

Volume 1, Section 3 – Finance

Q. (Section 3.7: Regulatory Deferrals and Reserves) Please provide (a) a breakdown of the adjustments to the Company’s Rate Stabilization Account (“RSA”) from 1986 to the present in the tabular format that the Company used in Table 4 of NLH-8.0 NP, NLH 2006GRA and (b) the corresponding total (net after-tax) adjustments to its RSA from 1986 to the present, in both dollar and percentage-of-return-on-equity terms, in the same tabular form as found in Table 5 of NLH-8.0 NP, NLH 2006GRA. Please provide appropriate commentary to facilitate the understanding of the figures in the two requested tables.

A. Table 1 is a breakdown of the adjustments to the RSA account for the period 1986 to 2006.

Table 1
Adjustments To
The Rate Stabilization Account
(\$000’s)

Year	Revenue Billed	Transfer To Hydro	Municipal Taxes ¹	Excess Fuel Costs	Secondary Energy Costs	RSA Shortfall	Other	Interest Costs
1986	(3,328.0)	-	36.0	90.0	(828.0)	0.0	0.0	411.0
1987	(1,822.0)	63.0	20.0	103.0	(340.0)	0.0	0.0	14.0
1988	1,496.0	(2,110.0)	300.0	168.0	(738.0)	0.0	0.0	(121.0)
1989	7,802.0	(8,003.0)	568.0	133.0	(38.0)	0.0	0.0	(174.0)
1990	10,400.0	(9,467.0)	256.0	948.0	(2.0)	313.0	0.0	62.0
1991	2,961.0	(4,064.0)	1,033.0	59.0	(99.0)	0.0	0.0	102.0
1992	878.0	(1,991.0)	283.0	73.0	(14.0)	0.0	0.0	108.0
1993	(422.0)	(694.0)	920.0	56.0	(70.0)	0.0	0.0	10.0
1994	(1,301.0)	667.0	976.0	72.0	(11.0)	0.0	0.0	25.0
1995	(675.0)	(132.0)	28.0	28.0	(19.0)	0.0	27.0	75.0
1996	(554.0)	(20.0)	(115.0)	53.0	(7.0)	0.0	116.0	(12.0)
1997	(4,425.7)	4,493.4	(439.4)	70.3	(7.5)	0.0	0.0	(30.8)
1998	(7,335.0)	7,831.1	386.8	39.5	(27.7)	0.0	0.0	(56.3)
1999	(9,495.0)	9,725.7	(40.5)	75.4	(3.7)	0.0	0.0	31.1
2000	(9,942.4)	9,527.3	(270.9)	96.3	(2.5)	0.0	0.0	27.5
2001	(8,076.1)	7,779.6	(115.3)	85.3	(0.2)	0.0	0.0	(37.9)
2002	(7,965.8)	8,120.4	(226.6)	272.1	(0.8)	801.3	0.0	(35.3)
2003	(10,937.5)	11,170.2	44.9	111.0	0.0	0.0	0.0	55.7
2004	(22,542.9)	22,912.6	(177.7)	124.4	0.0	1,215.0	0.0	85.1
2005	(41,687.4)	41,441.3	(279.3)	101.9	(0.4)	0.0	0.0	158.5
2006	(62,344.3)	62,674.0	400.4	326.6	0.0	0.0	0.0	99.6
Total	(169,317.1)	159,924.6	3,587.4	3,085.8	(2,208.8)	2,329.3	143.0	797.2

¹ Excluding a 1992 adjustment of \$4,476,000 and its reversal in 1993 associated with the implementation of the *Taxation of Utilities and Cable Television Regulation 32/94*.

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2 The following is an explanation of the various adjustments made to the RSA account.
3 The mechanics of the RSA are included in the Rate Stabilization Clause which is
4 provided as Exhibit 12 of the Application.
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6 ***Revenue Billed***
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8 This is the amount of revenue collected through the application of the RSA adjustment to
9 customer rates. A negative number means the amount collected was credited to the
10 account, reducing the balance owed by customers.
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12 ***Transfer to Hydro***
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14 This is the amount of purchased power billed from Newfoundland and Labrador Hydro
15 (“Hydro”) through the application of Hydro’s Rate Stabilization Plan (RSP) adjustment.
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17 ***Municipal Taxes***
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19 The RSA is adjusted on December 31 of each year to account for the differences between
20 the amount collected by the Company through its Municipal Tax Adjustment and the
21 municipal taxes paid for that year.
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23 ***Excess Fuel Costs***
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25 Excess fuel costs are the net costs of fuel and additives used in the Company’s thermal
26 plants to generate electricity other than at the request of Hydro. The net cost is equal to
27 the actual cost of fuel and additives, less the cost of purchases from Hydro calculated at
28 the current tail block rate (8.805 cents per kWh).
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30 ***Secondary Energy Costs***
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32 Secondary energy costs are related to the purchase from Hydro of surplus energy generated by
33 Corner Brook Pulp and Paper. The cost of the surplus energy includes Hydro’s cost of
34 purchasing the secondary energy as defined in Order No. P.U. 24(1988) and a firming up
35 charge as provided for in Hydro’s rate schedule applicable to Newfoundland Power.
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37 Secondary energy costs result in savings to Newfoundland Power’s customers because
38 the price of the surplus energy is less than the tail block energy charge of purchasing firm
39 energy from Hydro. The amount of the savings is credited to the RSA.

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RSA Shortfall

The RSA shortfall adjustments represent the difference between increases in revenue and increases in purchased power costs resulting from Hydro rate changes. The most recent adjustment was approved in association with the flow through to Newfoundland Power's customers of Hydro base rate changes effective January 1, 2007.

Other

To facilitate the implementation of the Curtailable Service Option the Board, in Order No. P.U. 4 (1994-95), approved the Company increasing the Rate Stabilization Account by the total amount of NP credits to customers. This adjustment was discontinued by Board Order No. P.U. 7 (1996-97).

Interest Costs

Interest is calculated and applied to the balance in the RSA account on a monthly basis using the most recently approved rate of return on rate base.

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2 Table 2 shows total (net after-tax) adjustments to the Rate Stabilization Account and the
3 return on common equity by year for the period 1986 to 2006 expressed in dollars and
4 percentage-of-return-on-equity terms.
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Table 2
Adjustments To The
Rate Stabilization Account As
A Percentage of Return on Equity
(\$000's)

Year	Total Adjustments (after-tax)	Return on Equity²	Adjustment as a Percentage of Return on Equity³
1986	(1,672.0)	17,046	-9.8%
1987	(930.0)	17,695	-5.3%
1988	(518.1)	19,548	-2.7%
1989	157.0	21,897	0.7%
1990 ³	1,322.8	23,775	5.6%
1991	(4.4)	25,483	0.0%
1992	(364.7)	27,731	-1.3%
1993	(112.0)	27,702	-0.4%
1994	239.7	27,090	0.9%
1995	(387.4)	27,638	-1.4%
1996	(312.6)	25,144	-1.2%
1997	(197.0)	24,931	(0.8%)
1998	486.3	21,571	2.3%
1999	169.9	22,858	0.7%
2000	(327.5)	26,473	(1.2%)
2001	(215.2)	28,862	-0.7%
2002 ⁴	588.8	28,807	2.0%
2003	279.9	29,460	1.0%
2004 ³	1,050.7	31,122	3.4%
2005	(172.5)	30,729	-0.6%
2006	751.6	30,078	2.5%
	Average⁵		(0.3%)

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² As shown in Return 1 of the Annual Report to the Board for 1986 to 2006.

³ Is calculated as the net adjustment divided by the return on equity.

⁴ Includes pre-tax amounts of 313,000 in 1990, \$801,300 in 2002 and \$1,215,000 in 2004 related to the adjustment for the difference in the increase in revenue and the increase in purchased power costs resulting from the 1990, 2002 and 2004 Hydro rate changes.

⁵ The average shown is calculated based on the absolute percentages for 1986 to 2006.