

1 Q. On numerous occasions in the Prefiled Testimony of Hydro's experts,
2 reference is made to the next Rate Application. Mr. Osmond on page 9, lines
3 4 to 19 of his Prefiled Testimony states that Hydro is not proposing to
4 commence implementation of all of the recommendations in the Board's
5 1996 Report starting in 2002. Provide the list of recommendations included in
6 the 1996 Report, and indicate which of these recommendations have been
7 implemented, or are proposed to be fully implemented in this application. List
8 the items that Hydro has proposed to address in the next rate application.

9

10 A. See attached.

**PUBLIC UTILITIES BOARD
REPORT ON RURAL ELECTRICAL SERVICE
JULY 29, 1996**

<u>RECOMMENDATIONS</u>	<u>HYDRO'S POSITION/IMPACT</u>
(1) The Board is not recommending any increase in the rates charged in electrically isolated systems, for the first, second or third blocks of energy, nor is it recommending any change in the monthly domestic customer charge of \$16.71.	It was Hydro's position at its last rate application in 1992 that the second block should be eliminated and rates in the end block gradually increased. Hydro will address this issue at its next rate application.
(2) The Board recommends that the first block remain unchanged at 700 kWh per month (for domestic customers)	Hydro agrees with this position.
(3) The Board recommends that Hydro prepare a detailed calculation of long run marginal costs. In the event that a detailed 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 costs (for general service customers).	Please see response to NP-184.
(4) The Board recommends that the special general service rate for the first 700 kWh per month, which was established by Order-in-Council in 1989, be eliminated. No change is recommended for the basic customer charge.	Hydro concurs with this recommendation and will address this issue at its next rate application as part of its five year rate implementation plan.
(5) The Board recommends that Hydro be directed to provide a cost benefit analysis of a rate structure for general service customers which provides for a demand charge. The energy and demand charge in such a rate structure should recover long run marginal cost.	Please see response to NP-184

<u>RECOMMENDATIONS</u>	<u>HYDRO'S POSITION/IMPACT</u>
(6) The Board recommends that preferential rates be phased out. The phase out period should be five years.	Hydro concurs with this recommendation. Hydro, at its next rate application, will be addressing this issue as part of its five year rate implementation plan. See recommendation number 7.
(7) The Board recommends 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 (i.e. 100% cost recovery).	Hydro concurs with this recommendation and has in its current rate application before the Board recommended starting the phase out in 2002 and to complete the phase out over a further five year period after Hydro's next rate application.
(8) The Board recommends that both generation assets and the 138 kV transmission line on the Great Northern Peninsula be assigned, on a provisional basis, as being of common benefit to all interconnected customers and that sub-transmission costs (for lines whose voltage is below 138 kV) be specifically assigned. The Board further recommends re-examination of these costs assignment decisions, and the rules for cost assignment, at a future hearing.	Hydro concurs with this recommendation, and has implemented the recommendation in the current rate application.
(9) The Board recommends that the treatment of the Roddickton Woodchip Plant be 100% demand related, as proposed by Hydro.	The Roddickton Woodchip Plant was removed from service with PUB approval in 2000.
(10) The Board recommends that future cost of service reports be generated with six separate studies: (1) Rural Island Interconnected; (2) Newfoundland Light & Power; (3) Island Industrials; (4) Labrador Interconnected; (5) Isolated Island Systems; and (6) Isolated Labrador Systems	Hydro concurs with this recommendation and has included this information in its 2002 Cost of Service Study.

<u>RECOMMENDATIONS</u>	<u>HYDRO'S POSITION/IMPACT</u>
(11) The Board recommends 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.	Hydro concurs with this recommendation and has included such information in NP-132.
(12) The Board recommends elimination of interest margin on the Hydro Rural Interconnected system and that a rate of return not be allowed on rural electrical assets, as long as the rural system is operating on a deficit basis.	Hydro has excluded these items from its 2002 Cost of Service Study.
(13) The Board recommends that Hydro and Newfoundland Power establish a joint task force to identify measures whereby cost savings can be achieved, both in isolated and interconnected rural systems.	Hydro and Newfoundland Power have held discussions to explore opportunities for co-ordination in an effort to lower the overall cost of providing service to electrical customers on the Island. A Memorandum of Understanding is in place covering the sharing of services and equipment during emergencies.
(14) The Board recommends that independent consultants should be retained to study the isolated systems for the purpose of identifying all possible cost savings and efficiency improvements. The consultant should provide Hydro with targets and with a tracking system by which to measure progress toward achieving these targets.	Hydro does not concur with this recommendation and it does not plan to implement. .
(15) The Board recommends a study of system losses be conducted to improve measurement of station service and line losses.	A field investigation program was implemented to identify metering and reporting deficiencies. Plant metering equipment has been checked and re-calibrated. In addition, new electronic meters have been installed.
(16) The Board recommends an enhanced consumer education	Hydro concurs with this recommendation and has taken

<u>RECOMMENDATIONS</u>	<u>HYDRO'S POSITION/IMPACT</u>
<p>program be undertaken in isolated areas, to promote greater understanding of the costs and operations of the electrical system and the effect of consumer decisions upon electrical loads and costs. Dissemination of information describing the full cost of the electricity they consume would be a major component of such an education program.</p>	<p>action to facilitate this activity by the creation of a Customer Services Department. Increasing consumer education and improving customer service has been a major activity of the Customer Services Department.</p>
<p>(17) The Board recommends each bill should show the full embedded cost of the energy consumed, as well as the amount charged to isolated rural customers.</p>	<p>Hydro has not implemented this recommendation.</p>
<p>(18) The Board recommends design criteria for plant and ancillary equipment should be re-examined, with a view to ensuring reliability requirements are not unduly stringent, particularly in communities operating close to capacity limits.</p>	<p>Please see response to NP-184(d).</p>
<p>(19) The Board recommends tendering practices for fuel should be reviewed, along with the possibility of larger scale purchases and regional storage facilities.</p>	<p>In 1996, Hydro tendered its fuel requirements for a three-year term. The specification was structured in an attempt to reduce fuel costs through large-scale purchases. No competitive advantage was realized as typically each vendor dominates supply in a specific region. Subsequently, in 1999, after reviewing its option Hydro tendered its five-year requirements based on previous practice of tendering prices for individual sites. Hydro continues to evaluate the cost benefit of providing its own regional storage facilities versus leasing from third parties.</p>

<u>RECOMMENDATIONS</u>	<u>HYDRO'S POSITION/IMPACT</u>
<p>(20) The Board recommends an experimental project should be designed by selecting a community facility, such as a school or other public building, in close proximity to a diesel plant, whereby heat from the diesel plant can be recovered. Such a demonstration project might provide a model for research and for subsequent technology transfer.</p>	<p>Hydro initiated a pilot project in 1994 with a church in Mary's Harbour for the sale of waste heat from our diesel plant. The pilot project is in service and a report and recommendations are to be completed in 2001.</p>
<p>(21) The Board recommends alternative technologies should be examined to ensure that all opportunities for cost reduction are fully realized. New technologies for harnessing wind power should be given particular attention.</p>	<p>Hydro continues to monitor alternative technologies for opportunities of cost-effective applications in the isolated diesel areas. However, to date, the most cost-effective and practical supply is diesel generation.</p> <p>In 1997 Hydro participated in a joint study with Newfoundland Power into the potential for mini-hydro in Island Rural Isolated Systems. In 1998, Hydro worked with the Atlantic Wind Test Site (AWTS) in PEI to investigate the integration of wind energy technology at St. Brendans and is currently reviewing a proposal from the AWTS for a wind demonstration project in Ramea.</p>
<p>(22) The Board recommends 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.</p>	<p>Please see response to NP-184(e).</p>