

1 Q. Comparative rate increases - NP and Industrial Customers

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3 (1) Confirm that Hydro is proposing the following rate increases (P.R.
4 Hamilton, Table 2 at page 9; D.W. Osmond at page 2):

5

6 • **Island Industrial Customers:** 10.4 % for firm purchases in base rates
7 and a further 7.4% for RSP adjustments (total increase of at 17.8%);
8 29.9% for non-firm purchases; and 7.1% for wheeling services.

9 • **Newfoundland Power:** 6.7% for firm purchases and a further 5.9%
10 for RSP adjustments (total increase of 12.6% before any consideration
11 of reductions in firming up charge for secondary energy)

12 • **Overall increase for all Systems:** average overall increase of 6.1%
13 before consideration of RSP adjustments.

14

15 (2) Provide all rates and other numbers (and explain sources) for the
16 graph at page 26 of W.E. Wells showing NLH Island Wholesale Utility
17 and Industrial Rates in the context of Inflation during the 1990's (1991
18 through the 2002 proposed rate adjustments). Confirm that this chart
19 and these rates reflect RSP adjustments; indicate the impact of RSP
20 adjustments in each year for each rate. Extend the graph and
21 numbers for a further 10 years based on the forecasts in the
22 application or otherwise available to Hydro (for Hydro's operations,
23 No. 6 fuel, etc.). Also indicate for each year the RSP balance, the
24 Hydro interest coverage, the Hydro return on equity (%) and the Hydro
25 dividend to government.

26

27 (3) Indicate the rates for NLH Island Wholesale and Industrial Customers for
28 2002 and projected for the next 10 years if the application was to assume

1 an 80/20 debt to equity ratio, the target rate of return on equity as
2 proposed for the long-term, and No. 6 fuel at \$25/bbl. Indicate for each
3 year the RSP balance, the Hydro interest coverage, the Hydro return on
4 equity (%) and the Hydro dividend to government.

5
6 (4) Explain in detail all factors that account for Industrial Customers facing
7 rate increases materially higher than other rate classes, including NP, at a
8 time when it was anticipated that removal of any Rural Deficit charge
9 against Industrial Customers would act to moderate future rate increases
10 for this class relative to NP and other rate classes.

11
12 (5) Explain why RSP-related rate increases for Industrial Customers and NP
13 can differ as noted above for 2002.

14
15 A. (1) Hydro confirms that the rate increase, as contained in Hydro's application,
16 for firm purchases by the Island Industrial Customers is 10.4% and 7.1% for
17 wheeling purposes and for firm purchases by Newfoundland Power is 6.7%.

18
19 The rate structure for non-firm purchases by the Industrial customers is
20 proposed to change from what is presently the case and to compare the
21 proposed and existing is not a meaningful comparison as the impact is
22 dependent on customer usage patterns which vary significantly from
23 customer to customer and from year to year.

24
25 The forecast RSP adjustment, at the time of filing, will mean an additional
26 increase of 7.4% to Industrial Customers and 5.9% to Newfoundland Power.
27 This RSP adjustment is an automatic adjustment and is not the subject of
28 this current application. Hydro included the forecast RSP adjustment in its
29 evidence for information.

1 Hydro also confirms that the overall average increase is 6.1% before any
2 RSP adjustment is applied.

3

4 (2) The table below outlines the information as requested for the graph as
5 contained on page 26 of W. E. Wells evidence.

	NF CPI All-Items	NP Rate As of July1	Industrial Rate (IC) as of July 1				1991 Indices		
			Demand	Energy	LF%	Rate	CPI	NP Rate	Indus Rate
1991	0.990	44.73	8.25	2.560	0.81	3.723	1.000	1.000	1.000
1992	1.000	44.98	8.25	2.560	0.81	3.723	1.010	1.006	1.000
1993	1.017	45.36	8.25	2.333	0.81	3.496	1.027	1.014	0.939
1994	1.029	45.61	8.25	2.333	0.81	3.496	1.039	1.020	0.939
1995	1.044	44.86	8.25	2.265	0.81	3.428	1.055	1.003	0.921
1996	1.060	45.86	8.25	2.320	0.81	3.483	1.071	1.025	0.936
1997	1.082	46.72	8.25	2.403	0.81	3.566	1.093	1.044	0.958
1998	1.084	47.09	8.25	2.482	0.81	3.645	1.095	1.053	0.979
1999	1.100	47.60	8.25	2.654	0.81	3.817	1.111	1.064	1.025
2000	1.113	46.71	7.36	2.284	0.81	3.321	1.124	1.044	0.892
2001 F	1.141	46.74	7.36	2.214	0.81	3.251	1.152	1.045	0.873
2002 F	1.164	52.64	7.01	2.867	0.81	3.855	1.175	1.177	1.036

Notes:

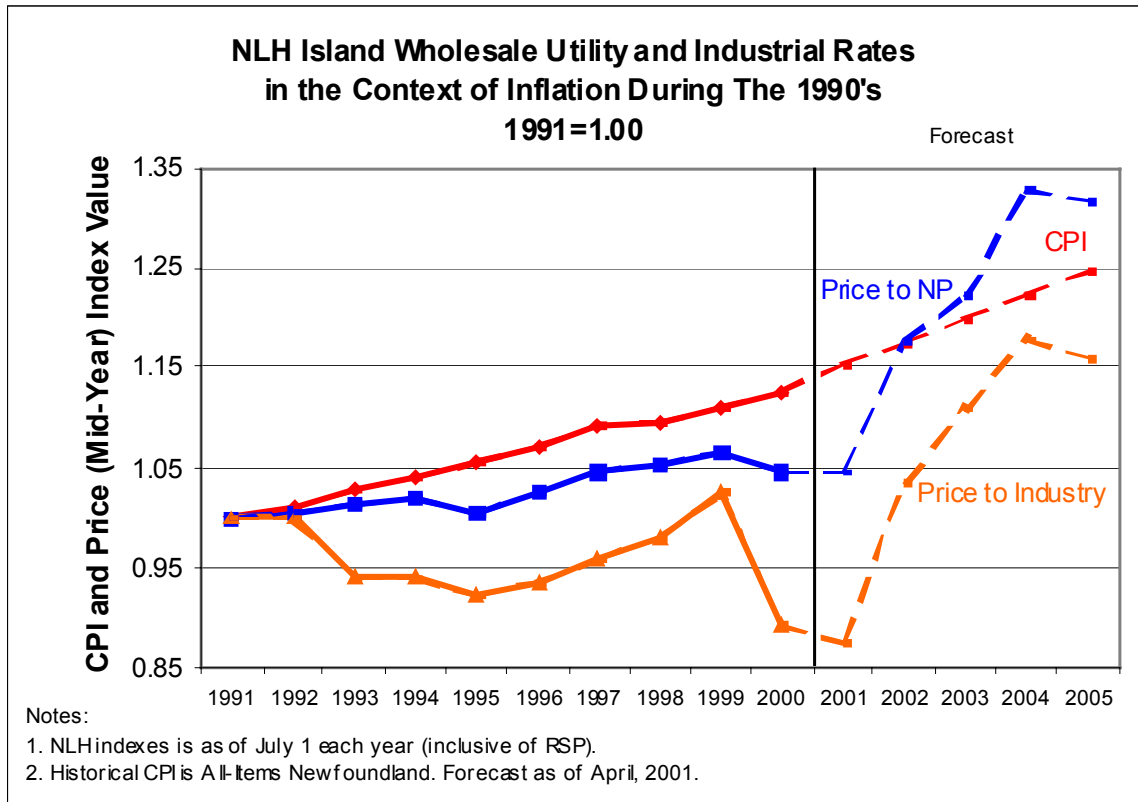
1. CPI CPI is the All Items Consumer Price Index for Newfoundland (1992=1.000) as reported by Statistics Canada. CPI forecast for 2001 is 2.5% and for 2002 2.0% has been assumed.
2. NP NP Wholesale rate as of July 1 each year inclusive of all adjustments, including RSP. Forecast as per Hydro estimates.
3. IC Industrial Rate as of July 1 each year inclusive of all adjustments, including RSP. Median industrial load factor of 81% for the period used to express energy rate. Forecast as per Hydro estimates.
4. Indices 1991 Indices are created by dividing the respective 1991 values for CPI, NP, and IC Rates through annual values.

6

7 The graph was included in evidence to provide some context for what has
8 transpired regarding general inflation and the electrical rates charged to
9 Hydro's Industrial Customers and Newfoundland Power and the proposed
10 increase to rates as a result of this rate application including the RSP
11 adjustment.

12

1 Please refer to the graph below which has been extended to 2005 based on
 2 data from Hydro's Five Year Plan as filed in the response to IC-98.



3
 4 Hydro's Five Year Plan also shows the RSP balance, return on equity and
 5 the dividends to government. Interest coverage is as follows:
 6

Interest Coverage excluding Recapture

2001	2002	2003	2004	2005
1.15	1.10	1.03	1.25	1.29

7
 8 Requested projections beyond 2005 are not available.
 9
 10

1 (3) The table below outlines the requested information.

2

	2002
Wholesale Rate (mills/kWh)	53.8
Industrial Rate (mills/kWh)	38.8
RSP Balance (\$000,000)	82
Interest Coverage excluding Recapture	1.31
Return on Equity	13.7%
Dividends (\$000,000)	70.1

Notes:

1. Data beyond 2002 is not available on the requested basis.
2. Deemed Debt to Equity ratio of 80/20
3. Target Rate of Return on Equity is 11.25%
4. No. 6 Fuel at \$25/bbl.
5. The above rates do not incorporate any cash flow impacts associated with interest and return on rate base from those filed in Exhibit JAB-1.

3

4 (4) As outlined in (1) above, Island Industrial customer rates for firm
 5 purchases are proposed to increase by 10.4%, whereas the rate for firm
 6 purchases for Newfoundland Power is proposed to increase by 6.7%. Rates
 7 for Newfoundland Power were last set in 1992, whereas Industrial rates were
 8 last set in 1995. This different comparative base as well as methodological
 9 and plant assignment changes combine for a net increase in Industrial
 10 customers rates. Furthermore, the Rural Deficit charge was removed from
 11 Industrial base rates effective January 1, 2000. This lowered the base
 12 against which to measure the general rate increase proposed for January 1,
 13 2002, also resulting in a higher percentage increase.

14

15 It is stated that the anticipated removal of any Rural Deficit charge against
 16 Industrial Customers would act to moderate future rate increases for this
 17 class relative to NP and other rate classes. This, in fact, is true since if both
 18 the Rural Deficit decrease and the general rate increase for Industrial

1 customers had been effective January 1, 2002, the change in base rates for
2 Industrials would resulted in a 1.5% decrease.

3

4 (5) The percentages in Part (1) are expressed as a percentage of total
5 revenue, where NP has over \$ 200 million, compared to approximately \$50
6 million for Industrial Customers. The revenue for NP includes rural deficit,
7 whereas the revenue for Industrial Customers does not. Further, the Plan
8 balance for each customer or customer group will vary as the load for that
9 customer (group) varies. RSP recovery also contributes to the Plan balance,
10 with NP's recovery rate changing in July of each year, while the Industrial
11 Customers rate changes in January. Each of these items contributes to
12 different percentages of rate changes.