

1 Q. Please provide a table comparing revenue requirement and corresponding  
2 rate increases for NP, ICs and Rural as proposed in the Application to  
3 revenue requirement and corresponding rate increases if Hydro's operations  
4 and maintenance expenses (identified in Chart 5 on page 13 of Mr. Martin's  
5 evidence) were allowed to increase in 2007 at the average real increase  
6 experienced since 2002 through the end of 2006. For example, if inflation  
7 averaged 3%/year (i.e., GDP deflator in 2006 is 12% greater than in 2002),  
8 and Hydro's operations and maintenance expenses were flat (i.e., expenses  
9 in 2006 were the same as expenses in 2002), expenses for the 2007 test  
10 year would be set at 2006 actual expenses multiplied by the forecast GDP  
11 deflator for 2007 less 3%.

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13  
14 A. Based on Hydro's interpretation of this request for information, Hydro has  
15 calculated a \$6 million decrease in forecast normal operating expenses for  
16 2007, as outlined in the following table. Hydro notes that the result so  
17 calculated may have limited interpretative value. Hydro's 2006 normal  
18 operating expense did not have a large thermal overhaul expense required  
19 for Holyrood. By contrast, Hydro's budgeted 2007 operating expense  
20 includes the thermal overhaul expense. In addition, Hydro's current salary bill  
21 has been impacted by the recent salary freeze.

22  
23 As a point of reference, Hydro also observes that if its actual operating  
24 expense in 2002 had been subjected to alternative regulation after 2002,  
25 where Hydro was entitled to an annual inflation adjustment less 1% for its  
26 operating expenses, the 2007 budgeted operating expense would be in the  
27 order of \$94.5 million. This stands in contrast to Hydro's 2007 cost of service  
28 operating expense budget of \$92.4 million. This also serves to illustrate that

the high apparent rate of productivity gain in the 2002 to 2006 period may be misleading due to budget considerations such as noted above.

Operating Expense Budget Calculation  
Based on 2002 to 2006 Constant Dollar Performance

1	Average annual change in constant dollar operating expense (2002 to 2006)	-2.74%
2	Inflation adjustment for 2007	1.25%
3	Net adjustment (2-1)	-1.49%

**\$ 000**

4	Normal operating expense in 2006	87,671
5	Calculated operating expense in 2007 ((4*3)+4)	86,365
6	2007 test year normal operating expense budget	92,386
7	Change from 2007 test year normal operating expense budget (5-6)	(6,021)

The attached customer impacts were derived by applying a \$6 million adjustment to general and administrative costs, so that all areas of Hydro are affected. Specific areas have not been targeted with any portion of the adjustment. The attached impacts exclude related changes to interest, revenues, and working capital.

The change in increases for Newfoundland Power, Island Industrials, and end consumers are shown in the following table. Detailed rate increases for Rural customers have not been quantified.

**Total Customer Rate Increases**

	<b>As Filed</b>	<b>CA 194</b>
Newfoundland Power	6.6%	5.1%
Island Industrial	8.2%	7.3%
End Consumer	4.6%	3.5%

**Newfoundland and Labrador Hydro  
2007 Forecast Cost of Service CA 194 (O&M Reduction of \$6.021 M)**

	1	2	3	4	5	6
	Revenue Requirement Before Revenue Credit and Deficit Allocation			Revenue Requirement After Revenue Credit and Deficit Allocation		
	2007 Test Year Orig Filing July 06	CA - 194 Real O&M	Increase (Decrease)	2007 Test Year Orig Filing July 06	CA - 194 Real O&M	Increase (Decrease)
<b>Total System</b>						
1 Newfoundland Power	291,082,517	287,942,218	(3,140,299)	330,000,455	324,923,667	(5,076,789)
2 RSP Activity	-	0	-	(2,813,027)	(2,813,904)	(877)
3 Subtotal Newfoundland Power	291,082,517	287,942,218	(3,140,299)	327,187,429	322,109,763	(5,077,666)
4 Island Industrial	44,560,431	44,140,588	(419,843)	44,832,866	44,413,987	(418,879)
5 Labrador Industrial	2,897,096	2,872,604	(24,493)	2,897,096	2,872,604	(24,493)
6 CFB - Goose Bay Secondary	138,636	138,613	(23)	4,548,798	4,548,798	-
7 Rural Labrador Interconnected	11,411,158	11,158,480	(252,678)	14,574,337	14,074,374	(499,963)
<b>Rural Deficit Areas</b>						
8 Island Interconnected	56,576,743	55,466,659	(1,110,084)	39,721,329	39,721,329	-
9 Island Isolated	8,630,461	8,332,972	(297,489)	1,471,495	1,471,495	-
10 Labrador Isolated	25,245,150	24,544,404	(700,746)	7,239,552	7,239,552	-
11 L'Anse au Loup	3,726,009	3,650,664	(75,346)	1,795,300	1,795,300	-
12 Subtotal	94,178,363	91,994,699	(2,183,664)	50,227,676	50,227,676	-
13 Total	444,268,202	438,247,202	(6,021,000)	444,268,202	438,247,202	(6,021,000)