

1 Q. By Hydro's own admission, its rate structure has many subsidies and cross-
 2 subsidies; i.e., taxpayers are subsidizing electricity consumers because
 3 revenues are not allowing it to meet appropriate financial targets, because
 4 the full price of fuel oil is not being recovered, because the rate stabilization
 5 plan is in arrears, etc. Rural customers are being subsidized by other
 6 customer classes because they are paying less than the full cost of service,
 7 etc.). All of these subsidies make it difficult to tell how much the various
 8 customer classes are actually being subsidized. In this regard, provide a list
 9 of all subsidies being provided to customers. Show the revenue requirement
 10 that in Hydro's view, provides adequate revenues to meet appropriate
 11 financial covenants for the year 2002, show the appropriate cost allocation to
 12 each customer group (including customers receiving preferential rates), and
 13 compare to the revenues being collected from each customer group. Provide
 14 the results in a table in the format shown below. Basically, show the
 15 revenue/cost ratios for each customer group under current and proposed
 16 rates based on a revenue requirement without subsidies.

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<u>System/ Customer Category</u>	<u>Revenue/Cost Ratio</u>			
	<u>Without Rural Deficit</u>		<u>With Rural Deficit</u>	
	<u>Current</u>	<u>Proposed</u>	<u>Current</u>	<u>Proposed</u>
	<u>Rates</u>	<u>Rates</u>	<u>Rates</u>	<u>Rates</u>
<i>Island Interconnected</i>				
(Show each customer category)				
<i>Labrador Interconnected</i>				
(Show each customer category)				
<i>Isolated Systems</i>				
(Show each customer category)				
<i>L'Anse au Loop</i>				
(Show each customer category)				

- 1 A. A revenue requirement without subsidies would include the following
2 additional items:
3 (a) No. 6 fuel at \$28/ bbl;
4 (b) Return on equity of 11.25%;
5 (c) Debt to capital ratio of 60%; and
6 (d) Return calculation applied to full ratebase.

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8 The increase in the price of fuel, as well as the existing RSP balances defer
9 costs to future years, so can be considered as subsidies among ratepayers
10 over time. The existing rural deficit allocation, as well as variations in
11 revenue/cost coverages among Rural Labrador Interconnected customers,
12 are examples of cross-subsidization among today's ratepayers. The
13 increase in return on ratebase due to items (b), (c), and (d), can be
14 considered cross-subsidization between taxpayers and ratepayers.

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16 Refer to page 3 for the requested table of revenue/cost coverages. The
17 revenue requirement and cost allocations by rate class are attached as
18 pages 4-11.

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20 Please note that these results do not incorporate any changes to revenues,
21 or any related cash flow impacts associated with interest and return on rate
22 base, from those filed in Exhibit JAB-1.