

1 Q. Reference: Corporate Finance: Evidence, p. 5 (lines 25-28). Please provide a
2 copy of Hydro's policy with regard to the allocation of costs incurred by the
3 Regulated Operations or Support Services divisions to non-regulated
4 activities that was originally filed with the Board as directed in Order No. P.U.
5 7 (2002-2003) and please state whether the same has been since amended
6 and, if so, provide the amendments.

7
8
9 A. Please find attached Hydro's policy with respect to Non-Regulated
10 Operations as filed in response to Order No. P.U. 7 (2002-2003). The policy
11 has been updated and is attached as well.



NON-REGULATED OPERATIONS

Newfoundland and Labrador Hydro

December 2002

Table of Contents

	Page #
Definition And Procedures.....	1
1. (i) Churchill Falls (Labrador) Corporation Limited.....	3
1. (ii) Lower Churchill Development Corporation Limited	11
1. (iii) Gull Island Power Company Limited.....	12
2. Supply Of Power To The Iron Ore Company Of Canada	13
3. All Export Sales.....	14
4. New Business Development	16
5. Labrador Hydro Project	17
6. Other Specific Non-Regulated Costs	18

DEFINITION AND PROCEDURES

Non-Regulated Operations Definition:

All costs associated with any asset which is not used and useful in the generation, transmission and distribution of electrical power and energy by Newfoundland and Labrador Hydro within the Province of Newfoundland and Labrador; activities exempted by specific legislation; and costs specifically identified by the Public Utilities Board as being non-recoverable from rate payers.

Procedures:

1. All non-regulated operations must be reported to the Corporate Controller who will ensure that business units and if applicable, work orders are set up to track costs. Consultation will take place with the Rates & Financial Planning Section to ensure that their requirements for a cost of service study are met.
2. In the event of any uncertainty as to whether an activity/cost is to be non-regulated, details should be referred to the Corporate Controller for a decision.
3. The Corporate Controller will consult with the Rates & Financial Section on all requests for clarification so as to ensure the integrity of the cost of service data.

LIST OF NON-REGULATED ACTIVITIES

To date the following activities/costs have been determined to be non-regulated:

1. All activities associated with the following subsidiary companies:
 - (i) Churchill Falls (Labrador) Corporation Limited
 - (ii) Lower Churchill Development Corporation Limited
 - (iii) Gull Island Power Company Limited
2. Supply of power to the Iron Ore Company of Canada
3. All Export Sales
4. New Business Development
5. All activities/costs associated with the Labrador Hydro Project negotiations/
activities re the Lower Churchill hydroelectric developments
6. Other Specific Non-Regulated Costs defined in Section 6 of this policy

1. (i) CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

Cost Recoveries Agreement

The services provided to Churchill Falls (Labrador) Corporation (“CF(L)Co”) by Newfoundland and Labrador Hydro (“Hydro”) are rendered according to an agreement (“Cost Recoveries Agreement”) between the parties, which is reviewed annually to reflect any changing conditions in the services to be provided. The recoveries are estimated at the beginning of each year based primarily upon the prior year’s actual costs plus any adjustments that are required as a result of updated information concerning services to be provided in that year. In addition a year-end adjustment is calculated based on a review of actual costs and services incurred/rendered by Hydro.

CF(L)Co is also responsible for providing services to Twin Falls Power Corporation Limited (Twinco) and the cost for these services is borne by CF(L)Co.

Cost Allocations

Specific work orders have been created in most areas of Hydro to capture the costs of providing services to CF(L)Co. For the most part, salary costs are apportioned to these work orders based on timesheet reporting using a billing rate to cover salary costs and payroll related benefits. The ratio between actual salaries reported in the work order and total actual salaries for the Business Unit is generally used to allocate other applicable costs for the Business Unit.

The following are the various departments that provide services to CF(L)Co:

1. (i) CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED (cont'd.)

a) Management

Salary costs for Executive Management services for CF(L)Co are recorded using time sheets. The ratio of the total dollar value of time reported to the total salary dollars of Executive Management is determined and applied to salary costs for Executive Assistants and other applicable expenses.

The Executive Assistants in this department do not prepare time sheets for CF(L)Co services. The costs for these employees are allocated based on the percentage calculated from the time reported by Hydro's Executive Management. Since their efforts are a support function for Executive Management, this is felt to be a reasonable allocation of the cost of this staff.

b) Legal

Salary costs for the services provided to CF(L)Co by the legal staff are recorded using time sheets. The ratio of the total dollar value of time reported to the total salary dollars of legal staff is determined and applied to other applicable expenses.

c) Internal Audit

The Internal Audit Department determines an annual audit plan as part of the annual update of the Five Year Internal Audit Plan - CF(L)Co Internal Audit services are provided in the areas of Plant Maintenance, Plant Operations, Line Maintenance, Air Services, Warehouse, Municipal Maintenance, Fire and Security, Environmental Compliance, Hydro-Quebec Power Billings and Commercial Services. Payroll costs incurred in providing internal audit services to CF(L)Co are recorded using time sheets.

1. (i) CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED (cont'd.)

d) Engineering Services

This department provides services in all engineering disciplines and covers such items as:

- a) Design, Construction and Project Management
- b) Engineering studies, technical specifications and construction coordination
- c) Tender preparation and analysis including interaction with consultants
- d) Review and resolution of maintenance problems

Payroll costs incurred in providing engineering services to CF(L)Co are recorded using time sheets.

e) Environmental Services

The Environmental Services & Properties Department's activities relating to CF(L)Co include the auditing for compliance with government regulations and corporate policy, obtaining permits and approvals for proposed programs and advising CF(L)Co on environmental matters.

Payroll costs incurred in providing environmental services to CF(L)Co are recorded using time sheets.

f) Human Resources

Human Resources is responsible for the administration and coordination of all employee related services, employee benefit programs, pensions, recruitment, training and payroll as well as the maintenance of the corporate human resources database. Human Resources also administer the performance appraisal system, salary surveys and maintains a current organizational chart.

Payroll costs incurred in providing Human Resources services to CF(L)Co are recorded using time sheets.

1. (i) CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED (cont'd.)

g) Labor Relations & Safety

The Labor Relations & Safety Department is administratively responsible for the activities of the Human Resources Section in Churchill Falls and directly provides services relating to the negotiation and administration of collective agreements, the resolution of grievances and all union/management communications. The Department also directly provides Occupational Health services including wellness, disability and sick leave management, and medical screening as well as coordinating corporate efforts with regard to employee safety.

Payroll costs incurred in providing Labor Relations and Safety services to CF(L)Co are recorded using time sheets.

The Labor Relations Specialist (St. John's) does not prepare time sheets for CF services since these duties are performed by the Superintendent of Human Resources and Administration in CF(L)Co. The percentage calculated for Labor Relations takes this into account.

h) Financial Planning

Rates & Financial Planning Section (RFP) provides services to CF(L)Co for those activities that facilitate the production, review and distribution of CF(L)Co's annual Long-Term Financial Plan. As well, RFP is required to provide long-term financial planning and analyses for various scenarios up to and including timeframes to the end of the fiscal year in which the Power Contract expires, namely 2041. RFP is responsible for ensuring the CF(L)Co long-term planning model is updated and maintained in a current state from both a software and hardware perspective.

Payroll costs incurred in providing Financial Planning services to CF(L)Co are recorded using time sheets.

1. (i) CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED (cont'd.)

i) Risk Management & Public Relations

The Corporate Affairs and Risk Management Department provides corporate external and internal communication services as well as the placement, policy and claims administration, risk control and risk financing of the corporate insurance program.

Payroll costs incurred in providing Risk Management & Public Relations services to CF(L)Co are recorded using time sheets.

j) Controller

The Controller's Department provides accounting services to CF(L)Co through the Financial Reports & Budgets and Capital Reports & Disbursements sections. The most significant accounting services provided include the recording of actual costs in the general ledger, accounts payable and accounts receivable processing, account reconciliations, financial and capital reporting both internally and externally, as well as maintenance of the capital asset records. The Controller's Department is responsible for and provides assistance to various personnel in the preparation and review of the capital and operating budgets for CF(L)Co. This department, through the Module Support section, also provides advice and assistance to CF(L)Co in the use and maintenance of the various JDE system modules. The Controllers Department handles all matters relating to both federal and provincial taxation authorities for CF(L)Co, calculates preferred dividends and prepares various reports as required in the Shareholders Agreement.

Payroll costs incurred in providing Controller's services to CF(L)Co are recorded using time sheets.

1. (i) CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED (cont'd.)

k) Treasury

The Treasury Department is responsible for all debt and cash management activities for CF(L)Co.. Debt servicing includes determination of the interest subsidy, Contingent and Voluntary redemption amounts and the purchase and investment of US funds. Compliance with certain aspects of various contracts such as the Bond Purchase Agreement, the Guaranteed Winter Availability Contract, the CF(L)Co Power Contract with Hydro Quebec, and the Recapture Agreement with Newfoundland and Labrador Hydro, is ensured. Responsibilities under these agreements include issuance of invoices to Hydro Quebec and Newfoundland Hydro and calculations and administration of all aspects of the four-year review of the Annual Energy Base. Treasury also prepares the CF(L)Co interest expense budgets, makes investment decisions, and recommends common dividend levels. Audit work papers are prepared and reconciled to the General Ledger and explained to the Auditors.

Payroll costs incurred in providing Treasury services to CF(L)Co are recorded using time sheets.

l) I S & T

IS&T provides assistance and support to CF(L)Co in the areas of Software Applications, Planning and Integration and Business Solutions. This department is also responsible for the maintenance and administration of the Corporate Computer Operations and provides technical support to CF(L)Co's on-site analysts.

At present, IS&T costs, except for telephone costs for Hydro Place, are allocated based on the ratio of CF(L)Co personal computers to the total personal computers in the Hydro Group.

Satellite communications charges are billed directly to CF(L)Co by the supplier and do not form part of this agreement.

1. (i) CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED (cont'd.)

m) Materials Management & Administration

The Materials Management & Administration department coordinates all efforts involved in the procurement process activities for CF(L)Co including tendering, purchasing and contract administration. Materials management also provides training, advice and assistance to site personnel in the use of the Materials module of the JDE system. Purchasing activities for the Commercial Services department in CF(L)Co are performed at Site by the staff of the Commercial Services department and as such do not form part of the Cost Recoveries Agreement.

Payroll costs incurred in providing Materials Management services to CF(L)Co are recorded using time sheets.

Administration provides such services as library, mail, forms and office supplies as well as the receipt of goods for those employees involved in CF(L)Co activities in St. John's.

Currently the administrative costs within Hydro Place (such as postage, heat and light, maintenance materials, etc.) are allocated to CF(L)Co on the basis of the equivalent complement percentage.

The "equivalent complement" can be defined as the equivalent number of employees required to provide those services currently provided to CF(L)Co by Hydro under the Cost Recoveries Agreement. This calculation consists of three steps.

In step one of this calculation, for most departments, the total salaries for permanent employees recorded in the CF(L)Co work orders are expressed as a percentage of total permanent salaries for that department.

1. (i) CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED (cont'd.)

m) Materials Management & Administration (cont'd.)

In step two this percentage is multiplied by the total permanent complement for that department, adjusted for employees not involved in providing services to CF(L)Co or employees who are not resident at Hydro Place to arrive at the equivalent departmental complement.

In step three of the calculation, the equivalent departmental complements are totaled and divided by the total permanent complement for Hydro Place to arrive at the Equivalent Complement percentage.

This calculation must be performed annually as part of the year-end review of actual costs and services incurred by Hydro and the effect should be included in the year-end adjustment.

n) Maintenance Analyst

The Maintenance Analyst provides expertise in various functional processes of the organization to department managers and line employees of CF(L)Co, with special emphasis on the Maintenance Module of JDE.

Payroll costs incurred in providing the Maintenance Analyst's services to CF(L)Co are recorded using time sheets.

o) Drafting Support

Services from this section are provided only as part of special projects and time sheets are used to record incurred payroll costs.

1. (ii) LOWER CHURCHILL DEVELOPMENT CORPORATION LIMITED

Although this corporation is primarily inactive, minimal costs for such items as an annual report and an external audit are being incurred and Business Unit #1953 has been set up to capture these costs. Any employee involved in this venture will charge their time to a standard work order set up for this business unit by completing a time sheet. The following object accounts have also been set up within this Business Unit.

<u>Description</u>	<u>Object</u>
Transferred in Salaries	6035
Materials Maintenance	6105
Professional Services	6264

1. (iii) GULL ISLAND POWER COMPANY LIMITED

This corporation is primarily inactive but some costs are being incurred by Hydro and Business Unit #1954 has been set up to capture these costs. Any employee involved in this venture will charge their time to a standard work order set up for this business unit by completing a time sheet. The following object account has been set up within this business unit.

<u>Description</u>	<u>Object</u>
Transferred in Salaries	6035

2. SUPPLY OF POWER TO THE IRON ORE COMPANY OF CANADA

Power and energy sales to the Iron Ore Company of Canada (IOC) are a non-regulated activity.

IOC is a customer on the Labrador Interconnected system and consequently the portion of costs associated with this customer are derived from the Cost-of-Service. Rates charged this customer are based on a negotiated contract and do not require approval of the PUB.

In order to determine our regulated versus non-regulated net income, a revenue adjustment account has been set up in Business Unit 1952 and this adjustment will be equivalent to the margin Hydro earns for this customer. The annual adjustment will be based on the final cost of service for 2002 and in consultation with the Rates & Financial Planning Section, adjustments may be required for significant changes in load, major cost changes, actual Cost of Service studies, actual revenue requirements, etc.

3. ALL EXPORT SALES

Hydro meets the power and energy requirements for the Labrador Interconnected System primarily through an agreement with CF(L)Co. Under that agreement Hydro purchases recall power and energy up to a maximum of 300MW and 2,362 GWh annually. Power and energy surplus to meeting the needs of the Labrador Interconnected System is sold by Hydro to Hydro-Québec.

Business Unit #1950 has been set up to capture the revenue and costs associated with this venture and the following object accounts have been set up.

<u>Description</u>	<u>Object</u>	<u>Description</u>	<u>Object</u>
Sales Revenue	5025	Power Purchased Interest	7335
Interest Income	7705	Transferred in Salaries	6035
Power Purchased	7325	Dividends	8300

Any employee involved in this operation will allocate their time to a standard work order set up for this business unit by completing a time sheet.

System Operations will allocate the power purchase costs (budget, forecast and actual) as well as the interest associated with the power purchases.

The Board of Directors has authorized the payment of monthly dividends to the Province for the actual monthly net income from recall sales to Hydro Québec. The ratification of dividend payments is made at subsequent board meetings. Dividends are to be paid to the Province on the same day that funds are received from Hydro Québec and CF(L)Co is paid for the purchased power. For example January's net income would be paid out in February, February's net income paid out in March and so on.

Dividends associated with net profits on export sales are to be recorded in the same year that the net income is recorded for accounting purposes. Dividends are to be paid as outlined above and in December of each year a dividend would be declared based

3. ALL EXPORT SALES (cont'd.)

on our best estimate of net income for December but payable in January upon receipt of funds from Hydro Québec. From an accounting perspective, this will permit a dividend payable to be set up at year-end. Any difference between actual and forecast net income should be minimal and any final settlement would be done as a separate dividend in January.

4. NEW BUSINESS DEVELOPMENT

Business Unit #1956 has been set up to capture all costs related to non-regulated new business developments and work orders will have to be set up to track each activity. If an activity develops into a new business then a new business unit will be established. The following object accounts have been set up in this business unit:

<u>Description</u>	<u>Object</u>
Transferred in Salaries	6035
Professional Services	6264
Travel	6505

5. LABRADOR HYDRO PROJECT

Historically, Hydro has considered all costs associated with further development of the Churchill River in Labrador to be a non-regulated activity and therefore, not recoverable from ratepayers.

Capital Job Cost #10250 has been set up to capture all costs associated with the current Labrador Hydro Project including an allocation of corporate overhead and these costs form part of Hydro's construction work in progress. A separate payroll has been set up to accommodate employees hired exclusively for this project with all costs charged to the job cost. Hydro employees use time sheets to charge their time to the project. Wherever possible, supplier costs are clearly identified as being related to this project so that the costs are properly recorded.

6. OTHER SPECIFIC NON-REGULATED COSTS

Business Unit #1955 has been set up to capture non-regulated costs. Those identified to date are as follows:

a) Contributions and Donations

Expenditures for charitable donations, community and charitable advertisements, street light subsidy and scholarships are not allowed as regulated expenses.

All of these costs are to be recorded in this business unit in object #6610 and each region/department will use a work order to monitor their expenditures.

b) Advertising

Regulated advertising expenses are limited to matters relating to conservation, safety and consumer information. Advertising for corporate image building is not a regulated expense. Object account #6225 has been set up to record non-regulated advertising.

c) Companion Travel Costs

On occasion, Management approves the cost of a Hydro employee's companion attending a corporate function. These costs are to be recorded in this business unit in object account #6505.

d) Muskrat Falls

Hydro presently has some fully contributed capital assets in Labrador that are associated with Muskrat Falls, a non-regulated activity, and maintenance costs are incurred. These maintenance costs are to be recorded in this business unit and tracked by means of a work order.

6. OTHER SPECIFIC NON-REGULATED COSTS (cont'd.)

e) Big Brook and Barr'd Harbour

Both of these communities are located on the Northern Peninsula and receive electricity under a special arrangement approved by Government in the early 1970's. Hydro collects no revenue from either community but does supply diesel generation equipment and performs major maintenance. Consequently, this activity has been deemed non-regulated. Costs for these activities are recorded in this business unit and tracked by means of a work order.



Non-Regulated Operations

Table of Contents

	Page #
Definition And Procedures.....	1
1. (i) Churchill Falls (Labrador) Corporation Limited.....	3
1. (ii) Lower Churchill Development Corporation Limited	11
1. (iii) Gull Island Power Company Limited.....	12
2. Supply Of Power To The Iron Ore Company Of Canada	13
3. All Export Sales.....	14
4. New Business Development	15
5. Lower Churchill Project	16
6. Other Specific Non-Regulated Costs	17
7. Natuashish	19

DEFINITION AND PROCEDURES

Non-Regulated Operations Definition:

All costs associated with any asset or activity which is not used and useful in the generation, transmission and distribution of electrical power and energy by Newfoundland and Labrador Hydro within the Province of Newfoundland and Labrador; activities exempted by specific legislation; and costs specifically identified by the Public Utilities Board as being non-recoverable from rate payers.

Procedures:

1. All non-regulated operations must be reported to the Corporate Controller and Treasurer who will ensure that business units and if applicable, work orders are set up to track costs. Consultation will take place with the Rates & Financial Planning Department to ensure that their requirements for a cost of service study are met.
2. In the event of any uncertainty as to whether an activity/cost is to be non-regulated, details should be referred to the Corporate Controller and Treasurer for a decision.
3. The Corporate Controller and Treasurer will consult with the Rates & Financial Department on all requests for clarification so as to ensure the integrity of the cost of service data.

LIST OF NON-REGULATED ACTIVITIES

To date the following activities/costs have been determined to be non-regulated:

1. All activities associated with the following subsidiary companies:
 - (i) Churchill Falls (Labrador) Corporation Limited
 - (ii) Lower Churchill Development Corporation Limited
 - (iii) Gull Island Power Company Limited
2. Supply of power to the Iron Ore Company of Canada
3. All Export Sales
4. New Business Development
5. All activities/costs associated with the Lower Churchill Project
6. Other Specific Non-Regulated Costs defined in Section 6 of this policy
7. Natuashish

1. (i) CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

Cost Recoveries Agreement

The services provided to Churchill Falls (Labrador) Corporation (“CF(L)Co) by Newfoundland and Labrador Hydro (“Hydro”) are rendered according to an agreement (“Cost Recoveries Agreement”) between the parties, which is reviewed annually to reflect any changing conditions in the services to be provided. The recoveries are estimated at the beginning of each year based primarily upon the prior year’s actual costs plus any adjustments that are required as a result of updated information concerning services to be provided in that year. In addition a year-end adjustment is calculated based on a review of actual costs and services incurred/rendered by Hydro.

CF(L)Co is also responsible for providing services to Twin Falls Power Corporation Limited (TWINCo) and the cost for these services is borne by CF(L)Co.

Cost Allocations

Specific work orders have been created in most areas of Hydro to capture the costs of providing services to CF(L)Co. Salary costs are apportioned to these work orders based on timesheet reporting using a billing rate to cover salary costs and payroll related benefits. Other costs are allocated based on the ratio between actual salaries reported in the work order and total actual salaries for the Business Unit.

The following are the various departments that provide services to CF(L)Co:

1. (i) CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED (cont'd.)

a) Leadership Team

Salary costs for Executive Management services for CF(L)Co are recorded using time sheets. The ratio of the total dollar value of time reported to the total salary dollars of Executive Management is determined and applied to salary costs for Executive Assistants and other applicable expenses.

The Executive Assistants in this department do not prepare time sheets for CF(L)Co services. The costs for these employees are allocated based on the percentage calculated from the time reported by Hydro's Executive Management. Since their efforts are a support function for Executive Management, this is felt to be a reasonable allocation of the cost of this staff.

b) Legal

Salary costs for the services provided to CF(L)Co by the legal staff are recorded using time sheets. The ratio of the total dollar value of time reported to the total salary dollars of legal staff is determined and applied to other applicable expenses.

c) Internal Audit

The Internal Audit Department determines an annual audit plan as part of the annual update of the Five Year Internal Audit Plan. Payroll costs incurred in providing internal audit services to CF(L)Co are recorded using time sheets.

d) Engineering Services

This division provides services in all engineering disciplines and covers such items as:

- a) Design, Construction and Project Management
- b) Engineering studies, technical specifications and construction coordination
- c) Tender preparation and analysis including interaction with consultants
- d) Review and resolution of maintenance problems

1. (i) CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED (cont'd.)

d) (cont'd.)

Payroll costs incurred in providing engineering services to CF(L)Co are recorded using time sheets.

e) Environmental Services

The Environmental Services Department's activities relating to CF(L)Co include the auditing for compliance with government regulations and corporate policy, obtaining permits and approvals for proposed programs and advising CF(L)Co on environmental matters.

Payroll costs incurred in providing environmental services to CF(L)Co are recorded using time sheets.

f) Human Resources

Human Resources is responsible for the administration and coordination of all employee related services, employee benefit programs, pensions, recruitment, training and payroll as well as the maintenance of the corporate human resources database. Human Resources also administer the performance appraisal system, salary surveys and maintains a current organizational chart.

Payroll costs incurred in providing Human Resources services to CF(L)Co are recorded using time sheets.

g) Safety & Health

The Safety & Health Department provides Occupational Health services including wellness, disability and sick leave management, and medical screening as well as coordinating corporate efforts with regard to employee safety.

1. (i) CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED (cont'd.)

g) (cont'd.)

Payroll costs incurred in providing Safety & Health services to CF(L)Co are recorded using time sheets.

h) Labour Relations

The Labor Relations Specialist (St. John's) provides services relating to the negotiation and administration of collective agreements, the resolution of grievances and all union/management communications.

Payroll costs incurred in providing Labour Relations services to CF(L)Co are recorded using timesheets.

i) Financial Planning

Rates & Financial Planning Department (RFP) provides services to CF(L)Co for those activities that facilitate the production, review and distribution of CF(L)Co's annual Long-Term Financial Plan. As well, RFP is required to provide long-term financial planning and analyses for various scenarios up to and including timeframes to the end of the fiscal year in which the Power Contract expires, namely 2041. RFP is responsible for ensuring the CF(L)Co long-term planning model is updated and maintained in a current state from both a software and hardware perspective.

Payroll costs incurred in providing Financial Planning services to CF(L)Co are recorded using time sheets.

1. (i) CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED (cont'd.)

j) Risk Insurance

The Risk Insurance Department provides services related to the placement, policy and claims administration of the corporate insurance program.

Payroll costs incurred in providing Risk Insurance services to CF(L)Co are recorded using time sheets.

k) Finance

The Finance Department provides accounting and treasury services to CF(L)Co. The most significant accounting services provided include the recording of actual costs in the general ledger, accounts payable and accounts receivable processing, account reconciliations, financial and capital reporting both internally and externally, as well as maintenance of the capital asset records. The Finance Department is responsible for and provides assistance to various personnel in the preparation and review of the capital and operating budgets for CF(L)Co. The Finance Department handles all matters relating to both federal and provincial taxation authorities for CF(L)Co, calculates preferred dividends and prepares various reports as required in the Shareholders Agreement.

The Finance Department is also responsible for all debt and cash management activities for CF(L)Co.. Debt servicing includes determination of the interest subsidy, Contingent and Voluntary redemption amounts and the purchase and investment of US funds. Compliance with certain aspects of various contracts such as the Bond Purchase Agreement, the Guaranteed Winter Availability Contract, the CF(L)Co Power Contract with Hydro Quebec, and the Recapture Agreement with Newfoundland and Labrador Hydro, is ensured. Responsibilities under these agreements include issuance of invoices to Hydro Quebec and

1. (i) CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED (cont'd.)

k) Finance (cont'd.)

Newfoundland Hydro and calculations and administration of all aspects of the four-year review of the Annual Energy Base. Treasury also prepares the CF(L)Co interest expense budgets, makes investment decisions, and recommends common dividend levels. Audit work papers are prepared and reconciled to the General Ledger and explained to the Auditors.

Costs incurred in providing accounting and treasury services to CF(L)Co are recorded using time sheets.

l) Information Systems (I S)

IS provides assistance and support to CF(L)Co in the areas of Software Applications, Planning and Integration and Business Solutions. This department is also responsible for the maintenance and administration of the Corporate Computer Operations and provides technical support to CF(L)Co's on-site analysts.

At present, IS costs are allocated based on the ratio of CF(L)Co personal computers to the total personal computers in the Hydro Group.

m) Supply Chain Management

The Supply Chain Management Management department coordinates all efforts involved in the procurement process activities for CF(L)Co including tendering, purchasing and contract administration. Supply Chain Management also provides training, advice and assistance to site personnel in the use of the Materials module of the JDE system. Purchasing activities for the Commercial Services department in CF(L)Co are performed at Site by the staff of the Commercial

1. (i) CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED (cont'd.)

m) Supply Chain Management (cont'd.)

Services department and as such do not form part of the Cost Recoveries Agreement.

Payroll costs incurred in providing Supply Chain Management services to CF(L)Co are recorded using time sheets.

Administration provides such services as library, mail, forms and office supplies as well as the receipt of goods for those employees involved in CF(L)Co activities in St. John's.

Currently the administrative costs within Hydro Place (such as postage, heat and light, maintenance materials, etc.) are allocated to CF(L)Co on the basis of the equivalent complement percentage.

The "equivalent complement" can be defined as the equivalent number of employees required to provide those services currently provided to CF(L)Co by Hydro under the Cost Recoveries Agreement. This calculation consists of three steps.

In step one of this calculation, for most departments, the total salaries for permanent employees recorded in the CF(L)Co work orders are expressed as a percentage of total permanent salaries for that department.

In step two this percentage is multiplied by the total permanent complement for that department, adjusted for employees not involved in providing services to CF(L)Co or employees who are not resident at Hydro Place to arrive at the equivalent departmental complement.

1. (i) CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED (cont'd.)

m) Supply Chain Management (cont'd.)

In step three of the calculation, the equivalent departmental complements are totaled and divided by the total permanent complement for Hydro Place to arrive at the Equivalent Complement percentage.

This calculation must be performed annually as part of the year-end review of actual costs and services incurred by Hydro and the effect should be included in the year-end adjustment.

n) Maintenance Analyst

The Maintenance Analyst provides expertise in various functional processes of the organization to department managers and line employees of CF(L)Co, with special emphasis on the Maintenance Module of JDE.

Payroll costs incurred in providing the Maintenance Analyst's services to CF(L)Co are recorded using time sheets.

o) Drafting Support

Services from this section are provided only as part of special projects and time sheets are used to record incurred payroll costs.

1. (ii) LOWER CHURCHILL DEVELOPMENT CORPORATION LIMITED

Although this corporation is primarily inactive, minimal costs for such items as an annual report and an external audit are being incurred and Business Unit #1953 has been set up to capture these costs. Any employee involved in this venture will charge their time to a standard work order set up for this business unit by completing a time sheet. The following cost types have also been set up within this Business Unit.

<u>Description</u>	<u>Cost Type</u>
Transferred in Salaries	6035
Materials Maintenance	6105
Professional Services	6264

1. (iii) GULL ISLAND POWER COMPANY LIMITED

This corporation is primarily inactive but some costs are being incurred by Hydro and Business Unit #1954 has been set up to capture these costs. Any employee involved in this venture will charge their time to a standard work order set up for this business unit by completing a time sheet. The following cost type has been set up within this business unit.

<u>Description</u>	<u>Cost Type</u>
Transferred in Salaries	6035, 6040
Audit	6266

2. SUPPLY OF POWER TO THE IRON ORE COMPANY OF CANADA

Power and energy sales to the Iron Ore Company of Canada (IOC) are a non-regulated activity.

IOC is a customer on the Labrador Interconnected system and consequently the portion of costs associated with this customer are derived from the Cost-of-Service. Rates charged this customer are based on a negotiated contract and do not require approval of the PUB.

In order to determine Hydro's regulated versus non-regulated net income, revenues and costs as determined through the Cost-of-Service are recorded in Business Unit 1952.

Revenues go into the 1952 revenue accounts. The costs are debited to 1952 and a credit to 9000.7137.3.

3. ALL EXPORT SALES

Hydro meets the power and energy requirements for the Labrador Interconnected System primarily through an agreement with CF(L)Co. Under that agreement Hydro purchases recall power and energy up to a maximum of 300MW and 2,362 GWh annually. Power and energy surplus to Hydro's needs on the Labrador Interconnected System is sold to Hydro-Québec.

Business Unit #1950 has been set up to capture the revenue and costs associated with this venture and the following cost types have been set up.

<u>Description</u>	<u>Cost Type</u>	<u>Description</u>	<u>Cost Type</u>
Sales Revenue	5025	Power Purchased Interest	7335
Interest Income	7705	Transferred in Salaries	6035
Power Purchased	7325	Dividends	8300
Interest	7745		

Any employee involved in this operation will allocate their time to a standard work order set up for this business unit by completing a time sheet.

System Operations will allocate the power purchase costs (budget, forecast and actual) as well as the interest associated with the power purchases.

Cashflows associated with Export sales are tracked separately to isolate non-regulated debt and interest impacts

4. NEW BUSINESS DEVELOPMENT

Business Unit #1956 has been set up to capture all costs related to non-regulated new business developments and work orders will have to be set up to track each activity. If an activity develops into a new business then a new business unit will be established. All costs types are available in this business unit as required to capture direct non-regulated costs being incurred as well as transferred salaries from regulated business units. A general charge for administrative services will be levied on an annual basis based on relevant cost drivers such as square footage and number of personal computers.

5. LOWER CHURCHILL PROJECT

All costs associated with development of the Lower Churchill River in Labrador are a non-regulated activity and therefore, not recoverable from ratepayers.

Capital Job Cost #10250 has been set up to capture all costs associated with the current Labrador Hydro Project including an allocation of corporate overhead and these costs form part of Hydro's construction work in progress. Hydro employees use time sheets to charge their time to the project. Supplier costs are clearly identified as being related to this project so that the costs are properly recorded.

Cashflows associated with the Labrador Hydro project are tracked separately to isolate non-regulated debt and interest impacts

6. OTHER SPECIFIC NON-REGULATED COSTS

Business Unit #1955 has been set up to capture non-regulated costs. Those identified to date are as follows:

a) Contributions and Donations

Expenditures for charitable donations, community and charitable advertisements, street light subsidy and scholarships are not allowed as regulated expenses.

All of these costs are to be recorded in this business unit in cost type #6610 and each region/department will use a work order to monitor their expenditures.

b) Advertising

Regulated advertising expenses are limited to matters relating to conservation, safety and consumer information. Advertising for corporate image building is not a regulated expense. Cost type #6225 has been set up to record non-regulated advertising.

c) Companion Travel Costs

On occasion, Management approves the cost of a Hydro employee's companion attending a corporate function. These costs are to be recorded in this business unit in cost type #6505.

d) Muskrat Falls

Hydro presently has some fully contributed capital assets in Labrador that are associated with Muskrat Falls, a non-regulated activity, and maintenance costs are incurred. These maintenance costs are to be recorded in this business unit and tracked by means of a work order.

6. OTHER SPECIFIC NON-REGULATED COSTS (cont'd.)

e) Barr'd Harbour

This community is located on the Northern Peninsula and receive electricity under a special arrangement approved by Government in the early 1970's. Hydro collects no revenue but does supply diesel generation equipment and performs major maintenance. Consequently, this activity has been deemed non-regulated. Costs for these activities are recorded in this business unit and tracked by means of a work order.

7. NATUASHISH

Hydro has been operating and maintaining the plant in the new community of Natuashish on behalf of the Federal Government, on a cost recovery basis. Business unit #1957 has been set up to track costs associated with this activity and related recoveries. All costs are charged at bill rates plus overheads to ensure full cost recovery.