

1 Q. **Reference: Exhibit 1 - Supplemental Evidence on Hydro's Rate Stabilization**
2 **Plan - Surplus Refund Plan**

3 Please provide copies of all documentation filed with the Board related to the
4 Wabush surplus issue, and a copy of all Board Orders that addressed the matter.
5 (Supplemental Evidence on Hydro's RSP Surplus Refund Plan, Section 3, Page 6)

6

7

8 A. Please refer to SR-NP-NLH-042 Attachment 1.

1 Q. Are there any other issues you wish to discuss related to the Labrador
2 Interconnected System?

3

4 A. There is a matter with regard to the rates for Wabush customers. In an
5 Interim Report dated November 10, 1988 the Board approved rates for
6 Wabush effective January 1, 1989. The Board's Report also stated that
7 "If, in future years, PDD achieves a surplus in Wabush, the surplus shall
8 be refunded to customers". Since that time Hydro has been recording
9 annually in its financial statements an estimate of the surplus based on the
10 costing methodology used in setting Wabush rates for 1989.

11

12 Q. Please outline Hydro's proposed treatment of this surplus.

13

14 A. As outlined in Schedule I of my evidence there is a total amount of \$2.9
15 million, including interest, for the years 1989 to 2001 using the costing
16 methodology originally used to establish Wabush rates.

17

18 In a letter to the Board dated February 26, 1993, a copy of which is
19 attached to my evidence as Schedule II, Hydro outlined two options with
20 respect to dealing with the surplus that had accumulated for the years
21 1989 to 1992, inclusive. The first option was to refund this amount to
22 customers based on each customer's proportionate share of the 1992
23 Wabush revenues. The second option was to defer the matter until the
24 next rate referral. This option pointed out that "The Cost of Service
25 Methodology recommended by the Board in its Report dated February,
26 1993 allocates more costs to Labrador Interconnected Customers than
27 before, and the existing surplus could be used to offset increases in rates
28 for these customers at the next rate hearing". In a reply dated March 19,
29 1993 (a copy of which is attached to my evidence as Schedule III), the
30 Board deferred the matter and stated "At that time the existing surplus
31 would be used to offset increases in rates for the customers in Wabush".

1 Due to the uncertainty surrounding the exact treatment of the issue, Hydro
2 has tentatively recorded a surplus using methodology originally used to
3 set Wabush rates until the issue could be formally addressed before the
4 Board.

5
6 At this time, Hydro is proposing to refund the surplus accumulated for the
7 years 1989 to 2001 of \$2.9 million to Wabush customers in 2002, based
8 on each customer's proportionate share of the 2001 revenues, unless
9 Hydro is otherwise directed by the Board.

10
11 Q. Has Hydro given any consideration to development of an oil hedging
12 program?

13
14 A. Yes. Hydro has been reviewing and investigating the merits of an oil price
15 hedging program. Hydro presently consumes about 3 million barrels of
16 No. 6 fuel oil annually (based on an average water year) at its Holyrood
17 Generating Station which results in an annual cost of approximately \$75 to
18 \$100 million. Variations between the price of fuel that is included in rates
19 and the actual fuel prices flow directly into the RSP. Hydro has been
20 reviewing appropriate financial tools, including the use of swaps, options
21 and collars that could be used in an oil price hedging regime.

22
23 The goals of any oil hedging program would be to protect Hydro's
24 customers from adverse, unexpected and random price fluctuations, that
25 are short-term in nature and to provide a degree of price certainty. It
26 would not be Hydro's intention to speculate in the marketplace by entering
27 into arrangements for which there are no underlying obligation to
28 purchase. It should be noted however that there are additional costs
29 associated with any hedging program, which may not be offset in future
30 fuel cost savings.

Schedule I
D. W. Osmond

| Newfoundland and Labrador Hydro Wabush Surplus | | | | |
|---|--------------------|------------------|--------------------|----------------------|
| <u>Year</u> | <u>Amount</u> | <u>Interest</u> | <u>Total</u> | <u>Interest Rate</u> |
| 1987 ¹ | (\$89,078) | - | - | n/a |
| 1988 ¹ | (200,027) | - | - | n/a |
| 1989 | \$41,356 | - | \$41,356 | n/a |
| 1990 | 35,244 | 4,549 | 81,149 | 11.00% |
| 1991 | 34,033 | 8,926 | 124,109 | 11.00% |
| 1992 | 114,554 | 13,652 | 252,315 | 11.00% |
| 1993 | 118,176 | 27,501 | 397,991 | 10.39% |
| 1994 | 147,953 | 40,978 | 586,922 | 9.84% |
| 1995 | 123,771 | 62,810 | 773,503 | 10.21% |
| 1996 | 74,019 | 74,998 | 922,520 | 9.29% |
| 1997 | 119,587 | 88,443 | 1,130,551 | 9.19% |
| 1998 | 267,865 | 101,153 | 1,499,568 | 8.60% |
| 1999 | 302,723 | 126,239 | 1,928,530 | 8.45% |
| 2000 | 312,104 | 164,636 | 2,405,271 | 8.22% |
| 2001 | 315,000 | 202,484 | 2,922,755 | 8.11% |
| Total | \$2,006,385 | \$916,370 | \$2,922,755 | |

1. Deficits shown were not included in any calculations or totals



File No. _____

NEWFOUNDLAND AND LABRADOR HYDRO

Head Office: St. John's, Newfoundland P. O. Box 12400 A1B 4K7 • Telephone (709) 737-1400 • Fax (709) 737-1231

Schedule II
D.W. Osmond
Page 1 of 3

February 26, 1993

The Board of Commissioners of Public Utilities
Prince Charles Building
120 Torbay Road
P.O. Box 9188
St. John's, Newfoundland
A1A 2X9

ATTENTION: Mr. Reginald Good
Chairman

Dear Mr. Good,

RE: Electricity Rates Charged in Wabush

On October 22, 1991, the Board approved Hydro's proposal as set out in my letter of October 17, 1991 to credit the 1989 and 1990 surplus derived in Wabush of \$41,356 and \$35,244, respectively, to customers in Wabush on the first month's bill in 1992 after new rates became effective. The credit was to be based on the customers' consumption the previous month. At the time Hydro made this proposal, it anticipated that a rate referral would be filed in November, 1991 proposing increases in the rates charged in Wabush as of May 1, 1992 and, thus, the credit was to be effected in May, 1992. However, as you are aware, subsequent to Hydro filing its rate referral, it amended the referral to delete the increases requested with respect to electricity rates to be charged customers served from the Labrador interconnected electrical grid, including Wabush. Hydro anticipated that it would file a separate rate referral later in 1992 with respect to rates to be charged to these customers. However, for a variety of reasons, this did not occur and at the present time Hydro does not

- 2 -

plan in 1993 to request changes in the rates charged to customers served from the Labrador interconnected electrical grid.

As rates were not increased in Wabush in 1992 and given the uncertainty with respect to the timing of the rate referral to adjust rates for the Labrador interconnected grid, Hydro did not refund the 1989 and 1990 surplus in Wabush of \$41,356 and \$35,244, respectively, which had originally been intended to be credited after the proposed increase in rates in 1992. Hydro has determined that there is also a surplus for 1991 of \$34,033. The 1992 surplus is forecast to be \$120,000.

In its report dated April 13, 1992, which did not deal with the issue of the rates to be charged to customers served from the Labrador interconnected grid, the Board recommended that Hydro's proposed cost of service methodology be used until it was examined more fully. As you are aware, a separate hearing on the cost of service methodology was held in the fall of 1992. As the 1992 main rate hearing did not deal with the rates to be charged to customers served from the Labrador interconnected grid and as it would not be possible to establish the surplus for Wabush alone using the proposed cost of service methodology, Hydro proposes that the surplus for 1992 for Wabush be determined on the same basis as used to determine the surpluses for 1989, 1990 and 1991. The actual 1992 surplus will be finalized in March, once the audit of Hydro's 1992 financial records has been completed.

There are two options to deal with the surplus in Wabush. The surplus for 1989, 1990, 1991 and 1992 could be refunded to customers as soon as the 1992 surplus has been finalized. If this first option is approved by the Board, Hydro proposes that the credit for these customers be determined by dividing the amount paid by each customer in Wabush in 1992 by the total revenue received by Hydro in 1992 from Wabush customers to determine each

Schedule II
D.W. Osmond
Page 3 of 3

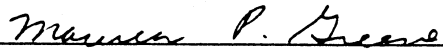
- 3 -

customer's proportionate share. Each customer would then be given a credit determined by multiplying the total amount of the surplus to be refunded by each customer's proportionate share of 1992 revenue. The credit would be applied to a customer's account once the manner of refund is approved by the Board. Interest at the R.S.P. rate will be applied to each surplus balance from the following January 1.

The second option to deal with the surplus is to defer the matter until such time as there is a rate referral to review electricity rates for customers served from the Labrador interconnected grid. As noted above, no specific time frame has been identified yet for this referral. The Cost of Service Methodology recommended by the Board in its Report dated February, 1993 allocates more costs to Labrador interconnected customers than before, and the existing surplus could be used to offset increases in rates for these customers at the next rate hearing.

Hydro requests the Board consider this matter and advise which option it approves to deal with the 1989, 1990, 1991 and 1992 surplus in Wabush as proposed. We look forward to hearing from you on this matter.

Yours truly,


Maureen P. Greene
Vice-President Human Resources,
General Counsel & Corporate
Secretary

MPG/mgw



NEWFOUNDLAND AND LABRADOR

Schedule III
D.W. Osmond
Page 1 of 1

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

St. John's, Nfld.

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1993 03 19

Ms. Maureen P. Greene,
Vice-President Human Resources,
General Counsel & Corporate Secretary,
Newfoundland and Labrador Hydro,
P.O. Box 12400,
St. John's, NF
A1B 4K7

Dear Ms. Greene:

RE: Electricity Rates Charged in Wabush

Further to your letter of February 26, 1993, the Board believes the most appropriate way of dealing with the 1989, 1990, 1991 and 1992 surplus in Wabush is to defer the matter until such time as there is a rate referral to review electricity rates for customers served from the Labrador interconnected grid. At that time the existing surplus would be used to offset increases in rates for the customers in Wabush.

Yours truly,

R. E. Good,
Chairperson.

CA-62
2001 General Rate Application

Page 1 of 1

1 Q. On page 17, lines 6 to 9 of Mr. Osmond's Prefiled Testimony, it is proposed
2 that the Wabush surplus be refunded to Wabush customers in 2002 on the
3 basis of each customer's proportionate share of the 2001 revenues. The
4 surplus has been accumulating since 1989. Is this refund fair to the
5 customers who have left the system since 1989?
6

7 A. To be theoretically precise the refund should be made to all customers who
8 have been billed on the Wabush system since 1989 however this is no longer
9 possible. Some customers have since left the area and would not be able to
10 be tracked as well there have been numerous customer transfers and name
11 and address changes since this time. Further, it would be a significant
12 administrative exercise to attempt to calculate the refund over that time frame
13 as several years of records are not available in electronic form.

NP-134
2001 General Rate Application
Page 1 of 2

1 Q. (a) Recalculate DWO, Schedule I with an estimate of the annual Hydro
2 Rural deficit per year treated as a cost of serving Wabush using the
3 cost of service methodology approved in the Board's report in
4 February 1993.

5
6 (b) Justify the proposed Wabush rebate in light of Section 17(5) of the
7 Hydro Corporation Act.

8
9
10 A. (a) Hydro has compiled the cost of serving Wabush, as filed on DWO,
11 Schedule I, based solely on costs recorded in the accounting records.
12 It does not include any overhead cost allocation, margin allocation, or
13 rural deficit allocation. Prior to 1992, this was the accepted method for
14 recording the Wabush cost of service.

15
16 The February 1993 cost of service methodology approved one cost of
17 service study for the Labrador Interconnected system however it has
18 not been implemented. For this reason, Hydro continued with the
19 accounting treatment for recording Wabush costs, while maintaining
20 the cost of service study for Labrador Interconnected as a whole.

21
22 The deficit allocation component of the February 1993 cost of service
23 methodology uses revenue requirement to allocate costs within each
24 system. However, the methodology does not provide for calculation of
25 the Wabush revenue requirement. Therefore, we are unable to
26 estimate the Wabush only component of the rural deficit.

27
28

NP-134

2001 General Rate Application

Page 2 of 2

1 A. (b) Hydro's requirement to determine and record the Wabush surplus
2 arose while the Wabush customers were served by the Power
3 Distribution District of Newfoundland (P.D.D.). P.D.D. was absorbed
4 into Hydro by a 1989 amendment to the *Hydro Corporation Act*
5 (referred to as the *Hydro Act* at that time). This requirement to
6 account for this surplus has remained as part of Hydro's rate
7 structures since that time.

8
9 Subsection 17(5) of the *Hydro Corporation Act* reads as follows:

10
11 17(5) The rates, tolls and charges for, and the rules applicable to,
12 each kind of service provided or supplied directly or indirectly to or for
13 the public immediately prior to the coming into force of this section or
14 a corporation by the corporation immediately prior to the coming into
15 force of this section shall apply to the same kind of service so
16 provided or supplied by the corporation until altered under the *Public*
17 *Utilities Act* and, notwithstanding that Act, no alteration shall have
18 retroactive effect on those rates, tolls or charges or increases,
19 including by providing for refunds or credits to customers.

20
21 The section came into force in January of 1996. In Hydro's view, as of
22 January 1996 the obligation to refund or rebate amounts to the
23 customers in Wabush had already arisen and was continued by
24 subsection 17(5) of the *Hydro Corporation Act*. Therefore, giving
25 effect to this existing obligation does not constitute an "alteration" as
26 that term is intended in that section.

1 at its next rate hearing, a five-year plan to implement the appropriate set of
2 uniform rates for the customers served from this system.

3
4
5 **Wabush Surplus**

6
7 A second issue with respect to Labrador Interconnected System rates which
8 must be addressed is that of the Wabush surplus. Hydro's proposal is outlined in
9 the pre-filed evidence of Mr. Osmond pp. 16-17. The Public Utilities Board in an
10 interim report dated November 10, 1988 approved rates for Wabush effective
11 January 1, 1989 and stated that, if in future years, PDD (the then operator of the
12 Wabush system) achieved a surplus, the surplus would be refunded to
13 customers. Mr. Osmond went on to explain that in 1993 the Board deferred the
14 issue of the Wabush surplus until Hydro's next rate referral reviewing electricity
15 rates for customers served from the Labrador interconnected grid. Hydro has
16 determined that the total amount of this "surplus" is \$2.9 million including interest,
17 for the years 1989 to 2001 based on the costing methodology originally used to
18 establish Wabush rates and not the current cost of service methodology.

19
20 Hydro, in its Application, proposed that the surplus be refunded to Wabush
21 customers in 2002 based on each customer's proportionate share of the 2001
22 revenues (pre-filed evidence Mr. Osmond, p. 17, lines 6-9). The Consumer
23 Advocate has raised the issue of whether this is fair to customers who left the
24 system since 1989. In its response to CA-62 on this point, Hydro stated that it
25 would be virtually impossible to track all customers and their consumption since
26 1989 and that it would be a significant administrative exercise to attempt to
27 calculate the refund as several years of records are not available in electronic
28 form. Hydro requests that the Board approve the refund of the Wabush surplus
29 as proposed by Hydro.

27. As is clear from the evidence of Mr. Drazen, differences in distribution costs provide a rationale for having different rate classes and different rates.
28. In the present rates for Wabush, which rates were approved by the Public Utilities Board in 1989, Hydro receives not only its costs of service but also, on an annual basis, a substantial surplus. The surplus for the past several years amounts to approximately \$300,000.00 annually. This surplus, which is calculated after including certain corporate overheads for Hydro, amounts to approximately thirty per cent (30%) of the annual revenue collected from the residents of Wabush.

Ref: Originally filed evidence of Derek Osmond, at p. 16
See also Schedule 1 to Derek Osmond's pre-filed evidence
See also November 26, 2001 Transcript, per Derek Osmond, at p. 2

29. It is noteworthy that the rates set by the Public Utilities Board for the Town of Wabush in 1989 were only set after hearing submissions from Hydro as to the appropriate rates.
30. It is further noteworthy that, from 1989 to the present, Hydro has not seen fit to apply to the Public Utilities Board to vary the rates for the Town of Wabush.
31. Furthermore, it is our understanding from the evidence submitted by Hydro that Hydro does not take issue with the fact that Hydro has collected from Wabush customers an accumulated surplus of approximately \$3,000,000.00, which surplus has been generated since 1989; indeed, Hydro proposes to refund this amount to Wabush customers.

At this time, Hydro is proposing to refund the surplus accumulated for the years 1989 to 2001 of \$2.9 million to Wabush customers in 2002, based on each customer's proportionate share of the 2001 revenues, unless Hydro is otherwise directed by the Board.

Ref: Pre-filed evidence of Derek Osmond, p. 17

32. Thus, the clear and un-contradicted evidence is that electrical consumers in Wabush are already paying an amount that is acknowledged to be excessive in utility terms.
33. While Hydro proposes to add other costs to the electrical consumers in Wabush, there is no evidence to indicate that present rates are insufficient to cover the relevant additional costs.

Ref: Evidence of Mark Drazen, December 12, 2001

34. Similarly, the un-contradicted evidence is that the ratepayers in Labrador City at present rates provide sufficient revenues to pay Hydro's costs and to generate an annual surplus is in the range of approximately \$500,000.00.

Ref: December 12, 2001 Transcript, per Mark Drazen, at p. 2 and attached Schedule 1

35. While Hydro now suggests that there was some doubt as to the validity of the Wabush surplus information, Hydro has provided no evidence to guide us on this point.

MR. YOUNG: Hydro has made comments both in its testimony and also in response to some of the information requests indicating that, you know, what it's provided to determine the Wabush surplus is not a cost of service kind of analysis, and I believe you probably would confirm that that's the case this morning. I'm just working if you draw a distinction between the sort of process you went through this morning and the sort of process that a utility would normally go to, go to to find the answers as to costs for an area.

MR. DRAZEN: The problem is that the process that Hydro went through is nothing.

...

MR. YOUNG: If there are ... if there was some doubt as to the validity of the Wabush surplus information, because you've used that as a scale for the Lab City and sort of them made some conclusions from them, I suggest to you if the Wabush surplus information, has some doubt about it, there may be some concern about the outcome of your study, would you accept that, using it for what the purposes are here in your evidence, determining that there is in fact excess revenues that have a basis for continuing their difference in rate treatment?

MR. DRAZEN: I think I recall Hydro is proposing to refund something in excess of \$2 million to the customers in Wabush. That's a lot of money to have some doubt about, so I think it's, if it's good enough for their purpose, it's good enough as a basis for assessing, at least in this first instance, whether the Lab City rates are adequate.

Ref: December 12, 2001 Transcript, p. 7

36. Thus, the un-contradicted evidence is that the rates in Labrador City and in Wabush are more than adequate at present levels.

37. Given that a further rate hearing is contemplated by Hydro in any event, and given the lack of evidence presented at the present hearing, it is submitted that the rates in the Labrador West area should not be altered at present and that Hydro ought to be required at the next rate hearing to present the necessary evidence to justify any reallocation of rates within the system and to justify any proposed equalization of rates between the two distinct areas of Labrador West and Happy Valley-Goose Bay.
38. There has been no regulatory authority cited to show that a policy of having common rates in the two separate geographic areas of Happy Valley-Goose Bay and Labrador West is warranted, given the differences in transmission costs and distribution costs between the two distinct areas.

Interconnected customers. For the 2002 test year, the credit should be applied to the Labrador Interconnected system as proposed by NLH. The Board will require NLH to include, as part of its five year rate plan to be submitted at the next rate hearing, a plan which phases in to the Labrador Interconnected customers, the impact of applying the credit for secondary energy sales to the rural deficit.

iii) Wabush Surplus

NLH has applied to the Board for an order determining the disposition of the Wabush surplus. The total accumulated surplus from 1987 to the end of 2001 is \$2,922,755, which includes an interest component of \$916,370. (Pre-filed Evidence, D. W. Osmond, Schedule 1)

The issue of the Wabush surplus arose as a result of a number of decisions and recommendations of the Board and subsequent Appeal Court decisions following the transfer of the electrical distribution system in Wabush from Wabush Mines to the PDD in 1985. In an interim report to Government dated November 18, 1985 the Board recommended approval of rates for Wabush customers as proposed by the NLH as of January 1, 1989 and also stated that *"If, in future years, PDD achieves a surplus in Wabush, the surplus shall be refunded to the customers."* (pg. 6)

In 1991 the *Electrical Power Control (Amendment) Act*, SN, 1991, c-48 removed the exemption given to Labrador Interconnected customers with respect to their share of the funding of the rural deficit. This change also applied to customers in Wabush. In late 1991 NLH referred to the Board an application for rate and classification changes to the Labrador Interconnected grid customers. Subsequent to the filing, the referral was amended to delete the increases requested with respect to electricity rates on the Labrador Interconnected system, including Wabush. NLH has not filed a rate referral or application on Labrador Interconnected rates since that time, which means that these customers have not been sharing in the funding of the rural deficit (as required by the EPCA) and also that the issue of the Wabush surplus was still outstanding.

NLH proposed two options for dealing with the Wabush surplus to the Board in correspondence dated February 26, 1993 (Pre-Filed Evidence, D. W. Osmond, Schedule II). The first option was to refund the surpluses for 1989-1992 in 1993 based on each customer's share of 1992 revenue. The second option proposed was to defer the matter until such time as there is a rate referral to review electricity rates for customers served from the Labrador Interconnected grid. In proposing this option NLH recognized that the 1993 COS methodology allocates more costs to Labrador interconnected customers than before and that the existing surplus could be used to offset increases in rates for these customers at the next rate hearing. In response the Board agreed with the second option, which was to defer the matter until the next rate referral, and stated *"At that time the existing surplus would be used to offset increases in rates for the customers in Wabush."* (Pre-Filed Evidence, D. W. Osmond, Schedule III)

NLH has continued to record the surpluses for Wabush based solely on the costs recorded in the accounting records, which was the accepted method for recording the Wabush COS prior to 1992. This cost does not include any overhead cost allocation, margin allocation, or rural deficit allocation. (NP-134) In this Application NLH is proposing to refund the surplus of \$2,922,755, accumulated and calculated as described above for the years 1989-2001, to Wabush customers in 2002, based on each customer's proportionate share of the 2001 revenues. (Pre-filed Evidence, D. W. Osmond, pg. 17)

The only major issue raised by the intervenors on the Wabush surplus was with respect to the fairness of refunding the balance to customers based on their share of 2001 revenues. The CA questioned whether this was fair to the customers who have left the system since 1989. (CA-62) In response NLH agreed that, to be theoretically precise, the refund should be made to all customers who have been billed on the Wabush system since 1989. NLH submits that it would be impossible to track those customers who have left the system. It would also be a significant administrative exercise because of the lack of electronic records.

In dealing with this issue the Board is influenced by the direction given to NLH in its letter of March 19, 1993, which stated that at the next rate referral "*the existing surplus would be used to offset increases to rates for customers in Wabush*". It is clear to the Board that NLH has followed that direction in this Application by proposing to refund the surplus to the Wabush customers in 2002. This would have the effect of offsetting rate increases that would be implemented in 2002. The Board is also of the view, however, that at that time the Board would not have contemplated such a long period of time elapsing until the issue was dealt with.

Changes in circumstances and issues that have arisen as a result of the long delay in NLH coming before the Board to deal with this issue would require that the Board explore whether there are other alternatives for the disposition of the Wabush surplus. The Board notes that it appears that NLH had already made representations to the people in Wabush that they would be getting a refund prior to the commencement of the hearing of this application. Even though the Board does not feel it is bound by the direction in its 1993 letter it does feel that the fairest and most equitable way to dispose of the surplus is to refund it back to the customers in Wabush as proposed by NLH.

The Board does appreciate the issue raised by the CA regarding the perceived unfairness of providing refunds to current customers for surpluses that have arisen from operations dating back to 1989. However the Board accepts NLH's explanation and reason on why this is not possible and will not require NLH to trace customers that have since left the system.

The Board will approve the refund of the Wabush surplus of \$2,922,755 as proposed by NLH.

74. The Board recognizes NLH's efforts in this Application to minimize rate increases to its customers on the Labrador Interconnected system to a level that, in its view, would not cause "*rate shock*" by applying these guidelines in its rate design. The Board sees these guidelines as reasonable and encourages NLH to adhere to these guidelines as it redesigns its rates to be submitted to the Board as a result of this decision. If application of the guidelines, as they are, prevent the design of rates that will recover costs, the Board will support some adjustment in the parameters if required. The Board reiterates its support of keeping the level of rate increases on the Labrador Interconnected system as low as possible as NLH moves to a uniform rate structure.
75. The secondary energy rate as proposed by NLH for customers serviced from the Labrador Interconnected system will be approved.
76. The Board finds that the credit from secondary energy sales to CFB Goose Bay (5 Wing) would be more appropriately applied against the rural deficit before allocation to NP and Labrador Interconnected customers. However, because of the magnitude of this adjustment relative to the total revenue requirement on the Labrador Interconnected, together with the impact of other decisions of the Board, the Board believes that implementation of this decision would introduce rate shock for the Labrador Interconnected customers. For the 2002 test year, the credit should be applied to the Labrador Interconnected system as proposed by NLH. The Board will require NLH to include, as part of its five year rate plan to be submitted at the next rate hearing, a plan which phases in to the Labrador Interconnected customers, the impact of applying the credit for secondary energy sales to the rural deficit.
77. The Board will approve the refund of the Wabush surplus of \$2,922,755 as proposed by NLH.
78. The Board will approve the rules and regulations set out in NLH's contracts with the IC, with the exception of the proposed contract with North Atlantic Refinery Limited.
79. The Board will approve the rules and regulations set out in NLH's contract with North Atlantic Refinery Limited, but excludes Clause 9.04, which describes the liability of NLH.
80. The Board accepts NLH's methodology for calculating the wheeling rate but will require the calculation of the rate to be revised in light of the Board's decision on the assignment of the GNP costs. In the case of transmission losses, NLH will be required to use the average losses on the system for the last five years (1996-2000) calculated at 3.47%.

28. The revised Schedule of Rates shall be based on the proposals of NLH in this Application incorporating the changes set out in this Order.
29. NLH shall refund the Wabush surplus in the amount of \$2,922,755, in the manner proposed.
30. NLH shall calculate the wheeling rate based upon transmission losses of 3.47%.
31. The Rules and Regulations as set out in the contracts with the industrial customers, except North Atlantic Refinery Limited, are approved.
32. The Rules and Regulations as set out in the contract with North Atlantic Refinery Limited, excluding Clause 9.04, which describes the liability of NLH, are approved.
33. NLH shall submit revised Rules and Regulations for its rural customers, incorporating the changes to Clause 4 and Clause 10 (c) set out in the decision of the Board.
34. NLH shall file with the Board, as part of its next general rate application, a five year plan outlining further alterations in rates on the Labrador Interconnected system, with the cost recovery targets as identified in this Application, including a phase in of the impact of applying the credit for secondary energy sales to CFB Goose Bay (5 Wing) to the rural deficit.

OTHER/GENERAL

35. NLH shall file its next general rate application, pursuant to Section 70 of the *Act*, no later than December 31, 2003.
36. Pursuant to Section 58 of the *Act*, the code of accounts submitted by NLH, is approved.
37. Pursuant to Section 68 of the *Act*, the changes in depreciation policies as proposed by NLH, including the extension of the service lives for the transmission lines affected by the Avalon upgrade program, are approved.
38. NLH shall file with the Board:
 - i. On or before September 30, 2002, a report with recommendations on how NLH may reasonably improve the reliability and quality of service for customers served in coastal Labrador communities.
 - ii. On or before December 31, 2002, a final report on the results of joint efforts to date to reduce duplication between NLH and NP.