Q. **RE: Return Applied to the Unamortized Balance of the Rate Stabilization Plan**

65.1 What would be the effect on revenue requirement for 2002 of applying the overall cost of capital to the unamortized balance of the Rate Stabilization Plan? How does this differ from the effect on revenue requirement of using the embedded cost of debt? What regulatory precedents in North America support utilization of the weighted cost of capital as the return to be applied to the unamortized balance of the RSP? (KCM, p. 10, lines 18 - 27)

A. 65.1 The return applied to the unamortized balance of the RSP does not affect revenue requirement.

Please refer to the response to NP-83. If the embedded cost of debt of 8.0% had been applied, rather than the 7.4%, weighted average cost of capital, net interest expense would have decreased by $539,000 and margin would have increased by the same amount, but the return on rate base and total revenue requirement would remain the same.

The Board's formula for translating the weighted average cost of capital WACC) to the return on rate base for Newfoundland Power as set forth in Order No. P.U.36 (1998-99), pp. 63-66 is equivalent to allowing a return on the unamortized balance of the RSP. That formula adjusts the WACC to return on rate base effectively by the ratio of invested capital to rate base. Hydro is proposing to apply the

WACC directly to its RSP balance, rather than indirectly through the formula utilized for Newfoundland Power.