

1 Q. With regard to the report entitled *2005 Annual Return* (Return 20), specifically,
2 the 2005 Annual Report on the Rural Deficit:

3 a. Why is the cost/kWh for Island Isolated customers (\$0.95/kWh) so much
4 greater than the cost/kWh for Labrador Isolated customers
5 (\$0.66/kWh)?

6 b. Is it accurate to state that each customer on an isolated system received a
7 subsidy in excess of \$7000 in 2005?

8 c. How does the subsidy of \$7000/year compare to the cost to install,
9 operate and maintain an individual generator at a home in an isolated
10 community?

11 d. What are the principle drivers of the increase in the forecast deficit from
12 \$37.1 million in 2005 to \$43.3 million in 2010?

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15 A. With regard to the report entitled *2005 Annual Return* (Return 20), specifically,
16 the 2005 Annual Report on the Rural Deficit:

17 a. The cost/kWh for Island Isolated customers is \$0.29 higher than the
18 cost/kWh for Labrador Isolated customers. The difference is a result of
19 the impact of several components as per the following table:

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Description	Island Isolated (\$)	Labrador Isolated (\$)	Island Isolated (\$/kWh)	Labrador Isolated (\$/kWh)	Difference (\$/kWh)
Operating, Maintenance and Admin.	4,509,616	10,455,508	0.50	0.32	0.18
Fuels - Diesel	2,132,400	7,175,799	0.24	0.22	0.02
Power Purchases - Other	82,546	32,194	0.01	0.00	0.01
Depreciation	699,855	2,036,326	0.08	0.06	0.02
Expense Credits	(72,879)	(194,553)	(0.01)	(0.01)	(0.00)
Disposal Gain/Loss	403,178	122,818	0.04	0.00	0.04
Return on Debt	750,508	1,995,064	0.08	0.06	0.02
Total	8,505,224	21,623,155	0.95	0.66	0.29

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Economies of scale are largely responsible for the cost/MWh differences as demonstrated in the table below. The presence of larger customers and/or higher electricity requirements, including seafood processing facilities, in some of the Labrador coastal communities gives the opportunity to spread fixed costs of the diesel plant and salary costs related to mandatory staffing levels over a larger number of kilowatt-hour sales.

	<u>Island Isolated</u>	<u>Labrador Isolated</u>
O&M Expense	\$4,509,616	\$10,455,508
Depreciation	699,855	2,036,326
Return on Debt	750,508	1,995,064
Subtotal	\$5,959,979	\$14,486,898
Number of Systems	7	15
Cost per System	\$851,426	\$965,793
MWh Sales per System	1,283	2,187
Cost per MWh	\$664	\$442

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- 1 b. Yes, it is accurate to state that on average each customer on an isolated
2 system received a subsidy in excess of \$7,000 in 2005.
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- 4 c. No analysis has been done to compare the subsidy of \$7,000/year to
5 the cost to install, operate and maintain an individual generator at a home
6 in an isolated community.
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- 8 d. The principal driver of the increase in the forecast deficit is a fuel cost
9 increase of approximately \$5 million.