

**Perry and Henderson**

**Q. Please explain the impact of the existing RSP load variation provision on Newfoundland Power's purchased power expense.**

**A. RSP charges do not affect Newfoundland Power's purchased power expense.**

RSP amounts paid to Hydro and collected from customers are treated as offsetting flow-through amounts in the accounts of Newfoundland Power, and affect neither purchased power expense nor revenue as reported on Newfoundland Power's income statement. Newfoundland Power's revenue from rates for income statement purposes is based on rates approved by the Board exclusive of the Rate Stabilization Account (RSA) adjustment and the Municipal Tax Adjustment (MTA). Newfoundland Power's purchased power expense for income statement purposes is also exclusive of Rate Stabilization Plan (RSP) charges, and operating expenses for income statement purposes exclude municipal taxes.

The Company's practice of reporting revenue from rates excluding RSA and MTA is in accordance with the Board's approval to establish the Rate Stabilization Account in Order No. P.U. 34 (1985) and to establish the Municipal Tax Account in Order No. P.U. 17 (1987).