Hydro's answer to information request NT-262 shows that a 2% change in thermal efficiency at Holyrood would change Hydro's net income by approximately 1.5 million dollars. Using 633 kilowatt hours per barrel represents a 3.77% change from Hydro's proposed 610 kilowatt hours per barrel. This, using a simple mathematical calculation, should save Hydro's customers approximately 2.8 million dollars on the revenue requirement underpinning their rates. The Industrial Customers estimate that this would result in a \$650,000.00 saving for the Industrial Customers over the Hydro's current proposal.

D. <u>2002 Forecast Load</u>

The quantity of fuel required in a test year depends on the customer load forecasts. Hydro's witnesses testified that they base their load forecasts on information provided from their customers.

However, as noted in the testimony of Hubert Budgell,¹⁵³ the Industrial Customers Amount of Power on Order for the purpose of their contracts indicates the demand for which they will have to pay. However, since, at present, Newfoundland Power does not have a specific demand rate, its forecast maximum demand may or may not be accurate, with no financial consequences to Newfoundland Power.

¹⁵³

With respect to energy forecasts, Hydro also relies upon its customers.

In a test year, these Hydro's forecast peak and forecast energy requirement is a critical component of the cost for service study. As discussed elsewhere in this submission, the load factor which results from a utilization of these forecasts, is an integral part of assigning or allocating costs between Hydro's different customers. In a test year, the Board must be particularly vigilant to satisfy itself that forecast demand and energy consumption assumptions are reasonable.

Mr. Budgell in his second supplementary evidence at page 2 indicates that as a result of Newfoundland Power's revised forecast, Newfoundland Power's demand drops and energy is forecast to increase.¹⁵⁴ This will increase Newfoundland Power's forecast load factor and reduce the revenue requirement allocated to it under the cost of service.¹⁵⁵

Mr. Budgell testified that normally, for the purposes of rate hearings, they accept Newfoundland Power's forecast. However, Hydro has not reviewed the revised forecast from October 2001 for its reasonableness although it did make the observation that it reduces load factor. According to Mr. Budgell, no explanation for the change has been provided by Newfoundland Power. No

¹⁵⁴Transcript, November 6, 2001, page 19, lines 17-23.

¹⁵⁵ibid, lines 24 - 41.

Newfoundland Power witness has testified with respect to its forecast change in its demand and energy needs for 2001 and 2002.¹⁵⁶

With respect to the reasonableness of that forecast, Mr. Budgell acknowledged that Newfoundland Power's revised forecast increases Newfoundland Power's forecast load factor from 49.5% to 51.1%.¹⁵⁷

Mr. Budgell, in looking at Hydro's reply to NT-121 outlined how load factor would be calculated over the period from 1996. By the Industrial Customers' calculation, as put to Mr. Budgell, Newfoundland Power's load factor over that period only hit 51.3% in the year 2000. Mr. Budgell testified that 2000 system peaked would have been lower because of a warm winter and it would be reasonable to expect that the load factor would have improved in 2000 for utility customers given what actually occurred.¹⁵⁸

Mr. Budgell testified that, however, in this rate hearing we have forecasting for 2002 and the forecast is not normally based upon the warmest year.¹⁵⁹

¹⁵⁷ibid, page 19, lines 25-29.

¹⁵⁸ibid, page 21.

¹⁵⁹ibid, lines 65-71.

¹⁵⁶ibid, line 45 -74.

Mr. Budgell also indicated that you would only expect higher energy requirements associated with a lower peak for Newfoundland Power if there was something material that had happened in the system. He is not aware of anything material that has happened in the system between the pre-filed testimony and the supplemental testimony.¹⁶⁰

The answer to information request IC 80 indicates that, generally, the load factor forecasts have been higher than the actual

The Industrial Customers submit that Newfoundland Power's revised demand and energy forecasts are not reasonable and should be rejected.

CALCULATION OF CASH WORKING CAPITAL

Mark Drazen of Drazen Consulting, expert on cost of service issues for Labrador City, in his prefiled testimony, testified that Hydro has calculated a positive cash working capital requirement of \$3,098,000.00 (evidence of J. C. Roberts, Schedule 3). This is comprised of a positive cash working capital requirement of \$5,535,000.00 related to operation and maintenance expenses and a negative amount of \$2,439,000.00 related to HST. According to Mr. Drazen, the net lag in time from the point when operation and maintenance expenses are incurred to the point when the corresponding revenue is received from customers is 19.37 days. However, Hydro collects HST

¹⁶⁰ibid, page 22, lines 13-30.