

1 Q. Reconcile the \$14,939,871 Rural Island Interconnected deficit for 2002 from
2 NP-34 with the \$5,078,944 Rural Island Interconnected deficit for 2002 from
3 JAB-1, Schedule 1.2, page 1 of 6, line 6, column 5.

4

5 A. Deficit amounts reported for NP-34 are in accordance with the Board's 1993
6 Cost of Service methodology, referred to by Hydro as the Generic Cost of
7 Service methodology. The Cost of Service filed as Exhibit JAB-1 is referred
8 to as the Proposed Methodology, with differences as noted in the evidence of
9 Mr. John Brickhill. In order to provide a reconciliation of amounts between
10 two methodologies, it is necessary to arbitrarily select the sequence in which
11 to analyze the changes. The resulting reconciliation is presented in Section
12 A on the attached schedule.

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14 In addition, Hydro is providing the impacts based on individual analysis of
15 each change. The sum of the individual differences does not match the total
16 difference due to the compounded impact of each change. Please refer to
17 Section B of the attached schedule.

NEWFOUNDLAND AND LABRADOR HYDRO
Analysis of Rural Deficit Changes
Between Generic and Proposed Cost of Service Methodologies (\$)

Section A. Reconciliation with Sequence of Changes Arbitrarily Selected

Rural Island Interconnected Deficit, Generic (1993) Methodology	14,939,871
Proposed Methodology changes affecting Rural Island Interconnected Deficit:	
Plant Allocations	(8,707,582)
GNP Line Losses	(347,872)
Elimination of Return on Equity for Rural Island Interconnected	(704,714)
2 CP Production Demand Allocator	(100,759)
Rural Island Interconnected Deficit, Proposed Methodology	<u><u>5,078,944</u></u>

Section B. Independent Change Analysis

	<u>Rural Island Interconnected Deficit</u>		
	Proposed	Proposed w/ Individual Change	Difference
Proposed Methodology changes affecting Rural Island Interconnected Deficit:			
Plant Allocations	5,078,944	13,786,526	(8,707,582)
GNP Line Losses	5,078,944	5,438,377	(359,433)
Elimination of Return on Equity for Rural Island Interconnected	5,078,944	5,486,770	(407,826)
2 CP Production Demand Allocator	5,078,944	5,198,052	(119,108)

1 Q. Explain how payroll tax and municipal taxes are treated in the cost of service
2 study.

3

4 A. In the 2002 Test Year Cost of Service (COS) Study, payroll and municipal
5 taxes are included in expense-related overhead. These amounts are
6 classified based on direct operating expenses. The COS study as filed
7 contained an error, in that municipal taxes should have been split into
8 systems based on prior year rural revenues, rather than based on direct
9 operating expenses. This adjustment will be reflected in a revised cost of
10 service, when filed.