

IN THE MATTER OF the *Electrical Power Control Act, 1994* (the “EPCA”) and the *Public Utilities Act, R.S.N. 1990, Chapter P-47* (the “Act”) and their subordinate regulations; and

IN THE MATTER OF an Application by Newfoundland and Labrador Hydro (“Hydro”) for approvals of: (1) Under Section 70 of the Act, changes in the rates to be charged for the Supply of power and energy to its Retail Customer, Newfoundland Power, its Rural Customers and its Industrial Customers; (2) Under Section 71 of the Act, its Rules and Regulations applicable to the supply of electricity to its Rural Customers; (3) Under Section 71 of the Act, the contracts setting out the terms and conditions applicable to the supply of electricity to its Industrial Customers; and (4) Under Section 41 of the Act, its 2002 Capital Budget.

RESPONSE TO NLH-93

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NLH-93 (Re: p.8, lines 8 to 10)

Q: Please provide the credentials for Mr. C. F. Osler as to his expertise on cost of capital matters.

A: Mr. Osler is providing expert evidence on revenue requirement, cost of service and rate structure matters, taking into account normal regulatory review procedures and principles appropriate for Canadian electric power utilities. Mr. Osler's credentials as an expert on matters of regulatory approaches in these areas is outlined in Attachment A to Mr. Osler's August 15, 2001 evidence. Mr. Osler is not participating in this hearing as a Cost of Capital expert.

The above noted section does not address the appropriate cost of Hydro's capital - it addresses the regulatory regime under which Hydro is regulated and related issues affecting Hydro's future financial targets. Prior to accepting Hydro's claims that it requires immediate guidance on financial targets, and prior to review of the extensive evidence put forward by the cost of capital experts in this proceeding, it is necessary to consider the regulatory approaches that the Board must apply. Mr. Osler addressed these matters in his August 15, 2001 pre-filed testimony (section 5.3) and again in his September 12, 2001 pre-filed supplementary testimony (section 2.3).

In this regard, Hydro's Application indicates that, under their interpretation of the *Public Utilities Act*, the Board is not required to provide a 'just and reasonable return' as calculated by the cost of capital experts. For example, Hydro's cost of capital experts determine a just and reasonable return on equity to be 11% to 11.5% per Wells, page 14, yet Hydro has requested a return on equity of only 3% per Wells, page 14. Mr. Osler agrees with Hydro that the Board has discretion in this regard, and is not bound to determining Hydro's appropriate return based on the cost of equity in capital markets (see Osler August 15, 2001 pre-filed testimony, page 15, lines 13-30).

In particular, Mr. Osler's testimony in the above mentioned paragraph is largely a restatement of Hydro's claims that they have not had a negative impact on the province's credit rating (IC-65), and that Hydro has not cited any difficulty arranging debt since 1992. These observations are relevant in that Hydro is effectively applying in 2002 for the same interest coverage approved by the PUB in 1992 (1.08 times interest coverage ratio) and the continuing direction under EPCA 1994 for Hydro to collect sufficient revenue from rates so as to "achieve and maintain a sound credit rating in the financial markets of the world."