

1 Q. In his pre-filed testimony (p.14) Mr. Roberts indicated that the PUB has
2 directed NLH not to earn any return on equity on the Isolated Rural and
3 Island Interconnected Systems.
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5 (a) Please clarify this directive in terms of its relation to the rural deficit. In
6 particular, are the figures on the rural deficit based on costs that
7 exclude any return on equity?
8

9 (b) Is NLH's application for a 10.75% return on equity applicable to equity
10 exclusive of the equity in these rural systems or does it include that
11 equity?
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14 A. (a) There is no return on equity included in the rural deficit for Rural Island
15 Interconnected, Isolated Systems, or L'Anse au Loup assets. For
16 these assets, Hydro will only recover its weighted average cost of
17 debt. The exclusion of these assets, for purposes of calculating return
18 on equity, is shown on page 2 of the Cost of Service Study, Exhibit
19 RDG-1, at line 9.
20

21 However, because Rural rate classes are allocated with a portion of
22 the costs associated with Common Island Interconnected assets,
23 there is \$1,027,415 of return on equity included in the costs
24 comprising the Rural deficit. This amount can be found on page 34 of
25 the Cost of Service Study, line 38, column 2.
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27 (b) Hydro's application for 10.75% return on equity excludes equity on
28 Rural assets, as shown in the attached table.

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(a) Average rate base, Exhibit RDG-1, page 2, line 8	1,485,468
(b) Less Rural rate base, Exhibit RDG-1, page 2, line 9	<u>(213,761)</u>
(c) Average rate base net of Rural portion	1,271,707
 (d) Capital structure equity ratio	 <u>12.15%</u>
(e) Equity component of rate base, excluding Rural portion, (c) x (d)	<u>154,512</u>
(f) Return on equity component of rate base	<u>10.75%</u>
(g) Return on equity included in the Cost of Service, (e) x (f) Exhibit RDG-1, page 2, line 21, column 2	 <u>16,610</u>

From a total rate base perspective, this results in an effective Return on Rate Base, Equity Component of 9.2%, calculated as follows:

(h) Average rate base, Exhibit RDG-1, page 2, line 8	1,485,468
(i) Capital structure equity ratio	<u>12.15%</u>
(j) Equity component of rate base (h) x (i)	<u>180,484</u>
(k) Return on equity included in the Cost of Service Exhibit RDG-1, page 2, line 21, column 2	 <u>16,610</u>
(l) Return on equity component of rate base, (k) / (j)	<u>9.20%</u>