

1 Q. With regard to the report entitled *Review of the Operation of the Rate*
2 *Stabilization Plan* dated June 30, 2006 (page 25), Hydro indicates it wishes
3 to explore options with its customers and the Board to identify a reasonable
4 solution that will limit Hydro's financial exposure (both positive and negative)
5 to variances in isolated systems diesel fuel and power purchase costs. What
6 options are being proposed by Hydro?

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9 A. Hydro is proposing that the effects of changes in actual average diesel fuel
10 unit costs for its isolated systems, and actual average power purchase costs
11 for its isolated systems, from those incorporated in the Test Year Cost of
12 Service, be stabilized in the RSP. The new diesel fuel and power purchase
13 provisions would be similar to the existing Rural rate alteration provision, in
14 that the amounts would be allocated between Newfoundland Power and
15 regulated Labrador Interconnected customers in the same proportion which
16 the Rural Deficit was allocated in the approved Test Year Cost of Service
17 Study. The portion allocated to regulated Labrador Interconnected will be
18 removed from the Plan and written off to Hydro's net income (loss).

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20 Hydro believes that this item can be explored fully during the negotiation
21 process. If agreement can be reached among the parties, it is Hydro's
22 intention to submit proposed revisions to the rules governing the Rate
23 Stabilization Plan for the Board's consideration.