

**Board of Commissioners of Public Utilities  
Newfoundland and Labrador Hydro  
2006 General Rate Application  
Financial Consultants Supplementary Report**

Grant Thornton 

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## **Introduction and scope**

On December 6, 2006, Newfoundland & Labrador Hydro (Hydro) submitted a revised filing to the Board with respect to its 2006 General Rate Application. This revised filing incorporated the terms of the following four agreements negotiated between Hydro and the registered intervenors at the Hearing:

- October 20, 2006 Agreement on Cost of Service, Rate Design and Rate Stabilization Plan matters;
- November 23, 2006 Agreement on Cost of Service, Rate Design and Other Issues;
- November 23, 2006 Agreement on Matters pertaining to Revenue Requirement; and
- November 23, 2006 Agreement on Labrador Interconnected Rates.

As stated by Hydro in its filing, these Agreements (referred to as the “Settlement Agreements”) are non-severable and collectively represent a settlement between the parties on the majority of issues arising in the 2006 General Rate Application.

Grant Thornton has undertaken a review of the revised Application focusing on the changes to Hydro’s 2007 test year forecast revenue requirement, forecast average rate base and allowed rate of return on average rate base. In addition we have reviewed changes related to the operation of the Rate Stabilization Plan (RSP). In conducting our review we have performed the following procedures:

- reviewed each of the Settlement Agreements to identify the elements which give rise to revisions in the forecast revenue requirement, forecast rate base and rate of return on rate base;
- reviewed the revised Application, including Schedule A thereto containing certain revised Finance and Accounting Schedules, to assess whether the agreed changes to forecast revenue requirement, forecast rate base and rate of return on rate base are appropriately reflected in the revised Application;
- reviewed the revised Finance and Accounting Schedules for accuracy and completeness;
- reviewed each of the Settlement Agreements to identify the elements which relate to the operation of the RSP and give rise to changes in the RSP rules;
- reviewed Schedule C of the revised Application to assess whether the agreed changes to the RSP are appropriately reflected in the RSP rules; and

- 1 • made inquiries and obtained additional documentation, where appropriate, to support  
2 the revisions to 2007 forecast revenue requirement, forecast rate base and rate of  
3 return on rate base as well as revisions to the RSP rules.  
4

## 5 **Observations and findings**

6  
7 Based on completion of the procedures described above we present the following  
8 observations and findings for the Board's consideration:  
9

- 10 • the revised forecast 2007 test year revenue requirement (before return on rate base) of  
11 \$320,372,000 appropriately incorporates the impact of the agreed changes as per the  
12 Settlement Agreements;  
13  
14 • the revised forecast 2007 average rate base of \$1,489,323,000 appropriately  
15 incorporates the impact of the agreed changes as per the Settlement Agreements;  
16  
17 • the proposed revised rate of return on average rate base of 7.44% for 2007  
18 appropriately incorporates the agreed changes to forecast interest rates, embedded  
19 cost of debt, forecast return on equity and resulting changes to weighted average cost  
20 of capital as per the Settlement Agreements;  
21  
22 • the revised forecast total 2007 revenue requirement including return on rate base is  
23 \$431,079,000.  
24  
25 • the revised RSP rules as set out in Schedule C of the revised Application  
26 appropriately incorporates the agreed RSP changes as per the Settlement Agreements.  
27

28 In addition to the above we would like to bring to the Board's attention two points we  
29 noted in the Settlement Agreements which we believe to be important. Firstly, in several  
30 instances it was stated that the Agreement represented a reasoned consensus on the stated  
31 issues and the individual agreements of the parties are not intended to be severable. We  
32 understand and acknowledge that many of the agreed revisions are interrelated and  
33 therefore the reasonableness of the proposed revisions are best assessed in an overall  
34 context.  
35

36 The second item noted is contained in the November 23, 2006 Agreement on Cost of  
37 Service, Rate Design and Other Issues (page 2, paragraph 3) and states, "The parties  
38 further agree that this Agreement is without prejudice and sets no precedent on any  
39 particular and individual issue in any future proceeding or forum, including but not  
40 limited to any future General Rate Applications or review processes". Considering the  
41 non-severability of the agreements we would understand this statement to apply to all

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1 matters agreed upon by the parties. Further, it is our understanding that the negotiated  
2 settlements, which form the basis of Hydro's revised Application, were made in the  
3 context of the current circumstances including all related evidence filed in this hearing.  
4  
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*Grant Thornton LLP*

6  
7 St. John's, Newfoundland  
8 January 12, 2007  
9

Grant Thornton LLP  
Chartered Accountants