Q. **COSS and Rate Design - Other Issues**

(1) **No demand charge for NP**: D. W. Osmond's evidence (page 9) indicates that Hydro and NP have reviewed the issue of implementing a demand and energy charge pricing structure and "both companies concur that an energy only rate to Newfoundland Power is still appropriate." Provide a copy of all studies and/or analysis done by Hydro on this matter since 1992. Assess these rate options in light of each of the rate design principles set out at page 2 of P. R. Hamilton's evidence. Indicate the factors that Hydro believes to support an energy only rate for NP as being in the best interests of efficient and fair rates. Based on the 2002 test year COSS, provide a demand and energy rate option for NP for consideration by the Board.

(2) **Time of Use rates**: Provide any reports or analysis done by Hydro since 1992 to assess time or use rates for Industrial or other customer classes on the Island Interconnected System. Indicate the extent to which Hydro's bulk costs for generation and transmission on this System vary on a time of use basis under normal conditions. Indicate likely peak and off peak periods during each season on this System that might be used for rate purposes, as well as any material variations in seasonal costs that might be considered for such rates. Indicate Hydro's assessment of time-of-use rate implementation within the next five years at least for NP and/or Industrial Customers, and explain fully the basis for this assessment.

(3) **Deferral of rate design adjustments**: The evidence of D.W. Osmond at pages 12-15 mentions several five-year period rate design

adjustments for Isolated Rural System rates which are deferred until the next Rate Application. Explain why these rate design adjustment plans arising from earlier Board reports cannot be placed before the Board today and a plan for implementation set out for review. In particular, explain the rate plan that Hydro is considering to introduce full cost rates for Government agencies and departments (which would require, it is stated, on average increases of 280%) "over a maximum of five years" in light of the current proposal to limit rate increases to these customers at 20% overall.

(4) **Revenue Cost Coverage Ratios**: P.R. Hamilton comments (at pages 3-4) on historic revenue cost coverage (RCC) ratios for different rate classes on the different systems. Indicate the RCC's for the Industrial Class and NP by year from 1992 to 2002 based on all of Hydro's available COS studies (prospective and actual) for these years. Indicate in each instance the portion (if any) of the RCC for each of these rate classes affected by Rural Deficit charges.

(5) **No Rate of Return on Equity charged on Rural Portion**: It is noted that, based on the Board's past directions, no margin or return on equity has been proposed on Hydro's Rural Island Interconnected and Isolated Systems assets (see D.W. Osmond, page 7; J. C. Roberts, page 5). Confirm that Hydro has assessed this position in light of the amended legislation that became effective on January 19th 1996 and now requires Hydro to operate as a fully regulated utility under the jurisdiction of the Public Utilities Board, including the provisions therein for a just and reasonable return on rate base.

(6) **Employee Future Benefits as part of Capital Structure**: Review what conditions and liabilities apply with respect to the mid-year amount for 2002 of $24.9 million under Liability for Employee Future Benefits. Review the rationale for including this amount as a no-cost capital amount in the capital structure used to finance rate base.

A. (1) Please see response to PUB-68 regarding rationale for energy only rate. During the course of discussions with Newfoundland Power, each party developed various rate structures and adjustment mechanisms. The evaluation of these alternatives reflected the relative situation of each party and the relative priority each placed on Bonbright's rate design objectives. As outlined in the letter from Newfoundland Power, circumstances have changed over the years such that moving to a demand/energy rate structure is no longer necessary or desirable. Hydro agrees with this conclusion and has therefore not proposed a demand energy rate option.

(2) Hydro has not performed any analysis of time of use rates since 1992 and is therefore unable to provide the information requested.

Hydro filed the attached letter dated June 28, 1985 as part of Hydro's evidence at its 1985 Rate Referral that outlined its views on marginal cost pricing. Hydro does not have any plans at this time to conduct an assessment of time-of-use rates as uncertainties regarding such things as the Lower Churchill development, Island Infeed and cost effectiveness of mandatory time-of-use rates have not changed significantly since this letter was filed.

(3) Hydro's proposal is to increase rates to these customers by 20% effective January 1, 2002. If these rates were to increase each year by 20% for a further five years and after considering the impact of compounding, rates will have increased by approximately 280% on average over that timeframe.

(4) See attached table of revenue/cost ratios for Industrial Customers and Newfoundland Power for years that COS studies are available. Please see response to IC-1 for explanation of COS study availability.

(5) Hydro has included its Rural Island Interconnected and Isolated Systems in its Rate Base, however Hydro will only recover its weighted average cost of debt on these assets, with no profit or margin being earned.

(6) The 2002 mid-year liability for employee future benefits of $24.3 million has been projected based on an actuarial valuation of this obligation. Please refer to responses to NP-54 and NP-160. Please refer to evidence of K.C. McShane, pages 13-14 for the rationale for including the amount as no-cost capital.

NEWFOUNDLAND AND LABRADOR HYDRO
Revenue / Cost Coverages
($000)

		Newfoundland Power					Industrial Class				
Year	Methodology	Revenues	Costs	Rev / Cost Coverage	Deficit Allocation	Deficit as % of Costs	Revenues	Costs	Rev / Cost Coverage	Deficit Allocation	Deficit as % of Costs
1992 Actual	Interim (92)	195,200	174,395	1.12	22,226	13%	47,096	40,237	1.17	5,128	13%
1993 Actual	Interim (92)	193,133	171,885	1.12	21,118	12%	48,332	42,594	1.13	5,233	12%
1994 Actual	Interim (92)	181,825	159,355	1.14	21,360	13%	37,400	33,812	1.11	4,532	13%
1995 Actual	Interim (92)	203,117	181,240	1.12	22,233	12%	49,240	44,000	1.12	5,398	12%
1999 Actual	Interim (92)	182,517	165,954	1.10	16,546	10%	45,573	41,182	1.11	4,106	10%
1992 Forecast	Interim (92)	194,083	171,839	1.13	22,244	13%	45,547	40,327	1.13	5,220	13%
1992 Forecast	Generic (93)	192,471	169,353	1.14	23,118	14%	43,966	38,685	1.14	5,281	14%
2002 Forecast	Proposed (2001)	213,830	191,058	1.12	22,911	12%	50,357	50,163	1.00	0	0%