.

1 Q. Provide Hydro's Secondary Energy sales amounts (in kWh) and dollars by
2 customer in each of the past five years.

3

4

5 A. The following tables give Hydro's regulated Secondary Energy sales
6 amounts (in kWh) and dollars by customer in each of the past five years:

kWhs:

Customer	1996	1997	1998	1999	2000
CFB Goose Bay	121,405,033	111,394,449	107,400,145	81,327,557	86,366,753
Total	121,405,033	111,394,449	107,400,145	81,327,557	86,366,753

Revenue (\$):

Customer	1996	1997	1998	1999	2000
CFB Goose Bay	3,144,164	3,050,631	2,871,472	2,179,084	3,175,865
Total	3,144,164	3,050,631	2,871,472	2,179,084	3,175,865

1 Q. Provide Hydro's Wheeling sales amounts (in kWh) and dollars by customer
2 for each of the past five years.

3

4

5 A. The following tables give Hydro's Wheeling sales amounts (in kWh) and
6 dollars by customer for each of the past five years:

kWhs:

Customer	1996	1997	1998	1999	2000
ACI - Grand Falls	11,123,626	11,976,569	6,333,054	10,685,849	12,922,376
ACI - Stephenville	22,033,594	23,897,079	14,813,667	24,755,230	15,639,639
Total	33,157,220	35,873,648	21,146,721	35,441,079	28,562,015

Revenue (\$):

Customer	1996	1997	1998	1999	2000
ACI - Grand Falls	72,192	77,728	41,102	69,351	83,866
ACI - Stephenville	142,998	155,092	96,141	160,661	101,501
Total	215,190	232,820	137,243	230,012	185,367

1 Q. Does Hydro ever purchase power from Newfoundland Power? If so, provide
2 the details of the pricing arrangements and indicate whether these vary with
3 the Newfoundland Power generating facilities from which the power comes.

4

5

6 A. On occasion, Hydro purchases power from Newfoundland Power. Hydro
7 requests Newfoundland Power to operate its thermal generating plants in
8 order to maintain secure operation of the power system and reliable service
9 to all customers.

10

11 Hydro pays to Newfoundland Power the cost of fuel and additives used by
12 the generating facility placed in-service at Hydro's request.

13

14 The cost of fuel may vary with generating facility. The price Hydro pays is
15 the actual blended cost of fuel in storage at each facility.

- 1 Q. Please provide copies of Newfoundland Hydro's Annual Reports from 1991
2 to date.
3
4 A. Copies of each Annual Report from 1991 to 2000 are enclosed.

1 Q. Will Hydro be purchasing the additional ACI power directly from ACI or from
2 the non-regulated subsidiary of Fortis Inc., namely Central Newfoundland
3 Energy?
4

5 A. Hydro will be purchasing the incremental energy from a partnership
6 comprising a Fortis related entity and ACI.

1 Q. Provide the pricing arrangements and terms of the power purchase
2 agreement between Central Newfoundland Energy (CNE) and Hydro
3 regarding the purchase of power generated by ACI's planned additions to
4 capacity.

5

6 A. The pricing arrangements and terms of the power purchase agreement have
7 not been finalized. Moreover, this matter is exempt from the Public Utilities
8 Board's jurisdiction – please see Hydro's response to CA-104.

1 Q. What is the provincial government's usual role in assessing Hydro's
2 proposed power purchase agreements? Explain whether its involvement and
3 directive to Hydro to conclude the power purchase agreements with ACI (or
4 CNE, if applicable) were the normal practice or not. From what provincial
5 government official or entity did the directive come? Provide a copy of the
6 directive as well as any Hydro recommendation or submission made to
7 government regarding these power purchase agreements.

8

9

10 A. The role of the provincial government may best be considered in the context
11 of the most recent amendments to the Electrical Power Control Act 1994,
12 ("EPCA") and to the Public Utilities Act, ("PUA") in 1999, permitting the
13 Lieutenant-Governor in Council to exempt certain undertakings from the
14 purview of the Public Utilities Board under these statutes if it were in the
15 public interest to do so.

16

17 Hydro's System Planning Department had forecast deficits in capacity and
18 energy that would have to be met by 2003. By letter dated February 15,
19 2000 from the Deputy Minister of Mines & Energy (copy attached) Hydro was
20 advised that Government was aware of two potential electrical generation
21 projects that may be of public interest. They were: (i) Corner Brook Pulp
22 and Paper's co-generation project (as generally proposed by that company in
23 1997); (ii) Abitibi-Consolidated (Grand Falls Division) previously proposed
24 Beeton Unit. Hydro was directed to determine the terms and conditions
25 upon which Hydro could obtain power from these projects and report back to
26 Government.

27

1 On October 18th, 2000, the Minister of Mines and Energy announced that
2 Newfoundland and Labrador Hydro had an agreement in principle with ACI.
3 By Order dated the 19th of October, 2000, cited as the Newfoundland and
4 Labrador Hydro – Abitibi Consolidated Inc. Exemption Order, (copy attached)
5 Newfoundland and Labrador Hydro was exempted from the application of the
6 EPCA and the PUA for all activities pertaining to the purchase from ACI for
7 the power and energy from the Grand Falls and Bishops Falls upgrade.

1 Q. Does Hydro have other power purchase agreements, current or planned,
2 with CNE or any other Fortis subsidiaries? If so provide them.

3

4 A. Please see the responses to CA-100, CA-102 and CA-103.

5

6 Hydro has an arrangement with Newfoundland Power whereby Hydro credits
7 Newfoundland Power for all energy it provides to Hydro on the Island
8 Interconnected Grid. However, it does not have a power contract with any
9 other Fortis subsidiary.

10

11 Under this arrangement, when Hydro requests that Newfoundland Power run
12 its diesel and gas turbine plants to deliver power and energy to the
13 Interconnected grid, Hydro pays Newfoundland Power for the fuel costs
14 incurred.

1 Q. Provide all reports and studies undertaken regarding demand side
2 management.

3

4

5 A. The following demand side management reports and studies prepared or
6 sponsored by Hydro from 1990 to present are attached.

7

8

1. Island System

9

Demand Side Management Potential In Newfoundland, SRC, July 1991.

10

(Prepared for NLH and NP)

11

12

2. Labrador System

13

DSM As An Option For Meeting Labrador City's Distribution

14

Constraints, Barakat & Chamberlin, December 1993.

15

16

3. Diesel Systems

17

A General Review of the Feasibility of Conservation and Load

18

Management Initiatives on the Isolated Diesel Electric Systems of

19

Newfoundland and Labrador, NLH, December 1991.

20

21

Demand Side Management Evaluation for the Diesel Electric Systems,

22

NLH, December 1992.

23

24

DSM Program For Diesel Electric Systems, Barakat & Chamberlin, March

25

1994.

26

27

Charlottetown DSM Pilot Project - Analysis And Evaluation, NLH,

28

December 1994.

1 **Charlottetown Load Management Pilot Project - Interim Results And**
2 **Evaluation**, NLH, May 1997.

3

4 **Consideration of Conservation and Load Management for Norman Bay,**
5 **Labrador**, NLH, December 2000.

6

7 4. PUB DSM Reporting

8 - Progress Report on DSM, 1992

9 - Progress Report on DSM, 1993

10 - Progress Report on DSM, 1994

11 - Progress Report on DSM, 1995

12 - Progress Report on DSM, 1996

13

14 In addition, Hydro also cost shared electrical energy audits with the island's
15 newsprint companies. These reports from January 1992 have not been
16 attached.

- 1 Q. Describe measures that have been considered, have been taken, or are
2 being planned, regarding demand-side-management.
3
4
5 A. Please see response to See CA-20 and CA-106.

1 Q. Describe any discussions, plans or agreements between Hydro and
2 Newfoundland Power relating to demand-side-management initiatives.

3

4

5 A. Hydro does not have any active discussions, plans or agreements with
6 Newfoundland Power relating to demand-side-management initiatives.

- 1 Q. (p.1, lines 11-14) Give Hydro's equity ownership, and that of others, in each
2 of CF(L)Co; LCDL; GIPCo; and TWINCo.
3
4
5 A. Please see response to NP – 146.

1 Q. Wells: (p.1, lines 22-27; and p.2, lines 1-2). Allocate the proposed increase
2 in revenue for 2002 to the underlying cause; cost of No.6 fuel; elimination of
3 rural subsidy; cost of increased capacity and energy; etc.

4
5

6 A. The increase in revenue requirement associated with No. 6 fuel is \$37
7 million, while the increase associated with purchased power costs is \$12
8 million.

9

10 Three of the principal issues of this Rate Application are not associated with
11 the proposed increase in Hydro's revenue requirement.

12

13 - The elimination of the Rural subsidy does not impact Hydro's overall
14 revenue requirement, but is a reallocation of costs among customer
15 classes. The Industrial rate impact to eliminate the Rural subsidy
16 occurred January 1, 2000. The issue with the current application is to
17 review Industrial rates in full context with all ratepayers to ensure Hydro's
18 proposed revenue requirement is met.

19

20 - The rates and regulatory issues, while they do impact various rate
21 increases and decreases for individual customers and rate classes, are
22 generally referring to policy issues, as opposed to an increase in Hydro's
23 overall revenue requirement. Each of the rate changes proposed is fully
24 outlined in the evidence and supporting schedules of Mr. Paul Hamilton.

25

26 - Legislative amendments to move Hydro to a rate base/rate of return
27 approach for profit determination are significant, but due to mitigating

1 factors incorporated by Hydro in its application, this amendment does not
2 impact the level of Hydro's proposed revenue requirement.

1 Q. (p.4, lines 1-11) Regarding the Star Lake Hydro contract and the Algonquin
2 Power contract, if their costs are incorporated into Hydro's rates then do they
3 lower or raise those rates? Explain whether these contracts' implied fuel cost
4 savings at Holyrood exceed these contracts' costs.

5

6

7 A. Please refer to the response to IC-208 for an indication of the overall cost
8 benefit to ratepayers and a comparison to the energy costs of existing
9 facilities.

10

11 These contracts' implied fuel cost and variable O&M savings at Holyrood do
12 not exceed these contracts' costs. It is important to note that as well as
13 providing energy, these contracts' also provide capacity to the interconnected
14 system, which is reflected in the contracts' prices.

1 Q. (p.10, lines 4-13) Have the forecasts of costs of No.6 fuel changed since May
 2 2001? Give the average monthly price of No.6 fuel for each month, starting
 3 in January 2001 and continuing to the most recent available.

4
 5 A. Yes, the PIRA Energy Group prepares a World Oil Market Outlook every
 6 month including any revisions to the short term crude and petroleum product
 7 price forecasts as deemed necessary. Their longer-term market price
 8 forecast is reviewed on a quarterly basis and revised as deemed necessary.

9
 10 The most recent market price forecast for 2.2% No. 6 fuel oil available from
 11 the PIRA Energy Group was released July 27, 2001. After Hydro's
 12 application of contract discounts of \$0.113 /BBL and \$0.116 /BBL in 2001
 13 and 2002 respectively, and application of Hydro's most recent exchange rate
 14 forecast, PIRA's forecast expressed in Canadian dollars is as follows:

2.2% No 6 Fuel Oil Market Price Forecast (NYH) PIRA Energy Group - July 27, 2001			
2001 (CDN \$/ BBL)		2002 (CDN\$ /BBL)	
January (Actual)	32.85	January	31.10
February (Actual)	29.85	February	28.70
March (Actual)	31.10	March	27.25
April (Actual)	26.85	April	27.05
May (Actual)	28.65	May	26.95
June (Actual)	26.90	June	26.95
July	25.15	July	26.10
August	26.95	August	26.90
September	28.00	September	28.30
October	29.90	October	28.70
November	32.30	November	29.00
December	32.75	December	28.00
Annual	29.30	Annual	27.90

1 Q. Wells (p.14, lines 7-22). What are the price implications of Hydro's proposed
2 long-term objectives of a debt/equity ratio of 60/40 and ROE of 11% to
3 11.5%, assuming that they were to be implemented on January 2002? In
4 particular, what would be the resulting increase in Hydro's revenues,
5 expressed in dollars and percentage terms.

6

7

8 A. Assuming Hydro's capital structure reflects a debt/equity ratio of 60/40, the
9 resulting increase in Hydro's revenues would be approximately \$23.1 million,
10 or an additional 7.3% of the proposed regulated revenue requirement. These
11 numbers do not include any additional funds from ratepayers to achieve 40%
12 equity; nor do they incorporate any cash flow impacts associated with
13 interest and return on rate base from those filed in Exhibit JAB-1.

1 Q. (p.14, lines 7-22). Reconcile Hydro's target of a 60/40 debt/equity ratio with
2 Ms McShane's recommendation of 70%-75% debt and 30%-25% equity.
3 (See McShane p.21; lines 14-17).
4

5
6 A. Mr. Well's in his evidence states "It is Hydro's view that the normal financial
7 targets for a utility operating as a commercial entity would be, as our financial
8 experts have advised, a debt/equity ratio of 60/40". In making this statement
9 Mr. Well's relies on Ms. McShane's statement on p.19, lines 9-11 "that Hydro
10 would require a 60/40 debt/common equity ratio, as a relatively low risk
11 utility, to achieve a debt rating of BBB on a stand alone basis". The
12 reference to 70%-75% debt and 30%-25% equity is in reference to a medium
13 term Structure with a Government guarantee.

1 Q. For individual projects, does Hydro propose to follow an investment rule
2 consistent with its stated financial targets? What would that rule state
3 regarding the acceptable rate of return for an investment project?
4

5 A. Hydro does not have investment rules for projects. Hydro performs cost
6 effectiveness analysis in support of decisions on large projects, such as new
7 generation. These studies examine the least cost method of supplying a
8 need. It is accepted that once a requirement is identified, e.g. additional
9 power and energy supply, it has to be met. The issue is least cost.

1 Q. (p.22, line 18) Regarding the Granite Canal hydroelectric project, provide
2 cost details and indicate the resulting cost of power relative to fuel costs at
3 Holyrood. Has a commercial feasibility of Granite Canal been completed? If
4 so, please provide it.

5

6 A. The capital cost of Granite Canal has been estimated at \$134,550,000. A
7 breakdown of this cost is as follows:

8

Generation Facilities	79,150,000
Transmission Facilities	11,890,000
Engineering and Project Management	15,990,000
Environment	7,350,000
Other Costs (Corp O/H, IDC, Contingency)	<u>20,170,000</u>
Total	\$134,550,000

9

10 This results in a levelized cost of energy from Granite Canal of 54.2
11 mills/kWh.

12

13 The estimated fuel costs at Holyrood are;

14

	Fuel at Holyrood	
	<u>Year</u>	<u>Mills/kWh</u>
15		
16		
17	2002	46.6
18	2003	43.2
19	2004	38.5
20	2005	38.1
21	2006	39.3

1 The attached study upon which the decision to build Granite Canal was
2 based is entitled "Generation Expansion Study of Near Term Options for
3 Meeting Newfoundland's Load Growth", November 1999 . Note that certain
4 information (related to Hydro's new generation options) has been blocked out
5 for reasons of commercial confidentiality.

- 1 Q. (p.28, graph) Do the line graphs for “Price to NP” and “Price to Industry”
2 correspond to their respective nominal prices or to their nominal prices
3 relative to the CPI?
4
5
6 A. The price indexes correspond to their respective nominal prices.

1 Q. 1. (Hall, p.7, lines 24-29). As well as being a commercially viable energy
2 business that happens to be owned by the Province, Hydro is a monopoly
3 and its return protected by public regulation. How do these characteristics
4 factor into the appropriate rate of return on rate base?

5

6

7 A. The fact that Hydro is a regulated utility does indeed factor positively into the
8 determination of an appropriate rate of return on rate base. The scale of the
9 electric business suggests monopoly attributes can be present, which is, of
10 course, why the industry is regulated. Hydro does not have an exclusive
11 monopoly in the Province though. For example Newfoundland Power has
12 installed generation, most recently at Rose Blanche. In addition, Hydro
13 currently purchases power from two non-utility generators, and will be buying
14 from two more in 2003.

15

16 While Hydro's return is determined by public regulation, it is not "protected".
17 There are a myriad of risks that can influence Hydro's eventual return, and
18 these have been outlined in Ms. McShane's answer to IC-62. Hydro does not
19 currently have the ability to automatically adjust rates, should one of these
20 risks adversely affect returns below those that were originally estimated in a
21 previous rate referral.

22

23 Mr. Hall is recognizing the fact that risks, such as these, should be
24 considered in the determination of what is a reasonable rate of return to an
25 investor in Hydro, regardless of the identity of the investor. Hydro must
26 manage its operations to mitigate its risks, control costs and optimize its
27 returns, just like any other business.