

1 Q. Hypothetically, if Hydro made poor future investment decisions then should it  
2 still receive the same regulated rate of return on rate base?

3

4

5 A. Investment decisions are made in accordance with investment decision  
6 guidelines as outlined in NP-179, and are based on the best information  
7 available to decision-makers at the time. While one can critique such actions  
8 in the context of additional information, it is unreasonable to second guess  
9 investment decisions if such additional information was not also available to  
10 decision-makers at the time.

- 1 Q. What are the implications of your financial target recommendations for the  
2 criteria that Hydro should use in assessing future investment projects?  
3  
4  
5 A. Please see response to CA-115.

1 Q. (p.4, lines 22-23) Over its life, what was the cost of the Roddickton woodchip  
2 plant as well as the revenue generated? What was the average cost for the  
3 kW hours generated over its life?  
4

5 A. Below is a table showing the cost of the Roddickton woodchip plant. These  
6 costs include direct operating and maintenance costs, depreciation expense,  
7 and prorated interest expense. From 1992 until interconnection in 1996, the  
8 annual revenues were determined by dividing the total Diesel Systems  
9 revenue by the total Diesel Systems gross production, and then multiplying  
10 that number by the gross production for the woodchip plant for each year.  
11 After interconnection the revenues were calculated using the same  
12 methodology but for the Island Interconnected System rather than Diesel  
13 Systems.

Year	Costs	Revenue	Average cost per kWh (\$)
1992	\$3,263,311	\$2,857,615	.1144
1993	\$3,300,741	\$2,679,205	.1239
1994	\$3,450,141	\$3,073,073	.1144
1995	\$3,250,016	\$2,517,848	.1313
1996	\$3,123,569	\$1,716,291 <sup>1</sup>	.1884
1997	\$2,567,569	\$3,420	33.10
1998	\$2,357,305	\$10,633	10.31
1999 <sup>2</sup>	\$2,409,061	\$0	NA

<sup>1</sup> \$42,833 was generated after the GNP interconnection.

<sup>2</sup> In 1999 the Roddickton woodchip plant was taken out of service.

1 Q. What is the average annual cost of the Cat Arm Hydro Station and its related  
2 infrastructure? What is the revenue generated by it?

3

4 A. The cost of the Cat Arm Hydro Station for 2000 is \$21,947,243. This  
5 includes direct operating and maintenance expenses, depreciation, and  
6 prorated interest. The revenue for 2000 is \$38,063,360. This was  
7 determined by dividing the total Island Interconnected revenue by the total  
8 Island Interconnected gross production. This number is then multiplied by  
9 the gross production of the Cat Arm Hydro Station.

1 Q. (p.5, line28-31) Express the cost of energy purchased from the Star Lake  
 2 Hydro partnership and from Algonquin Power in terms of their No.6 fuel cost  
 3 equivalents.

4

5 A. The cost of energy from the Star Lake Hydro Partnership and Algonquin  
 6 Power expressed in their No. 6 fuel cost equivalent are given in the following  
 7 tables:

<b>Algonquin Power – Rattle Brook</b>				
	<b>Energy Produced</b>	<b>Equivalent No. 6 Fuel from Holyrood</b>	<b>Cost of Energy</b>	<b>Equivalent No. 6 Fuel Cost</b>
	<b>kWh</b>	<b>bbbl</b>	<b>\$</b>	<b>\$/bbbl</b>
1998	2,614,816	4,287	220,878	51.52
1999	17,376,376	28,486	1,238,068	43.46
2000	17,826,427	29,224	1,269,887	43.45
Forecast 2001	17,900,000	29,344	1,249,768	42.59
Forecast 2002	17,900,000	29,344	1,263,193	43.05

<b>Star Lake Partnership – Star Lake</b>				
	<b>Energy Produced</b>	<b>Equivalent No. 6 Fuel from Holyrood</b>	<b>Cost of Energy</b>	<b>Equivalent No. 6 Fuel Cost</b>
	<b>kWh</b>	<b>bbbl</b>	<b>\$</b>	<b>\$/bbbl</b>
1998	26,626,947	43,651	1,944,816	44.55
1999	138,788,688	227,522	9,148,294	40.21
2000	143,050,411	234,509	9,639,705	41.11
Forecast 2001	128,001,000	209,838	8,608,386	41.02
Forecast 2002	128,001,000	209,838	8,695,429	41.44

1 Q. (p.14, lines 22-25) For the past ten years, provide the annual amounts of  
2 power actually recalled from CF(L)Co and the associated costs in total and  
3 per kW hour.

4  
5 A. Please refer to the following table:

6  
7 **Newfoundland & Labrador Hydro**  
8 **Labrador Recall**  
9

10	Year	Energy Recalled	Cost	Per Unit Cost
11		(kWh)	(\$)	(\$/kWh)
12				
13	1992	910,392,024	2,731,780	0.00300
14	1993	1,033,840,500	3,164,085	0.00306
15	1994	1,033,840,500	3,222,573	0.00312
16	1995	1,032,896,353	3,138,528	0.00304
17	1996	1,034,784,647	3,122,394	0.00302
18	1997	1,033,840,500	3,138,601	0.00304
19	1998	2,117,613,462	6,361,769	0.00300
20	1999	2,362,000,000	7,016,462	0.00297
21	2000	2,362,000,000	6,996,087	0.00296

21 Please note the Energy Recalled is at the Quebec/Labrador border.

1 Q. (p.6, lines 26-30) Provide the assumptions and economic forecasts used in  
2 developing Hydro's reference outlook for electricity consumption and peak  
3 demand for the next ten years. Do those forecasts (Schedule VIII)  
4 incorporate the use of wind generation, other alternate energy sources or  
5 demand-side management measures?  
6

7

8

9 A. See response to IC-82 regarding the economic forecast used in the Long  
10 Term Planning Load Forecast. The listing below highlights the major  
11 assumptions.

12

13 Wind generation and other alternate energy sources are supply side issues  
14 and do not explicitly impact the load (demand) forecast.

15

16 There is no explicit accounting of Hydro sponsored demand side  
17 management measures in the forecast.

18

19 The Summary of Major Assumptions for 2001 Long Term Planning Load  
20 Forecast is as follows:

21

22 - Moderate economic growth stems the recent high net out migration  
23 levels and population decline moderates.

24

25 - Modest increases in total seafood landings across forecast period.  
26 - Excluding Voisey's Bay, exports of the mining sector increase  
modestly. A mine and milling development for Voisey's Bay nickel  
resource is assumed to be in production by 2007.

- 1 - Terra Nova commences its first full year of production in 2002.
- 2 White Rose development activity begins in 2002 with production in
- 3 2004.
- 4 - Island newsprint production approaches maximum given wood supply
- 5 constraints and existing plant capabilities.
- 6 - Production levels at the Come-By-Chance oil refinery remain constant
- 7 throughout the forecast period.
- 8 - Federal and Provincial government expenditures and fiscal initiatives
- 9 expected to provide stimulus for economy.
- 10 - Outside of mega-projects, underlying business investment is strong.
- 11 - Modest increases in real consumer expenditures expected.
- 12 - Inflation is forecast to be modest in the order of 2 percent annually.
- 13 - The unemployment rate declines over the forecast period as labour
- 14 force population growth slows and employment growth is modest.



1 Q. (p.9, lines 27-28) In addition, to adding capacity, what measures, incentive  
2 schemes, and investments have been undertaken by Hydro to encourage  
3 conservation by each of its customer groups? Explain whether it is  
4 worthwhile for Hydro to consider weighing the returns of investing in  
5 additional capacity against the returns from investing in conservation by end  
6 users.

7  
8

9 A. With respect to the current forecasted capacity and energy deficits (p9, lines  
10 27-28) Hydro has not undertaken any measures, incentive schemes, and  
11 investments to encourage conservation by its customer groups.

12

13 In the early 1990s Hydro and Newfoundland Power extensively studied the  
14 merits of conservation as a supply side resource. Key considerations were  
15 that the residential sector held the greatest potential for load reductions due  
16 to the high incidence of electric space and water heating. The initial focus  
17 would have had to be on the space heating market due to its importance in  
18 coincident power demand. Conservation is now more routinely viewed as a  
19 component of an overall customer service function that seeks to maximize  
20 customer value in the context of market price signals.

1 Q. Has Hydro considered advertising campaigns or other measures aimed at  
2 NP end users, the largest group of consumers, to encourage them to  
3 conserve energy?

4

5

6 A. No, Hydro has not undertaken any advertising campaigns or other measures  
7 aimed specifically at NP end users to encourage them to conserve energy.

1 Q. (p.12, lines 1-13) Describe the criteria Hydro have established for  
2 determining the commercial feasibility of wind generation. Has Hydro  
3 investigated or issued RFPs for other alternate technologies?  
4

5

6 A. Hydro has not established criteria for determining the commercial feasibility  
7 of wind generation. One of the primary objectives of the Phase I, feasibility  
8 study, of Hydro's RFP for a Wind Demonstration Project, is to identify how  
9 various technical, operating and cost factors will be taken into consideration  
10 when evaluating the economic feasibility of a potential wind generation site.

11

12 Hydro has been monitoring the progress of other alternate technologies such  
13 as fuel cells, microturbines and photovoltaic solar panels.

14

15 Hydro has not issued RFPs for other alternate technologies.

1 Q. (Schedule XI) Provide the cost per kWh associated with production of the  
2 three future additions to generation capacity: Granite Canal, ACI Beeton +  
3 Bishop's Falls Upgrade; and CBP&P Cogeneration.

4  
5

6 A. The levelized cost per kWh for each of the three future additions are shown  
7 below:

8

9 Granite Canal: 54.2 mills/kWh

10 ACI Beeton + Bishop's Falls Upgrade: 77.1 mills/kWh

11 CBP&P Cogeneration: 80.0 mills/kWh

1 Q. Explain whether the revenues and costs of these three additions to  
2 generation capacity, and therefore to rate base, are consistent with Hydro's  
3 proposed financial targets.

4

5

6 A. The capital costs associated with the Granite Canal project will form part of  
7 Hydro's rate base in 2003, as the project comes in service in that year, and  
8 will be included in Hydro's overall calculation of rate of return on rate base.  
9 Operating costs associated with this project, including depreciation and  
10 interest, will be included in Hydro's overall revenue requirement that is to be  
11 recovered from customers.

12

13 Costs associated with ACI Beeton and Bishops Falls Upgrade and Corner  
14 Brook Pulp and Paper cogeneration do not form part of Hydro's rate base as  
15 these facilities are not owned by Hydro. The power purchased cost that  
16 Hydro incurs from buying power from these entities will form part of Hydro's  
17 overall revenue requirement that is to be recovered.

1 Q. Hamilton: (p.9, Table 2) Prepare a similar table, based on the assumption of  
2 implementation of Hydro's proposed financial structure on January 1, 2002.

3

4 A. The attached table has been prepared based on a debt/equity ratio of 60/40  
5 and 11.25% return on equity. These numbers do not include any additional  
6 funds from ratepayers to achieve 40% equity; nor do they incorporate  
7 changes to Rural deficit area revenues or any cash flow impacts associated  
8 with interest and return on rate base from those filed in Exhibit JAB-1.

**NEWFOUNDLAND AND LABRADOR HYDRO**  
**Comparison of Revenue at Existing Rates and**  
**Rates Under Hydro's Proposed Financial Targets**

	Existing Rates	Proposed Rates	Change \$	Change %
1 Newfoundland Power	\$200,369,992	\$231,754,770	\$31,384,778	15.7%
2 Industrial				
3 - Firm	45,266,225	54,530,948	9,264,723	20.5%
4 - Non-Firm	293,393	381,121	87,728	29.9%
5 - Wheeling	6,490	7,830	1,340	20.6%
6 Rural Island Interconnected	30,517,104	31,639,918	1,122,814	3.7%
7 Rural Isolated Systems				
8 Non-Government	4,500,581	4,666,055	165,474	3.7%
9 Government	680,603	816,722	136,119	20.0%
10 L'Anse au Loup	1,095,800	1,136,125	40,325	3.7%
11 Rural Labrador Interconnected				
12 Domestic	5,613,755			
13 GS 2.1 0 - 10 kW	256,118			
14 GS 2.2 10 - 100 kW	2,027,972			
15 GS 2.3 110 - 1000 kVa	2,632,106			
16 GS 2.4 Over 1000 kVA	1,244,216			
17 Street & Area Lighting	140,495			
18 Rural Labrador Interconnected Total	<u>\$11,914,662</u>	<u>\$11,017,000</u>	<u>(\$897,662)</u>	-7.5%
19 CFB Goose Bay - Secondary	<u>2,991,483</u>	<u>2,991,483</u>	<u>-</u>	
20 Total	<u><u>\$297,636,333</u></u>	<u><u>\$338,941,972</u></u>	<u><u>\$41,305,639</u></u>	13.9%

**Note:**

The above results do not incorporate any change to flow-through impacts for Rural rate classes related to the change in Newfoundland Power's costs from those filed.

1 Q. Re: Page 28 Line 10: Cite any recent Canadian regulatory jurisdiction  
2 decisions which have applied the “comparable earnings standard”  
3 unadjusted for market to book ratios which you propose to this Board.

4

5 A. In recent years, the comparable earnings standard has been overlooked in  
6 Canada, as most regulators have given preponderant or exclusive weight to  
7 the risk premium test, either explicitly, or implicitly through the adoption of  
8 automatic adjustment mechanisms for ROE. No recent Canadian decisions,  
9 to Ms. McShane’s knowledge, have dealt with the issue of market/book  
10 ratios.



1 Q. Page 46, Line 6. Provide copies of the studies to which you refer with  
2 respect to the predictive accuracy of analyst forecasts.

3

4 A. There are a number of empirical studies that conclude that investment  
5 analysts' growth forecasts serve as a better surrogate for investors  
6 expectations than historic growth rates; including Lawrence D. Brown and  
7 Michael S. Rozeff, "The Superiority of Analyst Forecasts as Measures of  
8 Expectations: Evidence from Earnings", *The Journal of Finance*, Vol. XXXIII,  
9 No. 1, March 1978; Dov Fried and Dan Givoly, "Financial Analysts Forecasts  
10 of Earnings, A Better Surrogate for Market Expectations", *Journal of*  
11 *Accounting and Economics*, Vol. 4 (1982); R. Charles Moyer, Robert E.  
12 Chatfield, Gary D. Kelley, "The Accuracy of Long-Term Earnings Forecasts in  
13 the Electric Utility Industry", *International Journal of Forecasting* Vol. I (1985);  
14 Robert S. Harris, "Using Analysts' Growth Forecasts to Estimate Shareholder  
15 Required Rates of Return", *Financial Management*, Spring 1986, and, James  
16 H. Vander Weide and William T. Carleton, "Investor Growth Expectations:  
17 Analysts vs. History", *The Journal of Portfolio Management*, Spring 1998.

18 The requested studies are attached.

1 Q. Re: Page 49 Line 29: Provide the specific set of procedures and criteria  
2 used for the selection of the Canadian industrial companies.

3

4

5 A. Regulated companies are generally characterized by relatively low volatility  
6 with respect to both earnings and stock market performance. Since  
7 consumer-oriented industries, due to their demand characteristics, are likely  
8 to exhibit relatively greater stability than other industries (e.g., extractive  
9 industries), the initial universe selection was limited to consumer-oriented  
10 industries (SIC codes 2000-3999 and 5000-5999).

11

12 Stability of earnings, dividends and market prices were the principal criteria  
13 governing the selection of low risk industrials from the universe. This  
14 universe of 95 Canadian companies is comprised of all firms with (1)  
15 sufficient historical book and market data over the study periods; (2) common  
16 equity of \$50 million or greater; and (3) 125,000 common shares or more  
17 traded annually (1999). From this universe, all firms that had cut their  
18 dividends by more than 25% or had not paid dividends since the beginning of  
19 the most recent point-to-point business cycle (1991) were eliminated, leaving  
20 35 companies. The remaining firms were ranked by (1) the 1991-1999  
21 coefficient of variation of book returns (standard deviation/average return on  
22 book equity); (2) the 1991-1999 coefficient of variation of earnings before  
23 interest and taxes (EBIT); (3) the five-year beta (1995-1999); and (4) the five-  
24 year standard deviation of market returns (1995-1999). The companies were  
25 then arrayed by their composite ordinal ranking. The final sample is  
26 comprised of 17 companies, representing the lower half of the 35 companies  
27 based on their composite ordinal ranking.

1 Q. Re: Page 51 Line 20: Please provide an explanation of how differential  
2 US/Canada tax rates effect the risk premium and how this has been  
3 incorporated in your analysis.

4

5 A. In principle, the lower tax rates applicable to equity income (through the  
6 dividend tax credit and the lower capital gains tax rates) in Canada would  
7 suggest a smaller risk premium if all investors were taxable under Canadian  
8 tax laws. However, the equity market is likely to be driven by non-taxable  
9 investors (pension funds and RRSPs). In addition, foreign investors (who are  
10 particularly key in government bond markets) are not subject to the Canadian  
11 tax regime. As a result, the differential U.S./Canadian tax rates should not  
12 materially impact the size of the risk premium in Canada.

1 Q. Re: Page 52 Line 29: Cite any evidence which you may have that indicates  
2 that Canadian utilities have been unable to raise adequate capital due to the  
3 competition with US utilities.

4

5 A. It would be virtually impossible to extricate the requested information from  
6 the consolidated operations of firms which also operate in regulated  
7 industries.

8

9 However, in principle, the failure of the regulatory process to provide the  
10 opportunity to earn a fair return creates an incentive to undertake only the  
11 least risky of utility investments and to divert capital to projects with superior  
12 risk/reward profiles. One illustration would be the decision of TransAlta  
13 Corporation to divest its regulated operations in Alberta and concentrate on  
14 unregulated generation.

1 Q. Re: Expert Testimony/Opinions A-3, A-4: With regard to the most recent 5  
2 years of testimony cited in Canadian jurisdictions, please provide a schedule  
3 of:

4

5 (a) your recommenced (*sic*) rate of return on equity; and

6 (b) the subsequently allowed rate of return on equity in the regulatory  
7 decision.

8

9

10 A. Please see attached.

<u>COMPANY</u>	<u>JURISDICTION</u>	<u>DATE OF TESTIMONY</u>	<u>TEST YEAR</u>	<u>RECOMMENDED RETURN ON EQUITY</u>	<u>DATE OF DECISION</u>	<u>ALLOWED RETURN ON EQUITY</u>
CONSUMERS GAS	OEB	1/96	Sept 1997	12.25-12.50	9/96	11.50
CENTRA GAS ONTARIO UNION GAS	OEB OEB	6/96 6/96	1997	12.25-12.50 12.5-12.75	3/97 3/97	11.25 11.00
GAZIFERE	REGIE DU GAZ NATUREL	6/96	Sept 1997	13.2	10/96	11.75
CONSUMERS GAS	OEB	1/97	Sept 1998	12.0-12.25	8/97	10.3 a/
GAZIFERE	REGIE DU GAZ NATUREL	9/97	Sept 1998	12.25	12/97	11.0
NEWFOUNDLAND LIGHT & POWER	NEWFOUNDLAND & LABRADOR PUB	5/98	1998	10.5-11.5	7/98	9.25
GAZIFERE	REGIE DU GAZ NATUREL	7/98	Sept 1999	11.70	2/99	10.5
UNION GAS	OEB	7/98	1999	10.5	11/98	SETTLEMENT AT 9.86
CANADIAN WESTERN NATURAL GAS	ALBERTA ENERGY AND UTILITIES BOARD	8/98	1997	11.25	3/00	10.5
ATCO ELECTRIC	AEUB	10/98	1999&2000	11.0	5/99	SETTLEMENT b/
ONTARIO HYDRO SERVICES COMPANY	OEB	1/99	1999&2000	10.75	3/99	9.35
CANADIAN WESTERN NATURAL GAS	AEUB	8/98	1998	11.25-11.5	3/00	9.375
BC BENCHMARK UTILITY	BC UTILITIES COMM.	5/99	2000	10.5-10.75	8/99	9.0
ENBRIDGE GAS NB	NB BOARD OF COMM.	2/00	2000	13 <sup>1/</sup>	6/00	13.0
NORTHWESTEL	CRTC	1/00	2000	12.25	11/00	10.5
ATCO ELECTRIC DISCO	AEUB	6/00	2000	11-11.25	PENDING	PENDING
ATCO ELECTRIC TRANSCO	AEUB	5/00	2000	11-11.25	10/00	Settled, settlement test by board against a 9.75% ROE
ALTAGAS UTILITIES	AEUB	10/00	00-02	11.5	PENDING	PENDING

a/ Ms. McShane's recommendation of 12.0-12.25 was based on a 1/97 projected government bond yield of 7.25%; the Board's authorized return of 10.3% was based on the 8/97 forecast bond yield of 6.79%. The allowed ROE corresponding to a 7.25% long bond yield is 10.65%.

1/ Return for 2000+

b/ Return on equity not specified.

NOTE: Dates of testimony are of original pre-filed evidence, not updates or supplementary evidence. The recommended returns on equity reflect all updates to the original testimony.

CASES

1 Q. Re: Schedule VI: Provide a description of the terms of the bonds used in  
2 developing these risk premiums.

3

4

5 A. The terms of U.S bonds used in developing these risk premiums are  
6 described as long-term, with maturities close to 20 years. Canadian bond  
7 maturities average 18 years.

1 Q. Re: Schedule VII: Provide any evidence which you have concerning the  
2 accuracy of the IBES estimates of growth rates. Provide the actual five year  
3 growth rates of dividends for each of the years ending in 1991 through 2000  
4 for the sample studied.

5

6

7 A. Please see attached Excel file CA-139 for the requested dividend growth  
8 rates.

9

10 See answer to CA-133, with respect to the predictive accuracy of analysts'  
11 forecasts. With respect to the documented optimism referenced at page 34,  
12 lines 25-27, the following articles have empirically studied the optimism of  
13 analysts' forecasts:

14

15 David N. Breman and Michael A. Berry, "Analyst Forecasting Errors  
16 and Their Implications for Security Analysis", *Financial Analysts  
17 Journal*, May/June 1995.

18

19 Vijay Kumar Chopra, "Why So Much Error in Analysts' Earnings  
20 Forecasts?", *Financial Analysts Journal*, November/December 1998.

21

22 Kirt C. Butler and Hakan Saraoglu, "Improving Analysts' Negative  
23 Earnings Forecasts", *Financial Analysts Journal*, May/June 1999.



	TSE 300 Div	TSE Dividend Growth 5-year
1986	91.67	
1987	102.785	
1988	113.9	
1989	129.01	
1990	124.9	
1991	111.93	22.1
1992	102.34	-0.4
1993	97.81	-14.1
1994	100.76	-21.9
1995	107.44	-14.0
1996	108.63	-2.9
1997	110.27	7.7
1998	108.05	10.5
1999	110.46	9.6
2000	113.42	5.6

Note: Growth is a compound 5-year figure.

1 Q. Re: Schedule IX: Provide the basis for the choice of the weights given to the  
2 raw and market beta used to determine the “Adjusted Betas” in this schedule.

3

4 A. The adjustment is the same as those used by Merrill Lynch and Value Line  
5 whose betas are widely available to investors. The adjustment gives two-  
6 thirds weight to the “raw” calculated beta and one-third weight to the market  
7 mean beta of 1.0. The adjusted betas provide a better reflection of the  
8 observed risk/reward relationship for low beta firms; for utilities, the adjusted  
9 beta more accurately captures the impact of interest rate sensitivity on the  
10 equity return requirement (see pages 38-39 of Ms. McShane’s testimony).

- 1 Q. Re: Schedule XV: Provide the actual five year growth rates in dividends  
2 ending in the year 2000 for the sample companies in this schedule.  
3  
4  
5 A. See attached.

	<b>Dividends</b>						<b>5-Year</b>
	95	96	97	98	99	2000	Growth Rate
AMEREN CORP	2.46	2.51	2.54	2.54	2.54	2.54	3.46
IDACORP INC	1.86	2.33	1.86	1.86	1.86	1.86	0.00
KANSAS CITY POWER & LIGHT	1.54	1.59	1.62	1.64	1.66	1.66	7.79
NSTAR	1.82	2.35	1.88	1.88	1.94	2.00	9.89
POTOMAC ELECTRIC POWER	1.66	1.66	1.66	1.66	1.66	1.66	0.00
VECTREN CORP	0.81	0.84	0.87	0.91	0.95	0.99	21.73

Note: Growth rate is a compound figure.

- 1 Q. Re: Schedule XVI: Provide the Market to Book ratios over the years 1991 to  
2 2000 for the sample of companies shown in this schedule.  
3  
4  
5 A. Please see attached.

	Market to Book Ratio									
	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
BOMBARDIER INC	3.0	1.9	2.6	2.3	4.0	4.0	3.7	4.8	6.1	9.5
CANADA BREAD LTD	3.7	2.7	2.6	1.9	1.8	1.7	2.7	2.0	1.5	1.0
CANADIAN TIRE CORP	1.8	1.2	1.3	1.0	1.1	1.5	1.9	2.5	2.0	1.0
CCL INDUSTRIES	1.2	1.0	1.1	1.0	1.1	1.3	1.3	1.2	0.9	N/A
CORBY (H.) DISTILLERY	2.4	2.0	3.2	2.3	2.4	2.4	2.7	11.4	9.2	6.1
DOVER INDUSTRIES LTD	1.6	1.3	1.3	1.2	1.1	1.1	1.1	1.0	0.9	0.9
DUPONT CANADA	2.0	1.9	2.1	2.1	2.3	2.7	3.3	3.3	4.0	3.0
IMPERIAL OIL LTD	1.1	1.2	1.3	1.5	1.6	2.2	3.1	2.5	3.0	3.6
LEONS FURNITURE LTD	2.5	2.3	2.5	2.0	2.0	1.9	2.9	2.1	2.8	2.0
LOBLAW COS LTD	1.9	1.8	2.0	1.8	2.2	2.6	4.3	4.0	3.3	4.5
MOLSON INC	2.1	1.3	1.1	0.8	1.6	1.5	1.5	1.1	1.3	3.3
QUEBECOR INC	1.4	1.7	1.6	1.4	1.4	1.4	1.4	1.5	1.4	0.6
REITMANS (CANADA)	1.6	1.4	1.5	1.1	0.9	1.0	1.0	1.2	0.9	0.7
SHELL CANADA LTD	1.4	1.3	1.5	1.6	1.4	1.6	2.3	2.0	2.2	2.7
THOMSON CORP	2.7	2.3	2.5	2.3	2.2	3.2	3.7	2.3	2.5	3.2
UNICAN SECURITY SYS	1.6	1.6	2.3	2.2	2.4	3.1	3.2	3.1	2.5	1.8
WINPAK LTD	1.4	1.7	2.2	1.6	1.7	2.1	2.2	2.4	2.6	1.7
Median	1.8	1.7	2.0	1.6	1.7	1.9	2.7	2.3	2.5	2.4

- 1 Q. Re: Schedule XVIII: Provide the Market to Book ratios for the years 1990 to  
2 1999 for the sample of companies show in this Schedule.  
3  
4  
5 A. Please see attached.

	Market to Book Ratio									
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
ALBERTO-CULVER CO	2.6	2.7	2.4	2.1	2.0	2.3	2.8	3.4	2.5	2.3
ALBERTSONS INC	4.8	4.4	4.7	4.9	4.5	4.4	3.9	4.8	5.3	2.3
AVERY DENNISON CORP	1.6	1.9	2.1	2.3	2.6	3.3	4.4	5.5	5.4	8.9
BALDOR ELECTRIC	1.3	1.7	2.2	2.7	2.7	2.7	3.2	3.2	2.8	2.4
BANDAG INC	4.9	5.6	4.7	3.6	3.6	3.3	2.6	2.6	1.9	1.1
BARD (C.R.) INC	2.6	4.4	4.5	3.4	3.2	3.3	2.7	3.2	4.5	4.7
BECTON DICKINSON & CO	2.0	1.9	1.8	1.9	2.3	3.0	4.2	4.3	6.4	4.0
BRIGGS & STRATTON	1.8	1.7	2.1	2.7	2.4	2.3	2.4	3.6	2.8	3.7
CLOROX CO/DE	2.8	2.7	3.0	3.3	2.9	3.6	4.9	6.6	9.1	8.0
COMMERCIAL METALS	1.0	1.0	1.2	1.8	1.6	1.4	1.4	1.3	0.9	1.1
CONAGRA FOODS INC	3.5	2.7	3.1	3.2	3.3	4.6	5.8	5.1	4.4	3.8
CURTISS-WRIGHT CORP	1.0	1.1	1.0	1.3	1.2	1.6	1.4	1.8	1.7	1.4
DEXTER CORP	1.5	1.7	2.0	1.8	1.5	1.5	2.0	2.7	1.9	2.0
DONNELLEY (R R) & SONS CO	1.9	2.2	2.7	2.6	2.3	2.8	2.8	3.4	4.5	2.7
EASTMAN KODAK CO	2.0	2.6	2.0	5.5	4.0	4.5	5.6	6.2	5.8	5.3
EATON CORP	1.5	1.9	3.0	3.3	2.3	2.1	2.5	3.2	2.5	2.0
ECOLAB INC	1.5	3.1	3.4	3.8	3.1	4.3	4.7	6.5	6.8	6.6
ENRON CORP	1.7	2.1	2.3	2.9	2.8	3.2	3.1	2.4	2.7	3.8
FEDERAL SIGNAL CORP	3.2	4.0	4.1	4.8	4.2	4.7	4.3	3.3	3.9	2.1
GENERAL DYNAMICS CORP	0.7	1.1	1.7	2.5	2.1	2.4	2.6	2.8	3.4	3.3
HANNAFORD BROTHERS CO	2.8	3.3	2.6	2.2	2.3	2.0	2.5	3.1	3.4	4.0
JOHNSON CONTROLS INC	0.8	1.2	1.4	2.1	1.7	2.0	2.1	2.5	2.1	2.5
KNIGHT-RIDDER INC	2.5	2.5	2.7	2.6	2.2	2.7	3.2	2.7	2.4	2.7
MCCORMICK & CO	2.5	4.2	5.2	4.0	3.1	3.7	4.3	5.0	6.2	5.9
PEPSICO INC	4.2	4.8	6.2	5.2	4.2	6.0	6.8	7.8	9.4	7.5
PLUM CREEK TIMBER CO INC	1.3	2.3	2.9	5.5	3.7	4.1	2.5	3.0	3.0	3.2
SENSIENT TECHNOLOGIES CORP	3.1	3.5	2.7	2.9	2.4	2.5	2.4	2.7	2.6	2.7
SHERWIN-WILLIAMS CO	2.1	2.7	3.0	3.1	2.7	2.9	3.4	3.0	2.9	2.0
SMUCKER (JM) CO	3.5	4.2	3.3	2.7	2.4	2.2	1.8	2.4	1.9	1.4
SONOCO PRODUCTS CO	2.7	2.7	3.7	3.1	2.9	3.2	2.9	3.9	3.7	2.6
SUPERIOR INDUSTRIES INTL	2.0	3.0	4.1	7.3	3.9	3.3	2.6	2.6	2.4	2.0
SUPERVALU INC	2.0	1.8	2.0	2.1	1.5	1.8	1.6	2.4	2.2	1.3
TELEFLEX INC	1.9	2.6	2.2	2.3	2.0	2.0	2.3	3.0	3.2	2.0



UNIVERSAL CORP/VA	1.2	1.6	2.8	2.1	1.8	1.9	2.2	2.4	2.4	1.7
WENDY'S INTERNATIONAL INC	1.4	2.0	2.4	2.9	2.1	2.7	2.2	2.4	2.5	2.3
WINN-DIXIE STORES INC	3.3	3.4	3.6	4.3	3.0	3.5	4.0	4.1	5.5	3.9
Median	2.0	2.6	2.7	2.9	2.5	2.8	2.7	3.1	3.0	2.6

1 Q. Re: Schedule XIX: provide the Market to Book ratios for 1990 to 2001 for  
2 each company that is publicly traded and shown in the schedule.

3

4

5 A. Please find the market-to-book ratios for the parent companies of the utilities  
6 listed in Schedule XIX in the attached.

	Market to Book Ratios										
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
BC GAS INC	1.3	1.3	1.1	1.2	1.0	1.2	1.3	1.8	2.0	1.6	1.6
CONSUMERS GAS CO LTD	1.6	1.8	N/A	1.5	1.4	1.3	1.5	1.5	N/A	N/A	N/A
GAZ METROPOLITAN AND CO -LP	N/A	N/A	N/A	1.9	1.9	2.0	2.3	2.7	2.6	2.4	2.1
PACIFIC NORTHERN GAS	1.0	1.2	1.3	1.7	1.5	1.4	1.4	1.8	1.6	1.0	N/A
TRANSCANADA PIPELINES LTD	2.0	1.8	1.6	1.7	1.3	1.4	1.5	1.9	1.6	1.0	1.3
WESTCOAST ENERGY INC	1.4	1.3	1.2	1.4	1.3	1.1	1.2	1.7	1.5	1.1	1.6

- 1 Q. What schedule is being proposed for achieving target capital structure?  
2 Returns?  
3  
4  
5 A. Please see response to IC-207 item (2) and IC-49 item (1).

- 1 Q. What procedures are being proposed to monitor future returns?  
2  
3  
4 A. Please see response to NP-139(a).

- 1 Q. What level of return would trigger a review of the rates?
- 2
- 3
- 4 A. Please see response to CA-31.

1 Q. Re: Page 14 Lines 30-31: Regarding Hydro's proposal to accept a 3%  
2 return on equity in the short term, please provide a specific calendar date  
3 defining this item.

4

5

6 A. Please refer to responses to IC-207 item (2) and IC-49 item (1).

- 1 Q. Re: Page 15 Line 7: Also, on what specific target date does Hydro expect to  
2 have its requested “normal return on equity” of 11 to 11.5%.  
3  
4  
5 A. Please refer to responses to IC-207 item (2) and IC-49 item (1).



1 Q. Re: Page 5 Line 3: Please provide specific details regarding the “phase-in”  
2 of rate increases proposed. Particularly, how many phases are being  
3 referred to; on what date are each of these phases to commence, and what  
4 amount of rate increase is to be implemented at each phase.

5

6

7 A. Please see responses to:

8

9 NP-35

10 NP-150

11 NP-152

12 IC-205

1 Q. Please provide the total cost absorbed by Hydro of the subsidy formerly paid  
2 by Hydro's Industrial Customers to support rural rates since Hydro has taken  
3 over those costs – December 31, 1999.

4

5

6 A. The portion of the rural subsidy that would have been recovered in Industrial  
7 rates are shown below based on the reduction in Industrial rates of 10.74%  
8 per Order No. P.U. 23(1999-2000).

	<u>2000 Actual</u>	<u>2001 Forecast</u>
Industrial Revenue	\$39,565,833	\$41,865,325
Portion of rural deficit based on above revenue	\$ 4,760,666	\$ 5,037,347

1 Q. Please provide a list of all of Hydro's current Industrial Customers.

2

3 A. A list of Hydro's current Industrial Customers is as follows:

4

5 Abitibi Consolidated Inc. - Grand Falls

6 Abitibi Consolidated Inc. - Stephenville

7 Corner Brook Pulp and Paper Limited

8 North Atlantic Refining Limited

9 Iron Ore Company of Canada

- 1 Q. Please provide a list of all fishplants, churches and community halls which  
2 would be the beneficiaries of Hydro's proposal for their continuation of  
3 preferential rates.  
4  
5 A. A list of fishplants, churches and community halls is as follows:

Fishplants:

<u>Customer Name</u>	<u>Community</u>
COASTAL LABRADOR FISHERIES LTD	St. Lewis
COASTAL LABRADOR FISHERIES LTD	St. Lewis
EVELEIGH SEAFOODS	Little Bay Islands
LABRADOR SEA PRODUCTS LTD	Black Tickle
LABRADOR SEA PRODUCTS LTD	Black Tickle
LFUS COMPANY LTD	Cartwright
LFUS COMPANY LTD	Mary's Harbour
LFUS COMPANY LTD	Mary's Harbour
LFUS COMPANY LTD	Pinsents Arm
SEA TREAT LTD	Little Bay Islands
SIMMONDS SEAFOODS	Ramea
TORNGAT FISHERIES PRODUCERS CO OP	Hopedale
TORNGAT FISHERIES PRODUCERS CO OP	Hopedale
TORNGAT FISHERIES PRODUCERS CO OP	Makkovik
TORNGAT FISHERIES PRODUCERS CO OP	Makkovik
TORNGAT FISHERIES PRODUCERS CO OP	Makkovik
TORNGAT FISHERIES PRODUCERS CO OP	Nain

Churches and Community Halls:

<u>Customer Name</u>	<u>Community</u>
ACWA	MCCALLUM
ANGLICAN CHURCH CHARLOTTETOWN	CHARLOTTETOWN
ANGLICAN CHURCH FRANCOIS	FRANCOIS
ANGLICAN CHURCH HARBOUR DEEP	HARBOUR DEEP
ANGLICAN CHURCH RAMEA	RAMEA
ANGLICAN CHURCH RENCONTRE EAST	RENCONTRE EAST
ANGLICAN CHURCH ST LEWIS	ST LEWIS
BRIDGEMAN BERNARD	ST BRENDANS
C OF E CHURCH	GREY RIVER
CALVARY PENTECOSTAL	CHARLOTTETOWN

<u>Customer Name</u>	<u>Community</u>
COMMUNITY CENTRE	FRANCOIS
GOSPEL HALL CHARLOTTETOWN	CHARLOTTETOWN
HAYWARD BAXTER	RIGOLET
LABRADOR INUIT DEVELOPMENT CORP	NAIN
LIONS CLUB CARTWRIGHT	CARTWRIGHT
LIONS CLUB RAMEA	RAMEA
LOYAL ORANGE LODGE GREY RIVER	GREY RIVER
LOYAL ORANGE LODGE LODGE BAY	LODGE BAY
LOYAL ORANGE LODGE RAMEA	RAMEA
MAKKOVIK CRAFT COUNCIL	MAKKOVIK
MORAVIAN CHURCH HOPEDALE	HOPEDALE
MORAVIAN CHURCH MAKKOVIK	MAKKOVIK
MORAVIAN CHURCH NAIN	NAIN
MORAVIAN CHURCH NAIN	NAIN
MORAVIAN CHURCH NAIN	NAIN
OKALAKATIGET SOCIETY	NAIN
PAIVITSIK CHILD CTN	NAIN
PARISH HALL RENCONTRE EAST	RENCONTRE EAST
PENTECOSTAL ASSEMBLY HOPEDALE	HOPEDALE
PENTECOSTAL CHURCH CARTWRIGHT	CARTWRIGHT
PENTECOSTAL CHURCH POSTVILLE	POSTVILLE
PENTECOSTAL PARSONAGE	PORT HOPE SIMPSON
PENTECOSTAL PARSONAGE	WILLIAMS HARBOUR
POSTVILLE CRAFT CENTRE	POSTVILLE
R C MISSION CHURCH BLACK TICKLE	BLACK TICKLE
ROMAN CATHOLIC CHURCH RAMEA	RAMEA
ROMAN CATHOLIC CHURCH RENCONTRE EAST	RENCONTRE EAST
ROMAN CATHOLIC MISSION	DAVIS INLET
SALVATION ARMY LITTLE BAY ISLANDS	LITTLE BAY ISLANDS
ST GABRIELS PARISH	ST BRENDANS
ST JOHN THE BAPTIST CHURCH	LODGE BAY
ST LEWIS CRAFT SHOP	ST LEWIS
ST PATRICKS CHURCH	RAMEA
ST PETERS ANGLICAN CHURCH	CARTWRIGHT
ST PETERS CHURCH	MCCALLUM
ST TIMOTHYS ANGLICAN CHURCH	RIGOLET
TOWN OF ST LEWIS	ST LEWIS
U C TRUSTEE BOARD	LITTLE BAY ISLANDS
UCWA CENTER	PETITES
UNITED CHURCH PETITES	PETITES
WARD GLADYS	NORMAN BAY
WILLIAMS HR CHAPEL	WILLIAMS HARBOUR

1 Q. Please provide the dollar figure as to the cost of these preferential rates to  
2 the above referenced fishplants, churches and community halls. If there are  
3 no preferential rates, what would these customers pay?  
4

5 A. The full cost of serving these customers is \$2,530,183 based on the 2002  
6 Cost of Service.

7  
8 Based on actual 2000 data these customers paid \$315,000. If there were no  
9 preferential rates these customers would pay the applicable diesel rate  
10 estimated at \$620,000 based on the 2002 rates in Hydro's current  
11 submission to the Board.