

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 3 of 14, why do customers on the Labrador Interconnected system pay
4 49% more than their cost of service as their share of the rural deficit,
5 compared to only 19% more for Newfoundland Power?
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8 A. The numbers quoted in the above discussion paper are derived from the final
9 2002 Forecast Cost of Service (Schedule G August 2002), as follows:
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Customer	Cost of Service	Deficit Allocation	Deficit as a Percent of Costs
Newfoundland Power	\$181,285,790	\$33,754,247	19%
Rural Labrador Interconnected	\$10,128,648	\$4,923,750	49%

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15 The deficit allocation, as a percentage of costs, varies between
16 Newfoundland Power and Rural Labrador Interconnected because the cost
17 of service for each customer is not the only basis by which the deficit
18 allocation is performed. The deficit allocation follows the methodology
19 approved by the Public Utilities Board and is a three-step process as follows:
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- 21 (1) The totals of each customer's demand, energy and customer costs are
22 used to classify the deficit into demand, energy, and customer
23 components.
- 24 (2) Demands, energy, and customers are used to derive unit costs of deficit.
- 25 (3) Unit deficit costs are applied to each customer's demand, energy and
26 customer units to perform the allocation of deficit.

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28 These calculations are found on Schedule 1.2.1 of the Cost of Service.