

1 Q. In the materials filed by Hydro to date, interest coverage is calculated using
2 various balances - e.g., including recall sales, excluding recall sales,
3 excluding subsidiaries, excluding IOCC, etc.
4

5 (a) Provide a detailed calculation of interest coverage for 2000, 2001 and
6 2002.
7

8 (b) Provide a copy of the PUB approval of the formula and appropriate
9 balances to be used.
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11 (c) Is the formula consistent with the industry standard and those used in
12 other jurisdictions?
13

14
15 A. The various interest coverage ratios filed to-date have been calculated in
16 accordance with the specific requests of interveners. The calculation of
17 regulated interest coverage excludes: export sales of recall energy to Hydro-
18 Quebec; subsidiaries; and IOCC revenue in excess of the costs allocated to
19 it through the cost of service.
20

21 (a) Regulated interest coverage can only be calculated precisely for years
22 in which a cost of service study has been completed. The cost of
23 service studies for 2000 and 2001 are in progress and will be filed
24 during September.
25

26 The margin for purposes of calculating regulated interest coverage is
27 the accounting net income of \$9,610,000 less IOCC revenue
28 adjustment of \$2,374,909 for a balance of \$7,235,091. It includes the

1 equity return on rate base which is recovered through rates as well as
2 the return on capital which is financing CWIP and RSP.

3
4 Gross Interest, per Cost of Service for 2002 is \$90,255,000, as
5 detailed in NP-240. Therefore, 2002 regulated interest coverage is:

6
7 Gross Interest, per COS +
8
$$\frac{\text{Regulated Margin}}{\text{Gross Interest, per COS}} = \frac{90,255 + 7,235}{90,255}$$

9
10
11
$$= \underline{1.08}$$

12
13 (b) The formula is consistent with that used for regulatory purposes since
14 1977. The calculation of regulated interest coverage is less important
15 for this hearing since Hydro will now be regulated on return on
16 ratebase, but it has been provided to enable comparison to prior
17 years.

18
19 (c) We are not aware of any industry standard for calculating interest
20 coverage for regulatory purposes, nor are we familiar with formulas
21 used in other jurisdictions.