

1 Q. Reconcile the \$93,584,000 forecast interest for 2002 (JCR Schedule 1) with
2 the \$95,129,413 return on debt (JAB-1, page 1 of 94). Explain the variance.

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4 A. The following schedule shows the reconciliation of the debt return on
5 ratebase to the net interest expense:

	<u>(000's)</u>
6	
7	
8 Ratebase Return on Debt (JAB-1, page 1 of 94)	
9 1,370,470 x 83.18% x 8.345%	95,129
10 Return on Debt on average balance of:	
11 CWIP 111,973 x 83.18% x 8.345%	7,772
12 RSP 92,584 x 83.18% x 8.345%	6,427
13 Excess of assets over capital structure	
14 (1,575,028 - 1,566,450) x 83.18% x 8.345%	(595)
15 Rounding	<u>3</u>
16 Gross Interest (Average Debt x Cost of Debt)	
17 1,303,012 x 8.345%	108,736
18 Total Return on average balance of	
19 CWIP 111,973 x 7.399%	(8,285)
20 RSP 92,584 x 7.399%	(6,850)
21 Differences due to timing ¹	<u>17</u>
22 Net Interest expense, (JCR, Schedule 1)	<u>93,584</u>

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24 ¹ Actual allowance for funds used during construction (AFUDC) related to the
25 CWIP and actual financing charges in the RSP will vary from that derived by
26 multiplying the average balance by the WACC to the extent that the timing of
27 related cash flows are not precisely at mid-year.

1 Q. (a) Further to NP-76, identify all cases where Hydro has pursued social or
2 public policy objectives. Indicate whether these objectives were
3 pursued on its own or based on direction from its shareholders.

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5 (b) Identify and support the associated impact on Hydro's revenue
6 requirement of Hydro's pursuit of the social and public policy
7 objectives identified in (a).

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9 A. (a) The following are social or public policy objectives of Government that
10 have affected Hydro's actions or the nature of services provided and
11 are included in Hydro's 2002 test year revenue requirement. These
12 items result from direction from Hydro's shareholder.

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14 (1) Rural Rates Policy:

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16 • Customers served on the Island Interconnected Rural
17 System would be charged the same rates as Newfoundland
18 Power's customers

19 • Life line rate block for Isolated Rural customers of 700 kWh
20 per month

21 • Preferential rates for certain Rural customers

22

23 (2) Pursuit of purchased power from Non-Utility Generators.

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25 (3) Payment of Rural Deficit by Newfoundland Power and Labrador
26 Rural Interconnected customers.

- 1 (b) The impacts of the Rural Rates Policy are included in the Rural Deficit.
2 This deficit, as well as the purchased power costs from Non-Utility
3 Generators, is included in Hydro's 2002 revenue requirement.

1 Q. Further to NP-137, the cost recovery targets proposed by PRH page 5 are:
2 Domestic 95%, General Service 105% to 115%, Street Lighting 100%. In
3 P.U. 7, 1996-97, page 87, the Board stated:

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5 “The Board agrees with the philosophy that is not necessary to achieve a
6 100% revenue to cost ratio for all classes and takes no exception to a
7 variance of up to 10%, i.e., to achieve between 90% to 110% of the cost of
8 service in revenue.”

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10 Why is Hydro proposing a guideline for General Service cost recovery with
11 an upper limit outside the 10% variance accepted by the Board for
12 Newfoundland Power’s rates?

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15 A. As stated in NP-137, the General Service classes will average approximately
16 108% cost recovery based on 95% cost recovery for the Domestic class.
17 Therefore, 105% to 115% allowed more flexibility to achieve the 95% target
18 for Domestic. If the Domestic target is deemed inappropriate, the General
19 Service range can be modified to the 100% to 110% range noted above.