

1 Q. Please provide an algorithm for calculating the return and other annual costs for a
2 \$1 million “slice” of Hydro’s distribution assets.

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5 A. The annual revenue requirement for Hydro’s distribution assets encompasses the
6 following components:

- 7 • Return on rate base, which includes both return on equity as well the cost of
8 financing capital assets;¹
- 9 • Depreciation expense; and
- 10 • Operating and maintenance costs.

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12 There is no singular algorithm that can be used to estimate total revenue
13 requirement, as not all of these variables have a direct relationship with a ‘slice’ of
14 value of rate base. In order to accurately identify these costs this analysis would
15 need to be undertaken on an asset specific basis.

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17 However in computing revenue requirement for rate setting purposes, there is a
18 direct relationship with return and depreciation on embedded assets included in
19 Hydro’s rate base (including inventory carrying costs and working capital). Please
20 refer to PUB-Nalcor-198, Attachment 1 which provides an illustration for the return
21 and depreciation on rate base in excel format.

¹ In addition to existing rate base, Hydro makes ongoing capital investments as required to maintain reliable service to customers. Hydro’s rate base also includes working capital requirements, including inventory carrying costs.

