

1 Q. 1. (Hall, p.7, lines 24-29). As well as being a commercially viable energy  
2 business that happens to be owned by the Province, Hydro is a monopoly  
3 and its return protected by public regulation. How do these characteristics  
4 factor into the appropriate rate of return on rate base?

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7 A. The fact that Hydro is a regulated utility does indeed factor positively into the  
8 determination of an appropriate rate of return on rate base. The scale of the  
9 electric business suggests monopoly attributes can be present, which is, of  
10 course, why the industry is regulated. Hydro does not have an exclusive  
11 monopoly in the Province though. For example Newfoundland Power has  
12 installed generation, most recently at Rose Blanche. In addition, Hydro  
13 currently purchases power from two non-utility generators, and will be buying  
14 from two more in 2003.

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16 While Hydro's return is determined by public regulation, it is not "protected".  
17 There are a myriad of risks that can influence Hydro's eventual return, and  
18 these have been outlined in Ms. McShane's answer to IC-62. Hydro does not  
19 currently have the ability to automatically adjust rates, should one of these  
20 risks adversely affect returns below those that were originally estimated in a  
21 previous rate referral.

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23 Mr. Hall is recognizing the fact that risks, such as these, should be  
24 considered in the determination of what is a reasonable rate of return to an  
25 investor in Hydro, regardless of the identity of the investor. Hydro must  
26 manage its operations to mitigate its risks, control costs and optimize its  
27 returns, just like any other business.