

1 Q. With reference to the discussion paper attached to Mr. Wells' Pre-filed
2 Evidence on Hydro Rural Deficit Issues for Minister of Mines and Energy,
3 page 2 of 14, the table indicates a significant increase in the rural deficit
4 owing to Rural Island Interconnected customers in 2001, and again in 2002.
5 What contributed to these significant increases?

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8 A. Please see attached page 2 for calculation of the rural deficit in 2000, 2001
9 and 2002. In 2001, Rural Island Interconnected revenues decreased by \$1.3
10 million, thereby increasing the deficit. While there was a reduced rural load
11 in 2001 compared to 2000, approximately \$650,000 of the reduced revenues
12 is attributable to a refund to customers as the result of passing on a
13 Newfoundland Power rate decrease. As well, as shown on page 3 attached,
14 the Island Interconnected revenue requirement increased by \$43.2 million,
15 primarily due to increased fuel costs.

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17 The 2002 data is based on the final forecast Test Year Cost of Service Study
18 filed with the Board during the last rate hearing. Although rural revenues
19 increased from 2001, and the total Island Interconnected revenue
20 requirement decreased significantly, the percentage of the revenue
21 requirement allocated to rural customers increased significantly. The primary
22 cause of that increase was the assignment of Great Northern Peninsula
23 transmission and generation assets to Hydro rural customers, in accordance
24 with Order No. P.U. 7, (2002-2003).

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

Line No.	Description	1	3	4	5	6	7
			2000 (\$)	2001 (\$)	2002 (\$)	Increase (Decrease) 2000-2001 (\$)	Increase (Decrease) 2001-2002 (\$)
1	Revenue		30,156,707	28,874,802	31,600,253	(1,281,905)	2,725,451
2	Allocated Revenue Requirement (less Revenue Credit)		36,906,803	40,947,341	49,207,255	4,040,538	8,259,914
3	Deficit		<u>(6,750,096)</u>	<u>(12,072,539)</u>	<u>(17,607,002)</u>	<u>(5,322,443)</u>	<u>(5,534,463)</u>

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

Line No.	1	3	4	5	6	7
	Description	2000	2001	2002	Increase (Decrease) 2000-2001	Increase (Decrease) 2001-2002
		(\$)	(\$)	(\$)	(\$)	(\$)
	Revenue Requirement					
	Expenses					
1	Operating, Maintenance and Admin.	73,129,657	70,170,832	67,976,826	(2,958,826)	(2,194,006)
2	Fuels - No. 6	49,465,999	98,850,378	81,662,072	49,384,379	(17,188,306)
3	Fuels - Diesel	56,168	61,000	38,580	4,832	(22,420)
4	Fuels - Gas Turbine	73,381	63,154	351,252	(10,227)	288,098
5	Power Purchases - CF(L)Co	-	-	-	-	-
6	Power Purchases - Other	12,672,063	12,609,557	11,772,644	(62,506)	(836,913)
7	Depreciation	28,838,802	25,174,583	25,649,271	(3,664,219)	474,688
	Expense Credits:					
8	Sundry	(429,462)	(415,011)	(344,064)	14,451	70,947
9	Building Rental Income	(6,930)	(5,362)	(4,000)	1,568	1,362
10	Tax Refunds	-	-	-	-	-
11	Suppliers' Discounts	(42,626)	(44,586)	(42,025)	(1,960)	2,561
12	Pole Attachments	(614,711)	(636,213)	(471,791)	(21,502)	164,422
13	Secondary Energy Revenues	(4,260)	(433)	-	3,827	433
14	Wheeling Revenues	(185,368)	(350,957)	-	(165,589)	350,957
15	Miscellaneous Customer Revenues	(2,201)	(1,686)	-	515	1,686
16	Application Fees	(22,704)	(21,134)	(23,000)	1,570	(1,866)
17	Total Expense Credits	(1,308,261)	(1,475,382)	(884,880)	(167,121)	590,502
18	Subtotal Expenses	162,927,808	205,454,121	186,565,765	42,526,313	(18,888,356)
19	Disposal Gain/Loss	2,186,391	1,724,552	874,978	(461,839)	(849,574)
20	Subtotal Rev Req't Before Interest and Margin	165,114,199	207,178,673	187,440,743	42,064,474	(19,737,930)
21	Interest	96,838,294	86,587,610	83,978,036	(10,250,684)	(2,609,574)
22	Margin	2,101,303	13,531,593	5,659,122	11,430,290	(7,872,471)
23	Total Revenue Requirement	264,053,796	307,297,875	277,077,901	43,244,080	(30,219,975)
24	Amount Allocated to Rural customers	36,906,803	40,947,341	49,271,259		
25	Percent Allocated to Rural customers	14%	13%	18%		