Q. Further to NP-16, explain why capitalized expenses for 2001 and 2002 have decreased so significantly.

A. Capitalized expenses for 2001 and 2002 have decreased from 2000 mainly due to the fact that in 2000 there were recoveries of approximately $650,000 related to the Labrador River Project. In addition, there were recoveries of approximately $727,000 related to overtime for which there is no allowance made on a budget or forecast basis.

Q. Further to NP-90, provide details of the calculation of the 2002 forecast of $6,646,000 Interest earned, RSP and $8,504,000 interest capitalized.

A. See schedules below.

RATE STABILIZATION PLAN
2002

PLAN INTEREST (WACC) RATE *	7.16%												
DESCRIPTION	**JAN**	**FEB**	**MAR**	**APR**	**MAY**	**JUN**	**JUL**	**AUG**	**SEP**	**OCT**	**NOV**	**DEC**	**TOTAL**
OPENING BALANCE	87,397	88,394	90,488	92,011	93,657	94,897	95,592	94,291	93,006	93,569	94,600	96,000	
INTEREST	521	527	540	549	559	566	570	563	555	558	564	573	6,646
ACTIVITY	476	1,566	983	1,097	681	129	-1,871	-1,848	8	473	836	1,198	
CLOSING BALANCE	88,394	90,488	92,011	93,657	94,897	95,592	94,291	93,006	93,569	94,600	96,000	97,771	

* The effective annual WACC rate is 7.4%. The nominal rate compounded monthly is 7.16%, and is lower to reflect the benefit of monthly compounding.

WEIGHTED AVERAGE COST OF CAPITAL DURING CONSTRUCTION
2002

	JAN	**FEB**	**MAR**	**APR**	**MAY**	**JUN**	**JUL**	**AUG**	**SEP**	**OCT**	**NOV**	**DEC**	**Total**
WACC MONTHLY RATE*	7.16%	7.16%	7.16%	7.16%	7.16%	7.16%	7.16%	7.16%	7.16%	7.16%	7.16%	7.16%	
CWIP OPENING BALANCE	76,897												
ASSET ADDITIONS	3,719	2,677	5,484	4,993	9,720	10,112	9,137	11,183	7,524	7,536	-5,710	-6,047	
COST OF CAPITAL	471	493	521	556	603	665	730	801	864	920	959	920	8,504
CLOSING BALANCE	81,087	84,257	90,262	95,810	106,133	116,911	126,778	138,761	147,150	155,606	150,855	145,729	

* The effective annual WACC rate is 7.4%. The nominal rate compounded monthly is 7.16%, and is lower to reflect the benefit of monthly compounding.

Q. Reconcile the $90,255,000 'Gross Interest, per Cost of Service' in 2002 from NP-2 to the $93,584,000 'Interest' in 2002 from JCR, Schedule I, providing an explanation and calculation of the differences.

A. Please see attached reconciliation.

The AFUDC related to the Labrador Hydro project is removed to arrive at regulated Gross Interest, since this project is not a regulated activity.

The proportion of interest related to the rural assets is removed to arrive at Gross Interest, per Cost of Service, which is the number used to calculate regulated interest coverage, since interest coverage is not sought on those assets.

NEWFOUNDLAND AND LABRADOR HYDRO
Interest Reconciliation
$thousands

1	Interest	101,662
2	Amortization of Foreign Exchange Loss	2,157
3	Amortization of Debt Discount and Issue Expense	1,175
4		104,994
5	Less: CF(L)Co Pool Interest	(1,951)
6	Labrador Hydro Project AFUDC	(3,046)
7	**Regulated Gross Interest**	**99,997**
8	Debt Guarantee Fee	11,992
9	Less: Interest on Sinking Fund Assets	(6,301)
10	RSP	(6,646)
11	Regulated CWIP - AFUDC	(5,458)
12	**Net Interest Expense, JCR Schedule I**	**93,584**
13	Regulated Gross Interest, Line 7 above	99,997
14	Less: Rural Allocation[1]	(9,742)
15	**Gross Interest per Cost of Service**	**90,255**
16	1. Rural Allocation of Gross Interest:	
17	Rural Average Net Book Value:	
18	Island Interconnected: JAB-1, p. 32, line 40, cols. 6-17	81,486
19	Island Isolated, JAB-1, p. 46, line 24, col. 2	12,047
20	Labrador Isolated, JAB-1, p. 58, line 24, col. 2	22,906
21	L'Anse au Loup, JAB-1, p. 70, line 24, col. 2	4,858
22		121,297
24	Total Hydro Net Book Value, JAB-1, p. 2, col. 2, line 1	1,245,061
25	Rural Percentage: L. 22 divided by L. 24	9.74%
26	Regulated Gross Interest, Line 7 above	99,997
27	Rural Allocation of Gross Interest: L. 25 multiplied by L.26	**9,742**

Q. In NP-87, the average balance for the month appears higher than the simple average of opening and closing balances. Explain the short-term interest calculation provided.

A. Hydro's interest expense model calculates short-term interest expense by averaging monthly balances and applying the forecasted short-term borrowing rate to that average. Average monthly balances are calculated using the opening balance plus balances as of the 7th, 15th, and 22nd of each month.

Q. In the materials filed by Hydro to date, interest coverage is calculated using various balances - e.g., including recall sales, excluding recall sales, excluding subsidiaries, excluding IOCC, etc.

(a) Provide a detailed calculation of interest coverage for 2000, 2001 and 2002.

(b) Provide a copy of the PUB approval of the formula and appropriate balances to be used.

(c) Is the formula consistent with the industry standard and those used in other jurisdictions?

A. The various interest coverage ratios filed to-date have been calculated in accordance with the specific requests of interveners. The calculation of regulated interest coverage excludes: export sales of recall energy to Hydro-Quebec; subsidiaries; and IOCC revenue in excess of the costs allocated to it through the cost of service.

(a) Regulated interest coverage can only be calculated precisely for years in which a cost of service study has been completed. The cost of service studies for 2000 and 2001 are in progress and will be filed during September.

The margin for purposes of calculating regulated interest coverage is the accounting net income of $9,610,000 less IOCC revenue adjustment of $2,374,909 for a balance of $7,235,091. It includes the equity return on rate base which is recovered through rates as well as the return on capital which is financing CWIP and RSP.

Gross Interest, per Cost of Service for 2002 is $90,255,000, as detailed in NP-240. Therefore, 2002 regulated interest coverage is:

$$\frac{\text{Gross Interest, per COS + Regulated Margin}}{\text{Gross Interest, per COS}} = \frac{90{,}255 + 7{,}235}{90{,}255}$$

$$= \underline{\underline{1.08}}$$

(b) The formula is consistent with that used for regulatory purposes since 1977. The calculation of regulated interest coverage is less important for this hearing since Hydro will now be regulated on return on ratebase, but it has been provided to enable comparison to prior years.

(c) We are not aware of any industry standard for calculating interest coverage for regulatory purposes, nor are we familiar with formulas used in other jurisdictions.

Q. Interest in 2002 for the Northern Canada Power Commission loans is $1,993,294 per LC-12. Reconcile this interest amount to the schedule included in NP-87.

A. NP-87 is a schedule of interest expense for 2002. LC-12 is a debt repayment, or cash flow schedule. As noted on LC-12, payments on this debt are made annually on March 31st. The interest payment of $1,993,294 for 2002 therefore, represents 9 months of interest expense for 2001 and 3 months of interest expense for 2002. The interest expense number of $1,680,000 for 2002 as shown on NP-87 can be derived from LC-12 as follows: $1,993,294 * 3/12 + $1,576,118 * 9/12.

Q. Further to PUB-56, explain the methodology used and a detailed calculation of the interest increase of $800,000 related to “interest avoided’ associated with the Hydro Quebec recall energy.

A. Interest and guarantee fee impacts associated with recall revenues were estimated by assuming that Hydro’s promissory note issuance would have been lessened by the net affect of net recall revenues received, less recall related dividends paid. Attached are two schedules, which provide details of the 2002 calculations of short-term interest. The first is calculated assuming recall impacts are included (short-term interest totals $7,057,000), and the second assuming recall impacts are excluded (interest totals $7,949,000). The difference is $892,000.

For purposes of guarantee fee calculations, the variance of $92,000 is calculated based on the difference between the closing 2001 debt balances before and after adjustment for recall impact. As noted in our response to NP-77, the 2002 regulated guarantee fee calculation was incorrect and requires amendment. Following the amendment, the guarantee fee, like interest, would be higher for regulated purposes. This is because of the higher debt levels that would be incurred in the absence of recall revenues.

SCHEDULE 1

Calculation of Short-Term Borrowings Including Recall

2002 Corporate													
Description	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
Interest Rate*	4.57%	4.57%	4.57%	4.68%	4.68%	4.68%	4.85%	4.85%	4.85%	4.92%	4.92%	4.92%	
Opening Balance	(161,959)	(162,565)	(175,480)	(171,387)	(173,153)	(161,529)	(179,343)	(184,223)	(195,700)	(10,254)	(122,290)	(126,415)	
Net Activity	38	(12,276)	4,763	(1,075)	12,301	(17,121)	(4,126)	(10,714)	185,478	(111,650)	(3,590)	(10,364)	31,665
Short Term Interest	(644)	(640)	(670)	(691)	(677)	(693)	(755)	(763)	(32)	(387)	(535)	(571)	(7,057)
Closing Balance	(162,565)	(175,480)	(171,387)	(173,153)	(161,529)	(179,343)	(184,223)	(195,700)	(10,254)	(122,290)	(126,415)	(137,351)	(137,351)

* This is a nominal rate compounded monthly. The rate is lower than the effective annual rate to reflect the impact of monthly compounding.

SCHEDULE 2

Calculation of Short-Term Borrowings Excluding Recall

2002 Regulated													
Description	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
Interest rate	4.57%	4.57%	4.57%	4.68%	4.68%	4.68%	4.85%	4.85%	4.85%	4.92%	4.92%	4.92%	
Opening Balance	(185,671)	(187,936)	(202,308)	(179,817)	(183,253)	(173,762)	(191,753)	(199,404)	(214,017)	(29,557)	(144,545)	(151,014)	
Net Activity	(1,530)	(13,634)	23,264	(2,710)	10,209	(17,248)	(6,843)	(13,785)	184,569	(114,520)	(5,841)	(9,801)	32,131
Short Term Interest	(736)	(738)	(773)	(726)	(719)	(743)	(808)	(827)	(109)	(469)	(628)	(674)	(7,949)
Closing Balance	(187,936)	(202,308)	(179,817)	(183,253)	(173,762)	(191,753)	(199,404)	(214,017)	(29,557)	(144,545)	(151,014)	(161,489)	(161,489)

* This is a nominal rate compounded monthly. The rate is lower than the effective annual rate to reflect the impact of monthly compounding.

Q. Further to NP-9, explain why the annual pension plan expense increased from an average of $2.3 million over the years 1992-1999 to an average of $2.9 million for the years 2000-2002.

A. The annual pension plan expense will vary depending on the amount of salaries . During the periods 1992 to 1995 there were no wage increases. As well, effective January 1, 1998 there is a 1% contribution increase which is to be phased in over a four-year period at ¼ % per year.

Q. (a) Further to NP-11, explain, by line item presented (eg: Materials Management, Management), the difference between the 2001 cost recoveries from CF(L)Co. of $1,905,833 presented in the response to NP-11(a) page 2 of 2 and the $2,194,299 presented in Schedule 1 of the response to NP-11(b).

(b) Explain why there are no ‘external cost recoveries’ presented for the years 1992 through 2000 in the schedule provided in response to NP-11(a) page 2 of 2.

(c) What is the fringe benefit rate applied to salaries in determining the charges to CF(L)Co.? How has that rate been derived?

A. (a) The following is a reconciliation of the two schedules:

Schedule 1 of NP-11 (b)		$ 2,194,299	
Less:	Reduction for Executive Management	(20,000)	
	System Development Costs	(282,966)	*
Add:	External Cost Recoveries	114,500	
Page 2 of NP-11 (a) (Rev)		$ 1,905,833	

* This is a recovery of capital costs which does not affect the Revenue Requirement.

(b) For the years 1992 through 2000 the external cost recoveries were included with the salary group of expenses as part of the Revenue Requirement Schedule.

(c) The fringe benefit rate applied to salaries in determining the charges to CF(L)Co is currently 33%. It was derived by calculating the employer's share of payroll costs plus an allowance for vacation leave, sick leave and statutory holiday leave.

Q. Further to PUB-57.1, explain why there are no non-regulated expenses considered in the allocation of retained earnings in the opening retained earnings for 2001.

A. The table presented in PUB-57.1 shows the reconciliation of net income per the revenue requirement to the corporate equity balances for 2001 and 2002.

The cumulative effect of non-regulated expenses prior to 2001 has been reflected in the opening retained earnings balances, in effect, giving them the same treatment as dividend payments.

Q. Further to NP-52, provide the basis for, and details behind the determination that $228,000 is an appropriate annual amount for TWINCo. to bill Hydro annually.

A. The $228,000 is not billed by TWINCo to Hydro. The charge of $228,000 is set by TWINCo and billed to IOCC through an agreement between IOCC and TWINCo. Hydro pays IOCC 53.6% of this amount as described in NP-52. Hydro has no role in setting this charge, as it is determined between IOCC and TWINCo. In the agreement between IOCC and TWINCo, the charge is reviewed every 5 years. TWINCo must substantiate any cost increases to IOCC and the increases are limited to 15% at each 5-year review. The last increase to $198,200 occurred in 1996 and an increase to $228,000 is expected in 2001.

Q. Further to NP-187, provide details of any and all charges **from** CF(L)Co., Gull Island Power Company Limited, and Lower Churchill Development Corporation to Hydro during the period 1992 to 2000 and forecast for 2001 and 2002. Subject to the answer above, provide details on how the costs allocated or charged are determined?

A. For the period 1992 - 2002, there are no charges from either Gull Island Power Company or Lower Churchill Development Corporation to Hydro. The details of the charges from CF(L)Co to Hydro for the same period are listed in the accompanying schedule.

Inter-Company Charges
CF(L)Co to Hydro
1992 - 2002

Line Number	Item	Method of Allocation	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
1	138kv Line & Switchyard Repairs & Maint.	As per agreement	80,000.00	80,000.00	207,902.66	183,364.73	72,655.73	120,518.21	118,292.47	110,415.56	86,283.45	89,733.75	136,481.85
2	230-13 Circuit Breaker Maintenance	As per agreement			116,338.20								
3	Communications Links	Actual plus Overhead				1,051.50	1,423.32						5,534.79
4	Salaries - Graduate Trainee	Actual plus Payroll Benefits			32,937.36	16,588.62				5,723.29			
5	P2000	Actual plus Overhead				45,570.88	216,036.80	51,470.12					
6	Power Purchases	As per agreement	6,391,330.00	6,748,147.00	6,996,087.00	7,016,462.00	6,361,769.00	3,138,601.00	3,122,394.00	3,138,528.00	3,222,573.00	3,164,085.00	2,731,780.00
7	Power Outage - Lobstick Lodge	Actual plus Overhead				877.50							
8	Power Outages - Goose Bay	Actual plus Overhead				18,167.45							
9	Power Outages - Connaigre Peninsula	Actual plus Overhead								35,261.43			
10	Service Installations & Maintenance	Actual plus Overhead			8,954.75			12,018.65		1,252.56	5,115.15		
11	VHF System Installation/Maintenance	Actual plus Overhead											3,662.06
12	Transformer/Generator Movement	Actual plus Overhead									15,151.92	31,383.82	
13	Totals		6,471,330.00	6,828,147.00	7,362,219.97	7,282,082.68	6,651,884.85	3,322,607.98	3,240,686.47	3,291,180.84	3,329,123.52	3,285,202.57	2,877,458.70

Q. Further to NP-53 and NP-160, explain why the 2002 cash payment on account of employee future benefits of $675,000 presented in NP-160 is different from the 2002 cash payment of $1,199,000 presented in NP-53.

A. The cash payment on account of employee future benefits (EFB) of $675,000 presented in NP-160 in support of the forecast liability for EFB as filed, was based on a forecast of employee retirements for 2002 during the budget cycle.

The 2002 cash payment on account of EFB of $1,199,000 presented in NP-53 reflects current expectations with respect to retirements in 2002. This revision will be reflected in a revised cost of service to be filed at a later date.

Q. Further to PUB-56.1, what is the nature of the $325,000 of customer costs removed from the financial statements to arrive at the revenue requirement?

A. Customer costs of $325,000 related to bad debt expense and collection fees were not removed from the financial statements to arrive at revenue requirement, they were reclassified to miscellaneous expenses.

Q. In NP-72(a), the common equity ratio appears to be calculated on an end-of-year basis. Provide the common equity ratio in a manner consistent with that used at KCM page 15 (i.e. average basis).

A. Please see schedule below.

Based on 75% Dividend Payout	2001 (000's)	2002 (000's)	Average (000's)	%
Total Debt at end of year	1,225,076	1,316,147	1,270,612	81.11%
Employee Future Benefits	23,554	25,123	24,339	1.56%
Total Equity at end of year	269,367	273,632	271,499	17.33%
	1,517,997	1,614,902	1,566,450	100.00%

Q. Further to NP-77, provide a reconciliation of the guarantee fee of $12,336,000 for 2002 to the guarantee fee of $12,085,000 presented in NP-2.

A. The guarantee fee as presented in NP-2 was on a non-regulated basis, and included recall impacts. NP-77 was prepared assuming that the recall impact has been removed.

Q. Further to NP-79, provide the Return on Ratebase for the years presented using the WACC indicated in the financial plan presented in IC-98, as opposed to the 7.4% proposed for the 2002 test year.

A. The financial plan presented in IC-98 did not extend to 2006 so the WACC for that year is assumed to be the same as 2005.

	($thousands)				
	2002	2003	2004	2005	2006
Average Unamortized Foreign Exchange Loss	85,200	83,043	80,886	78,729	76,572
WACC	7.399%	7.399%	8.7%	8.7%	8.7%
Return on Ratebase	6,304	6,144	7,037	6,849	6,661

Q. (a) Further to NP-4, provide the basis for and determination of the Vacancy Adjustment of $1,000,000.

(b) Provide further details of the $15,598,809 Maintenance Materials forecast.

(c) Provide further details of the $263,160 Memberships and Dues forecast.

(d) Provide further details of the $2,510,000 Consultants forecast.

(e) Provide further details of the $1,178,827 Software Acquisitions & Maintenance forecast.

(f) Provide further details of the $2,177,568 Travel forecast.

A. (a) Each year Hydro budgets its permanent salaries on the basis of its permanent staff complement. On an actual basis there is always a number of permanent positions that become vacant during a particular year due to retirements, terminations, long-term disability, etc. which results in salary savings because of the period of time which elapses between the date of vacancy and the date of hiring the replacement. Hydro estimates that approximately 2.5% of total permanent salaries is representative of the vacancies and this amounts to approximately $1,000,000 on an annual basis.

(b) Further details of the Maintenance Materials forecast are listed in the attached table.

(c) Further details of the Membership and Dues forecast are listed in the attached table.

(d) Further details of the Consultants forecast are listed in the attached table.

(e) Further details of the Software Acquisitions and Maintenance Forecast are listed in the attached table.

(f) Further details of the Travel Forecast are listed in the attached table.

Newfoundland & Labrador Hydro
Summary of Maintenance Material Forecast for 2002

Line Number	Location		Amount
1	TRO - Labrador	$	1,003,726
2	TRO - Central		4,254,825
3	TRO - Northern		968,587
4	Generation - Holyrood		6,367,283
5	Generation - Bay D'espoir		1,265,300
6	Operations Planning		2,000
7	Generation Engineering		17,400
8	Environment & Properties		165,000
9	TRO - Engineering		115,300
10	Customer Service/Rates		110,000
11	Controller		3,300
12	Treasury		13,388
13	I S & T		409,100
14	Internal Audit		650
15	Materials Management		825,500
16	Risk & Insurance		34,000
17	System Planning		1,400
18	Human Resources		21,600
19	Labour Relations & Safety		18,250
20	Management		2,000
21	Generation Operations		200
22	**Total**	**$**	**15,598,809**

Newfoundland & Labrador Hydro
Summary of Memberships & Dues Forecast for 2002

Line Number	Location	Amount
1	TRO - Central	$ 6,700
2	Generation - Holyrood	2,000
3	Generation - Bay D'espoir	900
4	Operations Planning	700
5	Generation Engineering:	
6	*-CEA*	96,699
7	*-Other*	6,000
8	Environment & Properties	1,800
9	TRO - Engineering	5,300
10	Customer Service/Rates	4,000
11	Controller	3,350
12	Treasury	1,150
13	I S & T	7,250
14	Internal Audit	3,265
15	Materials Management	8,450
16	Corporate Affairs	1,500
17	System Planning	9,340
18	Human Resources	1,630
19	Labour Relations & Safety	5,625
20	Management	
21	*-CEA*	60,000
22	*-Other*	24,600
23	Generation Operations	6,626
24	Director - TRO	775
25	Legal & Corporate Secretary	5,500
	Total	$ **263,160**

Newfoundland & Labrador Hydro
Summary of Consultants Forecast for 2002

Line Number	Location	Amount
1	Generation - Holyrood	$ 561,500
2	Generation - Bay D'espoir	98,000
3	Operations Planning	17,500
4	Generation Engineering	120,000
5	Enviroment & Properties	315,000
6	TRO - Engineering	20,000
7	Customer Service/Rates	375,000
8	Treasury	90,000
9	I S & T	628,000
10	Materials Management	25,000
11	Corporate Affairs	50,000
12	System Planning	53,000
13	Human Resources	94,000
14	Labour Relations & Safety	51,000
15	Management	12,000
16	**Total**	**$ 2,510,000**

Operating 2002 Software Acquisition and Maintenance

Line Number	Vendor	Software	Amount
1	A3 Solutions	A3 Vision	$ 23,100
2	Criterion	Blueprint/Cornerstone	22,000
3	IBM	AS400 Maintenance Agreement	45,000
4	J D Edwards	J D Edwards Suite	242,000
5	New Energy Associates	Proscreen II	33,000
6	Open Systems	OpenTrend Openview	33,000
7	Pentasafe	Security	27,500
8	Sensible Security	Norton Anti-virus	68,200
9	Showcase	Showcase	79,200
10	Xwave	Microsoft Office	335,500
11	Xwave	MS Project	27,500
12	Xwave	MS Visio	22,000
13	Xwave	Lotus Notes	55,000
14	Other User Software		165,827
15			
16		**Total**	**$ $1,178,827**

Newfoundland & Labrador Hydro
Summary of Travel Forecast for 2002

Line Nimber	Location	Amount
1	TRO - Labrador	$ 350,200
2	TRO - Central	582,800
3	TRO - Northern	278,866
4	Generation - Holyrood	15,000
5	Generation - Bay D'espoir	105,500
6	Operations Planning	39,000
7	Generation Engineering	39,900
8	Environment & Properties	54,000
9	TRO - Engineering	79,000
10	Customer Service/Rates	50,000
11	Controller	33,650
12	Treasury	6,000
13	I S & T	272,000
14	Internal Audit	5,000
15	Materials Management	48,000
16	Risk & Insurance	15,000
17	System Planning	15,242
18	Human Resources	44,550
19	Labour Relations & Safety	18,360
20	Management	32,400
21	Generation Operations	2,500
22	VP - Human Resources/Legal	30,600
23	Director - TRO	60,000
24	**Total**	**$ 2,177,568**