

1 Q. On Table 1 at page 8 of the Cost of Service Evidence, the Energy Rate for
2 NP is shown under the 2004 Revenue Requirement and the Proposed 2007
3 Revenue Requirement. Please explain why a decrease is proposed for the
4 first 250 GWh and a large increase is proposed for the second block, rather
5 than a proportionate increase for both blocks. Please explain the logic of
6 why the increased price of fuel is the principal reason for the greater
7 difference between the blocks.

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10 A. In the proposed rate structure for Newfoundland Power, Hydro has
11 maintained the same underlying calculations that were used to originally
12 establish the energy rates for 2005. These are:

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14 - The second block energy rate is based on the test year price of fuel at
15 Holyrood; and

16 - The first block energy rate is established to recover the balance of the
17 revenue requirement.