

1 Q. Please identify and elaborate on the causes of the substantial increase in the
2 Rural Island Interconnected deficit since 2000.

3

4

5 A. Please see response to CA-28 NLH, concerning the deficit from 2000 to
6 2002. The 2004 test year Rural Island Interconnected deficit is forecast to be
7 \$19.4 million, as shown on Page 2. Revenue is forecast to increase by \$3.6
8 million, primarily due to the proposed rate increase. Expenses are forecast
9 to increase by \$5.3 million, due to Hydro's increased costs, which are
10 outlined throughout the pre-filed evidence.

NEWFOUNDLAND & LABRADOR HYDRO
Comparison of Island Interconnected Rural Deficit
2002-2004
Island Interconnected Revenue Requirement

| Line No. | 1 | 2 | 3 | 4 |
|----------|--|--------------------|--------------------|------------------------------------|
| | Description | 2002 (\$) | 2004 | Increase (Decrease) 2002-2004 (\$) |
| | Revenue Requirement | | | |
| | Expenses | | | |
| 1 | Operating, Maintenance and Admin. | 67,976,826 | 72,460,822 | 4,483,996 |
| 2 | Fuels - No. 6 | 81,662,072 | 84,819,538 | 3,157,466 |
| 3 | Fuels - Diesel | 38,580 | 54,612 | 16,032 |
| 4 | Fuels - Gas Turbine | 351,252 | 265,277 | (85,975) |
| 5 | Power Purchases - CF(L)Co | - | - | - |
| 6 | Power Purchases - Other | 11,772,644 | 29,928,330 | 18,155,686 |
| 7 | Depreciation | 25,649,271 | 27,884,999 | 2,235,728 |
| | Expense Credits: | | | |
| 8 | Sundry | (344,064) | (355,106) | (11,042) |
| 9 | Building Rental Income | (4,000) | (7,200) | (3,200) |
| 10 | Tax Refunds | - | - | - |
| 11 | Suppliers' Discounts | (42,025) | (17,755) | 24,270 |
| 12 | Pole Attachments | (471,791) | (883,099) | (411,308) |
| 13 | Secondary Energy Revenues | - | - | - |
| 14 | Wheeling Revenues | - | (70,964) | (70,964) |
| 15 | Application Fees | (23,000) | (19,452) | 3,548 |
| 16 | Meter Test Revenues | - | (53,193) | (53,193) |
| 17 | Total Expense Credits | (884,880) | (1,406,769) | (521,889) |
| 18 | Subtotal Expenses | 186,565,765 | 214,006,809 | 27,441,044 |
| 19 | Disposal Gain/Loss | 874,978 | 515,443 | (359,535) |
| 20 | Subtotal Rev Req't Before Interest and Margin | 187,440,743 | 214,522,252 | 27,081,509 |
| 21 | Interest | 83,978,036 | 98,908,681 | 14,930,645 |
| 22 | Margin | 5,659,122 | 15,958,071 | 10,298,949 |
| 23 | Total Revenue Requirement | 277,077,901 | 329,389,004 | 52,311,103 |
| 24 | Amount Allocated to Rural customers | 49,271,259 | 54,593,258 | |
| 25 | Percent Allocated to Rural customers | 18% | 17% | |

**NEWFOUNDLAND & LABRADOR HYDRO
Comparison of Island Interconnected Rural Deficit
2001-2002-2003**

| Line No. | Description | 1 | 3 | 4 | 5 |
|-------------|---|---|---------------------|---------------------|---|
| | | | 2002 (\$) | 2004 (\$) | Increase (Decrease) 2002-2004 (\$) |
| 1 | Revenue | | 31,600,253 | 35,167,578 | 3,567,325 |
| 2 | Allocated Revenue Requirement (less Revenue Credit) | | 49,207,255 | 54,588,734 | 5,381,479 |
| 3 | Deficit | | <u>(17,607,002)</u> | <u>(19,421,156)</u> | <u>(1,814,154)</u> |