Q. Further to NP-6, explain why the staffing level projected for 2002 totaling 1144 employees (855 permanent plus 289 temporary) is greater than the level in 1992 of 1130 employees (1012 permanent plus 118 temporary).

A. The staffing level projection for 2002 of 1144 employees (855 permanent plus 289 temporary) is greater than the staffing level at December in 1992, due to the time of year for which staffing figures were reported. The 2002 staffing level projection was based on Hydro's current complement as at the end of May 2001 while the 1992 statistics refer to year-end. The period of time from April to October annually, represents Hydro's peak hiring period for temporary staff to fulfill Capital and Operating Maintenance requirements.

Q. In reference to page 3 in the report of Grant Thornton, LLP on Newfoundland & Labrador Hydro's 2001 General Rate Hearing, Hydro's code of accounts has only been approved on a provisional basis. Does Hydro intend to ask for the Board's formal approval as a part of this hearing?

A. Hydro will be asking the Board for approval of its code of accounts.

Q. In reference to page 15 in the report of Grant Thornton, LLP on Newfoundland & Labrador Hydro's 2001 General Rate Hearing, provide the reduction in the 2002 revenue requirement assuming a 15% reduction in the forecast capital expenditures for 2002.

A.	2002 Budgeted Assets placed in service	$ 48,037,000
	15% Reduction	$ 7,205,550
	Average balance/rate base reduction (50%)	$ 3,602,775
	WACC/Return on ratebase (x 7.399%)	$ 266,569
	Depreciation impact (1.7% x Average balance)	61,247
	Estimated Reduction in Revenue Requirement	$ 327,816

Q. In reference to page 45 in the report of Grant Thornton, LLP on Newfoundland & Labrador Hydro's 2001 General Rate Hearing:

(a) Provide the monthly fuel efficiency factors that were averaged to derive the 609.6 kWh per barrel for the year 2000.

(b) Provide the monthly fuel efficiency factors for 2001 year to date.

A. (a) The monthly fuel efficiency factors used to develop 609.6 kWh per barrel for the year 2000 were calculated as follows:

Month	Net Production (kWh)	Fuel Consumption (Bbl)	Net Efficiency (kWh/Bbl)
Jan	186,507,480	291,261	640.3
Feb	129,303,500	226,362	571.2
Mar	105,654,220	176,047	600.1
Apr	59,624,660	102,479	581.8
May	49,395,160	86,758	569.3
Jun	(674,680)	0	-
Jul	(493,800)	0	-
Aug	(680,480)	1,912	(355.9)
Sep	43,431,420	71,501	607.4
Oct	121,646,900	188,649	644.8
Nov	83,340,800	141,519	588.9
Dec	193,228,100	305,098	633.3
Total	***970,283,280***	***1,591,586***	***609.6***

(b) The monthly fuel efficiency factors for 2001 year to date are shown in the following table:

Month	Net Production (kWh)	Fuel Consumption (Bbl)	Net Efficiency (kWh/Bbl)
Jan	201,681,680	320,789	628.7
Feb	174,210,620	281,034	619.9
Mar	205,518,600	329,282	624.1
Apr	185,200,000	291,320	635.7
May	139,367,200	227,928	611.5
Jun	93,985,200	153,183	613.5
Jul	58,812,900	97,107	605.7
Total	***1,058,776,200***	***1,700,643***	***622.6***

Q. In NP-142, the regulated margin includes an addition to the margin to account for the excess of assets over total capital structure multiplied by the weighted average cost of capital. Since the assets appear to be the total of the rate base, rural assets, CWIP and RSP, it would appear that a return on the assets in excess of the total capital structure is being duplicated (i.e., earning based on 3% equity component, financing costs being included in the interest expense, as well as earning on the excess of these assets). Should the adjustment result in a decrease in the regulated margin rather than an increase?

A. NP-142 presents the reconciliation between the $5,662,858 equity return on the rate base, excluding rural assets, which is the amount recovered through rates, and $9,610,000 which is essentially accounting net income. Accounting net income reflects the return on capital financing CWIP and the RSP.

The adjustment for the excess of assets over total capital was calculated incorrectly in NP-142 (revised NP-142 now filed). The earnings on the equity component had been double counted in the previous reconciliation. The revised reconciliation correctly presents only the return on debt portion for which there is no corresponding interest expense to be paid.

The adjustment does not increase or decrease the regulated margin. It is part of the difference between return on ratebase and accounting net income.

See also Hydro's response to NP-217.

Q. Restate the table presented in the response to NP-149 using the total complement (permanent plus temporary) of employees as the denominator in the equation, rather than just the permanent employees.

A. Below is a table showing the ratio of the number of customers per employee for the years 1992 to 2000 (actual) and the forecast for 2001 and 2002.

Year	# of Customers[1]	# of Employees[2]	# of Customers per Employee
1992	32756	1130	29.0
1993	33211	1238	26.8
1994	33504	1219	27.5
1995	33728	1096	30.8
1996	34165	1049	32.7
1997	34355	1031	33.3
1998	34555	1058	32.7
1999	34847	1085	32.1
2000	34917	1079	32.4
2001	34991	1003	34.9
2002	35138	977	36.0

[1] Includes a) Rural Customers
b) Industrial Customers
c) Newfoundland Power is included as one customer whereas they serve 215,210 customers (2000 Newfoundland Power Annual Report)

[2] Permanent and temporary employees as of December for all years.

Q. Further to NP-163, quantify the impact in the test year of the fuel efficiency factor at Holyrood being 2% less than that forecast.

A. A 2% reduction in the forecast Holyrood fuel efficiency factor would result in a conversion factor of 597.8kWh/bbl. This will result in approximately 72,000 more barrels of No. 6 fuel being consumed. Assuming the cost of service is established as per Hydro's application at $20/bbl using a 610kWh/bbl conversion factor the impact on 2002 results would be an increase to the RSP balance of approximately $500,000 and a reduction in Hydro's net income of approximately $1,500,000.

Q. Further to NP-23, justify the increase of 36 vehicles in Hydro's fleet (398 in 2001 vs. 362 in 1999), in light of the reduction of 46 permanent employees referred to in NP-6 (855 employees in 2001 vs. 901 employees in 1999).

A. Referring to NP-23, pages 9 and 11, the total vehicles are actually 267 for 1999 (not 362) and 285 for 2001 (not 398) for a difference of 18. The 5000 and 6000 series are attachments for vehicles in the 3000 and 4000 series. The increase in vehicles from 1999 to 2001 is as follows:

- Seventeen vehicles are assigned to various projects and will either be disposed of or replace older vehicles at the end of the projects.

- One additional vehicle was assigned to the IS&T eastern group.

The realignment of staff resulted in the displacement of four vehicles; three which will be disposed of in 2002, and the fourth reassigned to Mary's Harbour resulting from a change in operations due to the availability of the new Labrador Highway.

Q. In response to NP-20, Hydro points out that a new multi-skilled classification " Diesel System Representative" (DSR) was created. In addition to the traditional duties, this classification can also perform meter reading. The number of meter readers/collectors on the 1992 organization chart is 13 compared to 18 on the 2001 chart. Why has this number increased? What impact will the implementation of the DSR positions have on the number of meter readers/collectors?

A. The number of meter readers/collectors has not changed since 1992. The reason for the difference in the 1992 and 2001 organizational charts is a change in the reporting structure. Prior to a 1998 re-structuring of Customer Services five (5) meter readers who worked directly from a Regional Office also reported to that office. These five meter readers are therefore listed on the 1992 organization charts under the Operations Division and not the Finance Division, as are the other 13.

All isolated diesel systems where DSR positions will be implemented, with the exception of the Labrador Straits and Ramea, have meter reading services provided by part-time meter readers. All these part-time positions will be eliminated with the implementation of the DSR position.

Q. In reference to page 24 in the report of Grant Thornton, LLP on Newfoundland & Labrador Hydro's 2001 General Rate Hearing, there is an expected reduction of 31 positions in TRO and 5 positions in production in 2001 that was expected to result in savings of approximately $1,300,000. Why is this reduction not evident in Exhibit 3 of the report that shows TRO salaries increasing by $2.2 million from 2000 to 2002?

A. The reduction is not evident in Exhibit 3 of the report that shows TRO salaries increasing because all of the corporate savings anticipated from complement reductions are forecast in the Finance Division. Also, savings in salaries as a result of normal variances are included in the Finance Division for 2001 and 2002 but actual savings which occurred in 2000 are reflected in each of the divisions.

Q. In reference to page 33 in the report of Grant Thornton, LLP on Newfoundland & Labrador Hydro's 2001 General Rate Hearing, reference is made to two expenditure items in 2002.

- Equal Billing and Other Pay Methods Study $250,000
- Installation of “TruSsecure IP Security Program” $115,000

(a) Explain the nature of the project and the benefits expected to accrue.

(b) Provide an estimate of the internal workforce costs expected to be incurred in addition to the amounts noted above.

A. **Equal Billing and Other Pay Methods Study**

(a) The proposed study is aimed at alternative methods of revenue collection from Hydro’s 35,000 rural customers. Currently, Hydro has limited payment options, see CA-174, and proposes, through this study, to review other payment methods.

These methods are being studied in an effort to improve Customer Service (i.e. more payment methods suitable to customers) and to investigate whether different payment options can improve the collection of revenues (e.g. budget/levelized billing).

(b) Hydro's internal workforce costs would be limited to project management, solution testing and integration with existing software. As the extent of the resource requirements will not be known until further defined by the study, specific estimates of these costs are not presently available.

Installation of "TruSsecure IP Security Program"

(a) The TruSecure security solution is a multi-disciplinary approach to identifying and reducing information security risks on an on-going basis. TruSecure provides security assurance in six major areas of risk:

- Electronic Threats and Vulnerabilities
- Malicious Code
- Downtime
- Privacy
- Physical Security
- Human Factors

TruSecure provides:

- Essential security practices
- Continuous vulnerability assessment
- Unlimited support (7 x 24)
- Ongoing security intelligence
- Certification

TruSecure certification is a recognized symbol of a company's commitment to making security a corporate priority on a continuous basis.

The scope of work involves effectively implementing the TruSecure methodology within Hydro's internal and external networks.

(b) Newfoundland and Labrador Hydro expects to incur 17 person days in addition to the $115,000.

Q. In reference to page 35 in the report of Grant Thornton, LLP on Newfoundland & Labrador Hydro's 2001 General Rate Hearing, the 2002 transportation costs are based on 1999 actual plus 10%. Justify that the 10% amount as an appropriate estimate of cost increases expected to occur.

A. The 10% was applied only to the fuel costs and not to the overall transportation expenses. This estimate was based on the most current information on gas prices available to the Transportation Department at the time.

Q. In reference to page 26 in the report of Grant Thornton, LLP on Newfoundland & Labrador Hydro's 2001 General Rate Hearing, the forecast temporary staff complements for 2001 and 2002 are based on May 2001 actual. What year-end temporary staff complement is expected for 2001 and 2002?

A. The year-end temporary staff complement expected for 2001 is 148 and the year-end temporary staff complement expected for 2002 is 122.

Q. In reference to page 32 in the report of Grant Thornton, LLP on Newfoundland & Labrador Hydro's 2001 General Rate Hearing, reference is made to Hydro's intention to reduce the Bishop's Falls inventory by writing off more obsolete items to make room for newer inventory. Provide an estimate of the total carrying value of obsolete items included in inventory.

A. Hydro's inventories are periodically reviewed for obsolete parts as major equipment, or components are replaced due to end of life cycle, changes in engineering standards, or technological change. The value of obsolete items remaining in inventory at this time is insignificant.

Q. Further to NP-29, what is Hydro doing to minimize its increasing absenteeism rates?

A. A number of measures have been taken by Hydro to address sick leave including:

1) An Occupational Health Nurse has been recruited. This position takes a pro-active role in the ongoing management of extended (in excess of 5 days) absence due to illness, case management of Long-Term Disability claims, ease back and return to work programs, and preventative measures such as ergonomic assessment of workstations.

2) Hydro has established a Health Advisory Committee to review the status of all current extended sick leave, long-term disability, and Workers' Compensation cases as well as other sick leave/employee absence issues such as incidental sick leave, mandatory employee referrals, wellness initiatives, etc.

3) Audiometric Screening and Pulmonary Function Monitoring Programs have been introduced for all "at risk" employees.

4) A local Occupational Health Services Company (MedServ) has been engaged, as required, to provide assistance in the areas of fitness for work assessment, functional capability analysis, liaison with employees' physicians and assessment of employee medical information, referrals to medical specialists, and task specific employee medical reviews e.g. self contained breathing apparatus.

5) Hydro has introduced an Employee Attendance Management Program to provide guidance to Front Line Supervisors and other line management personnel in dealing with employees with high rates of absenteeism due to incidental sick leave.

6) A number of employee wellness initiatives have been introduced. These include voluntary health risk appraisal clinics, a back care program, and voluntary lunchtime presentations on topics such as stress reduction, diabetes, heart disease, nutrition, etc.

7) Hydro has introduced a number of health related programs such as Community based smoking cessation and exercise programs as well as after hours in-house activities such as Aikido, Yoga, Weight Watchers.

8) Hydro provides an Employee Assistance Program including such activities as employee financial, family, and stress counselling, critical incident intervention, and traumatic stress counselling.

9) Hydro has also recently introduced pilot programs for in-house lunchtime massage therapy and blood test collection services.

Q. Further to NP-30, what recommendations contained in the Quetta Inc. and Associates report have been adopted or undertaken by Hydro?

A. All recommendations contained in the Quetta Inc. and Associates report have been adopted or undertaken by Hydro except the following which were not accepted by the Public Utilities Board:

1) Recommendation #3 which recommended that Hydro be asked to prepare a report on the Great Northern Peninsula transmission system. The Board agreed that it was not necessary for Hydro to prepare a specific report on this but that reliability statistics for the area would continue to be monitored.

2) Recommendation #5 which recommended that an Internal Audit Report of the Customer Service system be provided. The Board agreed that Internal Audit reports were intended to be for Management, that the Board's financial consultants review these reports and it is not necessary to provide copies of Internal Audit reports to the Board.

3) Recommendation #14 which recommended that the responsibilities of the Manager of System Performance and Protection be stated specifically in the System Protection update procedure. The Board accepted Hydro's position that this was unnecessary.

4) Recommendation #19 which related to fuse sizes on operating diagrams for distribution lines. The Board accepted Hydro's position on the matter that this recommendation was unnecessary.

5) Recommendation #24 which recommended that Hydro file its Internal Audit Plan annually with the Board and that Internal Audit reports be referred for further analysis to the Board. The Board agreed with Hydro that this was not necessary for the reasons set out with respect to Recommendation #5.

Other than those above, all recommendations contained in the Report have been adopted or undertaken by Hydro although in some cases the time provision in the recommendation was varied by the Board. For example, in Recommendation #1 it was recommended that Hydro include generation reliability indicators in a monthly report to the Board. The Board agreed that these would be provided on an annual basis.

Q. (a) Provide detailed calculations that support the depreciation expense amount claimed in this filing. The detailed depreciation calculations should present by depreciable category and vintage the following information for assets depreciated using the sinking fund method: 1) Original Cost; 2) Annuity Amount; 3) Accrued Depreciation. Also provide the depreciation parameters used in the depreciation calculations, such as, the interest rate, average service life and net salvage percent.

(b) For assets depreciated using the straight-line method, provide the following information by depreciable category and vintage: 1) Original Cost; 2) Annual Accrual Rate and Amount; 3) Accumulated Depreciation. Also provide the parameters used in the depreciation calculations, such as, the average service life, life span for all non-hydro generating stations.

A. (a) and (b)

The following table provides the original cost, the annual depreciation expense, accumulated depreciation, and contributions by class of assets, by sinking fund method and straight-line method.

The asset vintages range over numerous years ranging from 1967 to present day.

The parameters used in the calculations range from 15 years to 100 years for sinking fund assets and from 3 years to 50 years for straight line assets.

Please refer to NP-60 which provides the depreciation service lives expressed in percentage rates.

The interest rates for the sinking fund method ranges from 5.25% to 15.34%.

As stated in NP-274 there has been no amount claimed for net salvage in the calculation of depreciation expense (for this filing).

NEWFOUNDLAND AND LABRADOR HYDRO
BREAKDOWN OF SINKING FUND AND STRAIGHT LINE ASSETS
2002

LINE NUMBERS		SINKING FUND ASSETS				STRAIGHT LINE ASSETS				TOTAL			
		CAPITAL COST	DEPRECIATION	ACCUMULATED DEPRECIATION	CONTRIBUTIONS	CAPITAL COST	DEPRECIATION	ACCUMULATED DEPRECIATION	CONTRIBUTIONS	CAPITAL COST	DEPRECIATION	ACCUMULATED DEPRECIATION	CONTRIBUTIONS
1	CLASS												
2	HYDRAULIC	$720,981,193	$3,158,691	($32,745,255)	($19,418,353)	$2,113,835	$26,458	($212,311)	($1,089,067)	$723,095,028	$3,185,149	($32,957,566)	($20,507,420)
3	THERMAL					$182,356,683	$2,017,940	($145,985,200)	($13,929)	$182,356,683	$2,017,940	($145,985,200)	($13,929)
4	GAS TURBINES					$45,793,399	$1,031,947	($30,648,514)		$45,793,399	$1,031,947	($30,648,514)	$0
5	DIESEL					$65,516,431	$2,523,242	($24,479,448)	($8,174,149)	$65,516,431	$2,523,242	($24,479,448)	($8,174,149)
6	TRANSMISSION LINES	$291,673,501	$4,290,390	($35,065,768)	($12,803,632)	$5,992,817	$199,761	($2,704,952)		$297,666,318	$4,490,151	($37,770,720)	($12,803,632)
7	SUB-STATIONS	$146,852,203	$3,573,385	($33,539,138)	($11,711,721)	$17,569,689	$452,334	($5,693,016)	($3,675,037)	$164,421,892	$4,025,719	($39,232,154)	($15,386,758)
8	METERS					$3,444,090	$91,780	($929,136)	($596,197)	$3,444,090	$91,780	($929,136)	($596,197)
9	DISTRIBUTION					$123,719,610	$3,106,513	($32,807,676)	($26,631,107)	$123,719,610	$3,106,513	($32,807,676)	($26,631,107)
10	TELECONTROL					$53,364,337	$2,926,926	($23,584,979)	($1,530,986)	$53,364,337	$2,926,926	($23,584,979)	($1,530,986)
11	GENERAL PLANT					$103,180,383	$5,868,678	($58,628,849)	($1,560,671)	$103,180,383	$5,868,678	($58,628,849)	($1,560,671)
12	FEAS. STUDIES-SHORT TERM					$321,504	$20,000	($20,000)		$321,504	$20,000	($20,000)	$0
13	FEAS. STUDIES-LONG TERM					$2,267,670	$104,364	($2,063,787)		$2,267,670	$104,364	($2,063,787)	$0
14	COMPUTER SOFTWARE					$14,700,344	$2,397,885	($10,606,299)		$14,700,344	$2,397,885	($10,606,299)	$0
16	TOTALS	$1,159,506,897	$11,022,466	($101,350,161)	($43,933,706)	$620,340,792	$20,767,828	($338,364,167)	($43,271,143)	$1,779,847,689	$31,790,294	($439,714,328)	($87,204,849)

Q. Provide an explanation or supporting evidence for having different service life estimates between High Voltage Sub-Stations (40 years) and Low Voltage Sub-Stations (30 years).

A. The service lives of Hydro's assets were originally set in the 1970's according to industry standards utilizing such sources as the U.S. Federal Power Commission and the Canadian Electrical Association. These standards indicated that sub-stations, 66kV and higher, have an expected service of 40 years whereas sub-stations, 25kV and lower, are expected to remain in service for 30 years. Since then, Hydro has conducted two Depreciation Studies (1986 and 1998) copies of which have been filed in response to NP-55. Both these studies concluded that the services lives are within the ranges reported by other North American Utilities.

Q. Provide the amount claimed for net salvage by functional plant category that is presented in this filing.

A. As per NP-57(b) and (c) there are no planned asset retirements or acquisitions which meet the criteria for the proposed accounting treatment of net salvage costs.

However, Hydro has included in its filing, the net salvage values anticipated to be received in 2002 based on retirements. These amounts have been included in the calculation of the loss on disposal of fixed assets and the table below provides the amount per asset class.

Asset Class	Net Salvage
General Plant	$ (260,600)
All others - negligible	(500)
	$ (261,100)

Q. Are there any write-downs of capital assets that are included in the test year period?

A. The 2002 test year period does not have any write-down of capital assets.

Q. On page 29 of the 1998 depreciation study report KPMG states, “NLH may consider coding its unit of property in such a manner that it will be easy to determine the number of like units and their total acquisition costs, by installation year, or in total. The coding would make it possible to compare the actual service lives of the assets with their assigned service lives on a statistical basis”.

Many electric power utilities use a coding system defined as a Uniform System of Accounts, which identifies a particular type of asset (e.g., current transformer, compressor, control cable, etc.). Such coding facilitates the statistical analyses required for a variety of purposes, and makes it possible to check accounting practices on a continual basis.

Has Hydro implemented KPMG’s recommendations stated on page 29 of the 1998 depreciation study report regarding property accounting practices?

A. No. Hydro, in its new Fixed Asset system, has in excess of 35,000 units of property records that identify its Fixed Assets by company, system, classification, function, customer and location. These identifications are achieved by attaching the above information fields to each individual asset number. Hydro has determined that these identification fields, combined with the expanded reporting capabilities, are adequate to meet our "analyses" requirements.

Q. Provide a copy of NLH's capitalization policy.

A. NLH's Capitalization Policy is to record as "Fixed Assets", the acquisition costs of assets that are of a permanent or lasting nature whose useful service life is expected to extend over several years.

To assist in the implementation of the policy, the Corporation has defined two levels of classification.

Our highest level of classification of our Fixed Assets is called Prime Assets which represent major functional parts of the Corporation's property, plant and equipment. Examples being each generating station, each transmission line, each sub-station and each diesel plant.

Our next level of classification is called Units Of Property which represent the main units of equipment or property contained within each Prime Asset and are established to complement and assist in defining the accounting control boundaries relative to procurement, operating, transfer and retirement of property, plant and equipment. A unit of property is defined as that which is independently operational, readily separable from the Prime Asset and useful in its own right. Examples being building foundation, dam, turbine, runner, wood pole structure, conductor, metal tower foundation, transformer, regulator, circuit breaker, diesel engine, and generator.

Q. On page 33 of the 1998 depreciation study report, KPMG states that the service lives for certain assets, such as the Holyrood generating station will almost certainly be longer than estimated. Also, KMPG states that vehicles appear to have longer actual service lives than estimated by Hydro. On the basis of KPMG's analysis, it is recommended that the service lives of passenger cars be extended from 3 to 5 years and that of snowmobiles and pick-up trucks shall be set at 6 years.

Has Hydro implemented KPMG's recommendations regarding service lives presented on page 33 of the 1998 depreciation study report? If not, why not?

A. The 2002 cost of service filing has been prepared on the basis that approval from the P.U.B. will be granted to implement the recommendations regarding service lives.

Q. What is the average service life estimate for Computer Software? Computer Hardware?

A. The estimated service life for computer software is 5 years, for desktop computer hardware it is 3 years, mainframe hardware is 5 years, and our computerized Energy Management System is 15 years.

Q. (a) Further to NP-28(b), in what locations have Hydro implemented RCM?

(b) Provide a table comparing the person hours of preventative maintenance effort utilized under the existing and proposed system by location.

(c) Provide a table comparing the system equipment maintenance costs utilized under the existing and proposed system by location.

A. (a) To date, the new maintenance tactics has not been implemented at any TRO location. The implementation of RCM involves two parts: the building of equipment templates which is presently in progress, and the analysis of the associated systems for the identification of the specific maintenance tactics. The results of this analysis determines the new maintenance tactics to be implemented.

(b) In NP-28 (b) Hydro outlined the approach used in determining the feasibility of implementing RCM in TRO. The pilot sites chosen for the exercise were representative of TRO in general. Although the maintenance tactics and person costs were scrutinized in the pilots, the costs and expected savings identified for full-scale implementation were extrapolated from these pilot sites to the rest of TRO.

(c) Refer to NP-281(a) above.