

1 Q. Further to NP-36:

2 (a) At the 1996 Hearing, the projected revenue to cost ratio for 2002 for
3 the L'Anse Au Loup system was 65%. The forecast 2002 revenue to
4 cost ratio for the L'Anse Au Loup system is now 45%. Explain the
5 significant variation.

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7 (b) Provide the dollar impact on the rural deficit of the movement from
8 diesel rates to Island Interconnected rates for the L'Anse Au Loup
9 system for each year from 1997 to 2000 and forecast for 2001 and
10 2002.

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13 A. (a) The major variances are attributable to:

14	-	Increased operating cost estimate	\$549,000
15	-	Decreased revenue estimate	\$182,000

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17 A further analysis of the above variances is attached. The variance in
18 operating cost estimates is primarily due to an abnormally low
19 estimate, derived through allocations, for direct distribution expenses,
20 and a correspondingly low expense-related overhead allocation.

21 Changes to these allocations for the 2002 test year forecast are
22 supported by several years of actual experience. Additional
23 differences are difficult to analyze due to changes to Hydro's code of
24 accounts and costing allocations in the intervening years.

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26 On the revenue side of the equation, an annual compounded 2% rate
27 increase was assumed for the revenue estimate prepared in 1996.

28 When combined with projected load growth, revenues were estimated

1 to increase by a total of approximately 6.5% compounded annually,
2 from 1997 to 2002. These load and rate estimates have not
3 materialized and a lower base reflecting more recent usage and rates
4 has been incorporated in the revenue estimate prepared for the 2002
5 test year.

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7 (b) The increase in the rural deficit resulting from charging Island
8 Interconnected rates rather than Diesel rates is shown in the following
9 table:

Year	Revenue Reduction
1997	\$252,000
1998	\$323,000
1999	\$346,000
2000	\$397,000
2001	\$416,000
2002	\$423,000

NEWFOUNDLAND AND LABRADOR HYDRO
L'Anse au Loup Revenue and Cost Estimates (\$)

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	<u>1996 Estimate (PUB-40 (ii))</u>		2002	2002
	1997	2002	Proposed	Difference
Operating Costs:				
Diesel Production	127,827	194,574	212,806	18,232
Distribution - Labrador South	41,503	45,823	255,403	209,580
Metering	7,937	8,763	8,568	(195)
Customer Accounting	41,010	45,278	58,193	12,915
Subtotal Direct	<u>218,277</u>	<u>294,438</u>	<u>534,970</u>	<u>240,532</u>
Overheads:				
Production	47,855	52,836	105,970	53,134
Distribution	8,335	9,203	68,591	59,388
Other	27,731	30,617	63,441	32,824
Property Insurance	2,280	2,517	4,736	2,219
Expense-Related	106,339	117,407	299,226	181,819
Total Operating Costs	410,817	507,018	1,076,934	569,916
Expense Credits	<u>(6,820)</u>	<u>(7,530)</u>	<u>(28,296)</u>	<u>(20,766)</u>
	<u>403,997</u>	<u>499,488</u>	<u>1,048,638</u>	<u>549,150</u>
Load (MWh)	9,556	11,852	11,740	(112)
Revenues	962,398	1,317,865	1,136,125	(181,740)