

1 Q. On page 3 of Exhibit JRH-1, Fuel Oil Practices Review and Policy, December
2 10, 2002, it is stated that there are potential significant costs, expected to be
3 in the tens of thousands or higher, in terms of administration, consulting
4 services and regulatory burden associated with the implementation of an oil
5 hedging program. As a result, NLH concluded that the benefits of an oil
6 hedging program over the RSP is of little additional real value. Please
7 respond to the following:

8

9 (a) Would NLH recommend implementation of a hedging program if the
10 RSP were eliminated, and if so, which hedging program?

11

12 (b) Would a hedging program be likely to result in the build up of an RSP-
13 like account balance of \$161 million, representing almost half of the
14 revenue requirement? If so, please explain the conditions under
15 which such an event might happen.

16

17 (c) What are the estimated costs of the RSP in terms of administration,
18 consulting services and regulatory burden?

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21 A. (a) If the RSP were eliminated, a fuel cost recovery mechanism would be
22 required. The implementation of a hedging program in the interests of
23 rate stability would entail greater costs. It would be necessary to
24 determine the point at which added rate stability is not considered by
25 the ratepayer to be worth the extra cost. Board approval for a hedging
26 program would be required.

1 (b) No. As mentioned in our answer to (a) above, if the RSP were
2 eliminated, a fuel cost recovery mechanism would be required. Gains
3 or losses on hedge positions would be realized at the consummation
4 of each hedging contract. Actual fuel costs for a given purchase
5 would reflect costs incurred as per the contract with the fuel vendor,
6 coupled with any gains or losses realized on related hedges.

7
8 (c) Hydro expends approximately \$10,000 per annum in internal salaries
9 in the ongoing administration of the RSP. In addition to these costs,
10 periodic expenses are incurred in connection with the regulatory
11 process. These could take the form of meetings, technical
12 conferences, periodic written and financial reports, rate application
13 evidence, testimony, consulting services, and responses to requests
14 for information.