Requests for Information
Newfoundland & Labrador Hydro ("Hydro") 2002 General Rate Review

Revenue Requirement

NP-139 (a) How does Hydro propose to determine excess earnings (KCM, page 56, lines 4-8)?

(b) How does Hydro propose to deal with excess earnings?

(c) Is Kathleen McShane aware of any situations where there was no limitation on a fully regulated utility's earnings or revenue? If so, please describe the situation(s).

NP-140 Provide JAB, Schedule 1.2 recalculated using a $28 cost of No. 6 fuel and maintaining the proposed revenues for each customer as presented in Table 2 of PRH.

NP-141 Provide JAB, Schedule 1.2 recalculated reducing thermal production by 100 GWh and increasing Hydroelectric production by 100 GWh.

NP-142 Provide the following for IOCC:

(a) revenue by year for 1992-2000 and forecast for 2001 and 2002;

(b) margin by year for 1992-2000 and forecast for 2001 and 2002;

(c) cost by year for 1992-2000 and forecast for 2001 and 2002; and,

(d) a reconciliation of the $5,700,000 regulated basis margin (DWO, page 7, line 13) with the $9,610,000 margin (JCR, Schedule I).

NP-143 Hydro's 2000 Annual Report, page 10 indicates that the "digital radio technology will provide opportunities for the generation of non-traditional revenue for the company with the sale of any excess bandwith to outside parties":

a) Identify the other parties that are anticipated to use the system.

b) How much revenue has been provided in the test year from this source?

c) How have the rates charged been established?

d) How has the cost of service been determined and has such been allocated to non-regulated operations?

e) Have the costs and revenues been included in the revenue requirement calculation in JCR Schedule 1? If so, provide details in the form of JCR Schedule 1.

f) What percentage of the capacity of the system is used by Hydro?

g) What percentage of the capacity of the system is used by other parties?

h) What percentage of the capacity of the system is spare (i.e. not currently used by Hydro or other parties)?

i) What percentage of the capacity of the system is anticipated to be used by other parties in the future?

j) Provide any other instances where Hydro is generating non-traditional revenue and how the revenue and associated expenses are treated for regulatory purposes.

Operating and Maintenance Expenses

NP-144 Further to NP-62, provide details of the fuel inventory by location at December 31st, for 1992 through 2000, including volumes and cost per barrel (JCR, Schedule II, Page 1 of 3).

NP-145 Further to NP-64, provide details of composition and cost of the supplies inventory at December 31st, for 1992 through 2000 (JCR, Schedule II, Page 1 of 3).

NP-146 Provide a corporate structural chart showing all subsidiaries, affiliates and associates of Hydro.

NP-147 Further to NP-11 and NP-12, does Hydro have formal written policies to guide the allocation of costs to subsidiaries and the allocation of costs between regulated and non-regulated operations? If so, please provide a copy. If not, why not?.

Operating Performance

NP-148 Further to NP-44, provide details of any changes in annual energy production capabilities since the in-service date for each of Hydro's hydraulic plants shown on HGB, Schedule IX. For each change, identify the year in which it was implemented.

NP-149 Provide a schedule showing the ratio of the number of customers per employee for the years 1992 to 2000 (actual) and forecast 2001 and 2002. Provide both the numerator and denominator used in each annual ratio.

Deficit Reduction

NP-150 The Board recommended in its July 29, 1996 report *'Referral by the Lieutenant Governor in Council Concerning Rural Electrical Service'* "that preferential rates be phased out. The phase out period should be five years" (page 32). Why has Hydro not started the phase out of preferential rates?

NP-151 The Board recommended in its July 29, 1996 report *'Referral by the Lieutenant Governor in Council Concerning Rural Electrical Service'* "that a new rate be designed for federal and provincial departments and agencies and these rates, phased in over five years, should recover full costs" (page 32). Why has Hydro waited five years to start the phase out of government rates?

NP-152 If Hydro had started a five year phase out of the preferential and government rates beginning January 1, 1997, what would be the impact on its deficit in 2002?

Production / Purchased Power Expense

NP-153 JCR on page 8, lines 12-14 indicates that Hydro will change its approach in calculating carrying charges for the RSP. Section 17(1)(b) of the *Hydro Corporation Act* requires approval of the Board for any changes to the RSP. Will Hydro be requesting the Board's approval of this change?

NP-154 The current cap on the Retail Rate Stabilization Plan is $50 million.

(a) Provide the rationale for the decision to initially implement the cap and the basis for the amount of the cap established.

(b) If there is no cap in place for the Industrial Rate Stabilization Plan, explain the rationale for the decision not to implement the cap.

(c) If there is a cap on the Industrial Rate Stabilization Plan, provide the basis for the amount of the cap established.

NP-155 Provide a breakdown of the firm energy capability forecast in GWh by hydroelectric, thermal and energy purchases for the years 2001 to 2010 (HGB, Schedule XII).

NP-156 Provide details of the calculation of monthly LOLH for the Island Interconnected system for each month for 2000. Include in the details the following:

(a) monthly capacity of hydraulic generation;

(b) monthly peak loads on the system;

(c) monthly available capacity for thermal;

(d) forced outage rate assumptions on thermal; and

(e) maintenance assumptions on thermal.

NP-157 Provide the Hydro Island Interconnected system peaks for each month by year from 1986 to 2000. Include the demand recorded, the time, and date of each peak.

NP-158 Explain the 116.5 GWh increase in the forecast sales to Corner Brook Pulp and Paper Company Limited for 2002.

Employee Future Benefits

NP-159 Provide the basis for the allocation of employee future benefits between regulated and non-regulated operations (KCM, page 14, lines 5-8).

NP-160 Provide the details and assumptions used in the calculation of the liability for employee future benefits for 2001 and 2002.

Depreciation Study

NP-161 Do Hydro's current depreciation policies comply with Section 17 (1)(a) of the *Hydro Corporation Act*? If not, provide details on each variance from the depreciation and amortization policies of the corporation reflected in Hydro's December 31, 1994 audited financial statements.

Capital Structure

NP-162 Show the calculation performed to remove CF(L)Co from the corporate capitalization to arrive at utility-only capitalization (KCM, page 12, lines 24-28).

NP-163 Fully describe fuel cost risk and its impact, in light of the existence of the RSP, on the determination of a reasonable capital structure for Hydro on a stand-alone basis (KCM, page 17, line 22).

NP-164 Provide details of the higher operating risks specific to Hydro (DGH, page 9, lines 18-20).

NP-165 Provide audited non-consolidated financial statements for Hydro for each year for 1992 to 2000. If audited non-consolidated financial statements do not exist, provide the financial statements used to prepare the consolidated statements at each year-end.

NP-166 What dividend amount is being used to determine the common equity ratio of 15.3% referenced at page 23, line 31 to page 24, lines 1-2 of KCM?

NP-167 Provide the calculation of the return on rate base of 9.5% (DWO, page 4, line 24).

NP-168 Provide evidence to support the statement by WEW that "commencing in 1995, Government, as shareholder, required Hydro to pay dividends" (WEW, page 15, lines 20-21).

NP-169 Provide any studies, surveys, reports or other evidence that supported the establishment of the dividend payment policy in 1995 (WEW, page 16, lines 4-7).

NP-170 In light of Hydro's 75% dividend payment policy, justify the $70 million dividend proposed in 2002.

Cost of Capital

NP-171 Treat the $26.2 million subsidy as a component of return on equity rather than an allocation of the deficit between classes of customers and recalculate return on equity as a percentage from 1992 to 2000 and forecast for 2001 and 2002.

NP-172 Provide support for the position that Hydro's cost of debt would be more than 100 basis points higher in the absence of the Government guarantee (KCM, page 26, lines 29-32).

NP-173 The Board stated in its October 10, 1995 report *'Referral by the Lieutenant Governor in Council Concerning Rural Electrical Service'*: "The surcharge upon Hydro's customers is financially and economically equivalent to a hidden tax upon a single commodity, namely electricity" (page 175, item 4). Given the above statement, how does Hydro reconcile the evidence of D.G. Hall, page 12, line 26, which appears to be contrary to the board's previous ruling.

NP-174 Reconcile the 2002 interest coverage of 1.08 referenced on DGH, page 12, line 20 with the 2002 interest coverage of 1.10 referenced on JCR, page 7, lines 6-7.

NP-175 Provide the lead-lag study used to determine the cash working capital allowance (JCR, page 3, lines 24-26).

NP-176 For each of the utilities named (KCM, page 28, lines 26-28), for the years 1992 to 2000 provide:

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

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

NP-177 Provide evidence that a 1% level of debt guarantee fee is appropriate. Provide any studies undertaken in the determination of the level of the debt guarantee fee.

Capital Expenditures

NP-178 For each of the years 1992-2000 provide a comparison of budget vs. actual capital expenditures by project, and explain any individual project variances greater than $50,000.

NP-179 With regard to Hydro's budget and control processes:

a) What process is followed to develop the capital and operating budgets?

b) Does Hydro calculate variances or expected variances from its capital and operating budgets? If so, how frequently is it done?

c) If variances are calculated, who are they reported to?

d) Who is responsible for dealing with the variances?

e) What action is taken when variances are identified?

NP-180 File Hydro's response to Request for Information NP-1 posed at Hydro's 2001 Capital Expenditure Hearing, and correspondence dated December 13, 2000 and March 7, 2001 related to meetings on the Hydro Digital Microwave System.

Cost of Service/Rates

NP-181 Section 80 of the *Public Utilities Act* states that a utility "is entitled to earn annually a just and reasonable return as determined by the board on the rate base as fixed and determined by the board". In Hydro's opinion, would Section 80 allow rates to be set using an interest coverage model? If not, why not (KCM, page 27, lines 10-18)?

NP-182 Provide the PUB Order which is relied upon at WEW, page 3, lines 19-22 which states "That portion of the costs previously paid by Hydro's Island Industrial Customers for the rural subsidy must be allocated to Hydro's other customers by Order of the Board".

NP-183 Provide details of the determination of the rate proposed for Interruptible A, Emergency Power and Exceptional Power (PRH, Schedule I).

NP-184 The Board recommended in its July 29, 1996 *'Referral by the Lieutenant Governor in Council Concerning Rural Electrical Service'*:

(i) "that Hydro prepare a detailed calculation of long run marginal costs. In the event that a detail estimate of long run marginal cost confirms it to be significantly below the current energy rate, the Board recommends that consideration be given to reducing the energy rate to a level closer to long run marginal cost"; (page 31)

(ii) "that Hydro be directed to provide a cost benefit analysis of a rate structure for general service customers which provide for a demand charge. The energy and demand charge in such a rate structure should recover long run marginal cost"; (page 32)

(iii) "that Hydro provide, as part of future cost of service reports, the specific policies as well as an allocation schedule related to operation and maintenance overheads"; (page 37)

(iv) "Design criteria for plant and auxiliary equipment should be re-examined, with a view to ensuring reliability requirements are not unduly stringent, particularly in communities operating close to capacity limits; (page 37) and,

(v) "Conservation programs for isolated areas should be designed to defer expansion of capacity and to target for subsidy reduction rather than lower

energy use. Demand side management should be directed toward those systems which will soon require capacity expansion." (page 37)

(a) Provide the detailed calculation of long run marginal cost as recommended by the Board. If the calculation was not completed, please explain why not.

(b) Provide the cost benefit analysis of a demand/energy rate structure for general service rates in isolated areas as recommended by the Board. If the analysis was not completed, please explain why not.

(c) Provide the specific policies and allocation schedule related to operation and maintenance overheads.

(d) Provide details of, or any reports prepared on, the re-examination of design criteria for plant and auxiliary equipment.

(e) Provide details of any conservation or demand side management programs designed to defer expansion of capacity and to target for subsidy reduction rather than lower energy use.

NP-185 Provide a comparison of Hydro's level of subsidization of rural customers to the subsidization between classes of customers in other jurisdictions across Canada.