

1 Q. With respect to the increase in Controllable Unit Cost/ MWh in 2005 relative  
2 to 2004, please describe and quantify (as closely as possible) the degree to  
3 which this increase was influenced by higher than average hydraulic  
4 production, loss of industrial sales, increased system equipment  
5 maintenance and other factors.  
6  
7

8 A. In 2005 the controllable unit cost increased to \$12.49 per MWh delivered  
9 from \$11.78 per MWh in 2004. This is an increase of \$0.71 per MWh or 6.0%  
10 higher in 2005. In quantifying the reasons behind this increase, the base  
11 shall be taken to be 2004 controllable unit cost of \$11.78 per MWh.  
12

13 Higher than average hydraulic production at Hydro's own generating plants  
14 does not impact upon Hydro's calculation of controllable unit costs. Hydro  
15 meets the requirements of its customers in total and Hydro's hydro-thermal  
16 split from one year to the next will not materially change its operating  
17 expenses. However, Hydro does normalize its energy delivered for its  
18 customers' hydraulic production since if a customer has a higher than normal  
19 production year from their own electricity plant(s), they will purchase less  
20 electricity from Hydro, and vice versa.  
21

22 The loss in industrial sales in 2005 attributable to the closure of Abitibi  
23 Consolidated's newsprint in Stephenville in October 2005 amounted to 90  
24 GWh for Hydro relative to 2004. This loss in sales accounts for some 20% of  
25 the increase in controllable unit cost.  
26

27 From Finance and Accounting Evidence: Schedule 1 M.G. Bradbury Page 10  
28 of 10, it can be seen that System Equipment Maintenance operating expense

1           increased in 2005 by \$3.9 million over 2004. This accounts for about 70% of  
2           the increase in controllable unit in 2005 over 2004.

3

4           Relative to 2004, other factors, excluding the increase in system equipment  
5           maintenance and the loss in industrial sales, account for about 10% of the  
6           increase in controllable unit cost in 2005.