

1 Q. **Reference: Introduction Evidence**

2 Please demonstrate the effect of a $\pm 10\%$ variation in 2013 Test Year energy
3 purchases from Nalcor on Hydro's (i) annual production costs and (ii) return on
4 equity under current RSP rules. In the response, please provide supporting
5 calculations. (Introduction Evidence, page 1.2, line 8)

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7
8 A. The following is a summary of the effect of a $\pm 10\%$ variation in 2013 Test Year
9 energy purchases from Nalcor on Hydro's (i) annual production costs; and (ii) return
10 on equity under current RSP rules:

	Proposed 2013	Plus 10%	Minus 10%
Annual Power Production (\$000s)	58,674	61,161	56,188
Return on Equity	8.80%	11.28%	6.78%

11 Please refer to NP-NLH-048 Attachment 1, pages 1 through 2 for supporting
12 calculations.

Capital Structure (\$000s)	Proposed 2013	Plus 10% 2013	Minus 10% 2013
1 Regulated capital structure			
2 Long-term debt	1,128,026	1,128,026	1,128,026
3 Promissory notes	106,606	106,606	106,606
4 Promissory notes - related party	-	-	-
5 less: sinking funds	(284,010)	(284,010)	(284,010)
6 add: mark to market of sinking funds	41,425	41,425	41,425
7	992,047	992,047	992,047
8 Cost of service exclusions	-	-	-
9 Non-regulated debt pool	(7,217)	(7,217)	(7,217)
10 Net regulated debt	984,830	984,830	984,830
11 Asset retirement obligation	24,528	24,528	24,528
12 less: unfunded asset retirement obligation	(17,320)	(17,320)	(17,320)
13 Employee future benefits	63,836	63,836	63,836
14 Contributed capital	100,000	100,000	100,000
15 Retained earnings cost of service exclusions	161	161	161
16 Retained earnings	264,531	274,412	256,589
17 Total	1,420,566	1,430,447	1,412,624
18			
19 Regulated capital structure (%)			
20 Debt	69.3%	68.8%	69.7%
21 Asset retirement obligation	0.5%	0.5%	0.5%
22 Employee future benefits	4.5%	4.5%	4.5%
23 Equity	25.7%	26.2%	25.3%
24 Total	100.0%	100.0%	100.0%
25			
26 Regulated average capital structure (%)			
27 Debt	70.1%	69.9%	70.3%
28 Asset retirement obligation	0.4%	0.4%	0.4%
29 Employee future benefits	4.4%	4.3%	4.4%
30 Equity	25.1%	25.4%	24.9%
31 Total	100.0%	100.0%	99.9%
32			
33 Weighted average cost of capital (WACC)			
34 Embedded cost of debt	8.01%	8.01%	8.01%
35 Asset retirement obligation	0.00%	0.00%	0.00%
36 Employee future benefits	0.00%	0.00%	0.00%
37 Equity	8.80%	11.28%	6.78%
38 WACC	7.83%	8.46%	7.32%

<u>Revenue Requirement (\$000s)</u>	<u>Proposed</u>	<u>Plus 10%</u>	<u>Minus 10%</u>
	<u>2013</u>	<u>2013</u>	<u>2013</u>
1 Revenue requirement			
2 Energy sales	565,737	565,737	565,737
3 Other revenue	2,350	2,350	2,350
4 Total revenue requirement	<u>568,087</u>	<u>568,087</u>	<u>568,087</u>
5			
6 Expenses			
7 Operating expenses			
8 Salaries and fringe benefits	77,241	77,241	77,241
9 System equipment maintenance	21,495	21,495	21,495
10 Office supplies and expenses	2,571	2,571	2,571
11 Professional services	7,022	7,022	7,022
12 Insurance	2,211	2,211	2,211
13 Equipment rentals	1,731	1,731	1,731
14 Travel	3,156	3,156	3,156
15 Miscellaneous expenses	6,380	6,380	6,380
16 Building rental and maintenance	1,070	1,070	1,070
17 Transportation	2,273	2,273	2,273
18 Cost recoveries	(9,222)	(9,222)	(9,222)
19 Allocated to non-regulated customer	(2,108)	(2,108)	(2,108)
20 Net operating expenses	<u>113,820</u>	<u>113,820</u>	<u>113,820</u>
21 Fuels			
22 No. 6 fuel	200,315	187,947	210,743
23 Rate stabilization plan deferral	(84)	(84)	(84)
24 Diesel and other	19,159	19,159	19,159
25 Total fuels	<u>219,390</u>	<u>207,022</u>	<u>229,818</u>
26 Power purchases	58,674	61,161	56,188
27 Amortization	51,656	51,656	51,656
28 Accretion of asset retirement obligation	843	843	843
29 Loss on disposal	1,304	1,304	1,304
30 Expenses before cost of service exclusions	<u>445,687</u>	<u>435,806</u>	<u>453,629</u>
31 less: cost of service exclusions	<u>(48)</u>	<u>(48)</u>	<u>(48)</u>
32	<u>445,639</u>	<u>435,758</u>	<u>453,581</u>
33			
34 Return on rate base	<u>122,448</u>	<u>132,329</u>	<u>114,506</u>
35			
36 Average rate base	<u>1,564,085</u>	<u>1,564,085</u>	<u>1,564,085</u>
37			
38 Rate of return on rate base	<u>7.83%</u>	<u>8.46%</u>	<u>7.32%</u>