

1 Q. Please provide all studies, documents, data, calculations and workpapers
2 used in calculating the approximated 7.6% flow-through increase in rates for
3 rural customers on the Island Interconnected System as stated in Mr.
4 Banfield's Evidence, page 7, lines 14 to 17.

5

6

7 A. The 7.6% flow-through increase in rates applies to Hydro's rural customers
8 whose rates are directly affected by a change in rates to Newfoundland
9 Power's customers, namely, Island Rural Interconnected customers,
10 customers serviced from the L'Anse au Loup system, and Isolated Rural
11 customers, other than government departments and agencies (see Order No.
12 P.U. 7 (2002-2003), page 180, paragraph 25).

13

14 The wholesale increase to Newfoundland Power, related to the total rate, is
15 first calculated. The rates used to calculate the Total Rate Wholesale
16 Increase of 13.1% are in Table 10, page 21 of the Rates and Customer
17 Services Evidence. The Total Rate Wholesale Increase is multiplied by 58%
18 to derive the estimated flow-through increase of 7.6%.

19

20 The 58% represents the percentage of Newfoundland Power's cost of
21 purchased power from Hydro in relation to its total revenue requirement.
22 Specifically, the 58% was determined from the Finance & Accounting
23 Evidence, dated October 11, 2002, filed with Newfoundland Power's 2003
24 General Rate Application, page 22, line 13 (see attached).

1 10 years. Low oil prices in the mid 1990s resulted in some customers switching to furnace oil.
2 Conversely, stable electricity price combined with higher furnace oil prices in recent years has
3 resulted in some customers switching to electricity. Changes in these markets, particularly in the
4 longer-term, could significantly impact the Company's revenue flows and the Company's ability
5 to meet its financial obligations.

6 7 **2.2.2 Fixed and Variable Costs**

8 The major risks associated with Newfoundland Power's expenses are purchased power from a
9 single supplier and operating expenses that are largely fixed or beyond the Company's direct
10 control.

11
12 Newfoundland Power obtains approximately 90 per cent of its energy from Newfoundland &
13 Labrador Hydro. The cost of purchased power represents about 58 per cent of the price of
14 electricity to Newfoundland Power customers. Newfoundland Power has no direct control over
15 these costs. Higher fuel costs and new generation will contribute to increases in purchased
16 power costs. This in turn raises electrical rates and increases the competitive position of
17 alternative energy sources available to customers.

18
19 Newfoundland Power has effectively managed its variable expenses. However, a large portion
20 of the Company's expenses are practically fixed.

21
22 The proportion of expenses such as purchased power, depreciation, interest and taxes over which
23 management has little control, compared to the proportion of expenses over which there is