

1 **Volume 1, Section 2 – Customer Operations**

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3 **Q. Please provide revised versions of Exhibits 9, 10 and 11 based on the revised**
4 **Exhibits 1, 2 and 5 in the previous question and the rate increase necessary to result**
5 **in the Company’s proposed return on common equity of 10.25% in 2008.**

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7 A. The information for 2008 in Exhibits 9, 10, and 11 has been presented on a pro-forma
8 basis assuming a 10.25% return on common equity as follows:

9
10 Attachment A (Reduction in 2008 Operating Expenses of \$474,000.)

11 2008 Revenue Requirements (Exhibit 9)
12 2008 Return on Rate Base (Exhibit 10)
13 2008 Average Rate Increase (Exhibit 11)

14
15 Attachment B (Reduction in 2008 Operating Expenses of \$882,000.)

16 2008 Revenue Requirements (Exhibit 9)
17 2008 Return on Rate Base (Exhibit 10)
18 2008 Average Rate Increase (Exhibit 11)

Attachment A

Newfoundland Power Inc.

2008 Revenue Requirements¹
(\$000s)

Reduction in 2008 Operating Expenses of \$474,000

	<u>Existing</u>	<u>Changes</u>	<u>Pro-Forma</u>
1 Return on Rate Base	54,204	17,164	71,368
2			
3 Other Costs			
4 Purchased Power Costs	328,786	(1,077)	327,709
5 Operating Costs	48,723	(1,307)	47,416
6 Pension and Early Retirement Costs	3,348	-	3,348
7 OPEB Costs	-	6,370	6,370
8 Amortization of Cost Recovery Deferral - Depreciation	-	2,317	2,317
9 Depreciation	41,002	(795)	40,207
10 Income Taxes	14,256	8,100	22,356
11	<u>436,115</u>	<u>13,608</u>	<u>449,723</u>
12			
13 Total Costs and Return	490,319	30,772	521,091
14			
15 Adjustments			
16 Other Revenue	(10,801)	(1,210)	(12,011)
17 Non-regulated Expenses	(983)	-	(983)
18 Other Adjustments ³	-	92	92
19			
20 2008 Revenue Requirement	478,535	29,654	508,189
21			
22 Revenue Deferral Amortizations	-	(6,180)	(6,180)
23			
24 Revenue Required From Rates	478,535	23,474 ²	502,009

¹ See Section 3.9, 2008 Revenue Requirements for a summary of the Company's 2008 Revenue Requirements proposals.

² Excludes price elasticity impacts related to revenue of \$2.6 million.

³ Includes \$62,000 related to the amortization of capital stock issue expenses and \$30,000 related to customer security deposits.

Newfoundland Power Inc.

**2008 Return on Rate Base
(\$000s)**

Reduction in 2008 Operating Expenses of \$474,000

	<u>Existing</u>	<u>Changes</u>	<u>Pro-Forma</u>
1			
2 Average Invested Capital			
3 Total Debt	450,632	(11,794) ¹	438,838
4 Preference Shares	9,353	-	9,353
5 Common Equity	356,043	8,249 ²	364,292
6	<u>816,028</u>	<u>(3,545)</u>	<u>812,483</u>
7			
8 Average Invested Capital Ratios			
9 Total Debt	55.22%	-1.21% ¹	54.01%
10 Preference Shares	1.15%	-	1.15%
11 Common Equity	43.63%	1.21% ²	44.84%
12	<u>100.00%</u>	<u>0.00%</u>	<u>100.00%</u>
13			
14 Cost of Capital			
15 Debt	7.33%	0.36% ¹	7.69%
16 Preference Shares	6.27%	-	6.27%
17 Common Equity	5.85%	4.40% ²	10.25%
18			
19 Weighted Average Cost of Capital			
20 Debt	4.05%	0.10%	4.15%
21 Preference Shares	0.07%	-	0.07%
22 Common Equity	2.55%	2.05%	4.60%
23	<u>6.67%</u>	<u>2.15%</u>	<u>8.82%</u>
24			
25 Returns			
26 Return on Debt	33,034	408 ¹	33,442
27 Return on Preference Shares	586	-	586
28 Regulated Return on Common Equity	20,843	16,497 ²	37,340
29 Z Factor Effects	(259)	259 ³	-
30 Return on Rate Base	<u>54,204</u>	<u>17,164</u>	<u>71,368</u>

¹ Reflects reduced borrowing requirements resulting from the proposed increase in cash revenue.

² Reflects the Company's proposed return on common equity of 10.25 percent in 2008.

³ Return on rate base under the ARBM does not require the inclusion of a Z Factor. See Section 3.3.3, Automatic Adjustment Formula.

Newfoundland Power Inc.

2008 Average Rate Increase
(\$000s)

Reduction in 2008 Operating Expenses of \$474,000

	Existing ¹	Revised ²	Difference	Price Elasticity ³	Pro-Forma Increase ⁴
	A	B	C	D	E
1 Revenue From Rates	478,535	502,009	23,474	2,606	26,080
2					
3 RSA Charges	22,741	22,593	(148)	148	-
4					
5 MTA Charges	11,935	12,511	576	67	643
6					
7 Total	513,211	537,113	23,902	2,821	26,723
8					
9 Customer Rate Change⁵					5.2%

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¹ Revenue from existing rates from Exhibit 9. RSA based on the RSA factor (0.444¢/kWh) effective January 1, 2007. MTA based on MTA Factor (1.02393) effective July 1, 2006.

² Revenue from proposed rates from Exhibit 9. RSA based on the RSA factor (0.444 ¢/kWh) effective January 1, 2007. MTA based on MTA factor (1.02393) effective July 1, 2006.

³ Elasticity impacts represent revenue reductions from reduced customer usage as a result of the 5.3 percent rate increase. Determined by applying existing rates to the 2008 test year sales forecast adjusted for the elasticity impacts and comparing results to Column A.

⁴ Difference between existing and proposed forecasts plus additional revenue requirement to offset price elasticity impact (Column C plus Column D).

⁵ Total of Column E expressed as percentage of (Column A less Column D).

Attachment B

Newfoundland Power Inc.

2008 Revenue Requirements¹
(\$000s)

Reduction in 2008 Operating Expenses of \$882,000

	<u>Existing</u>	<u>Changes</u>	<u>Pro-Forma</u>
1 Return on Rate Base	54,204	17,150	71,354
2			
3 Other Costs			
4 Purchased Power Costs	328,786	(1,077)	327,709
5 Operating Costs	48,723	(1,715)	47,008
6 Pension and Early Retirement Costs	3,348	-	3,348
7 OPEB Costs	-	6,370	6,370
8 Amortization of Cost Recovery Deferral - Depreciation	-	2,317	2,317
9 Depreciation	41,002	(795)	40,207
10 Income Taxes	14,256	8,093	22,349
11	<u>436,115</u>	<u>13,193</u>	<u>449,308</u>
12			
13 Total Costs and Return	490,319	30,343	520,662
14			
15 Adjustments			
16 Other Revenue	(10,801)	(1,210)	(12,011)
17 Non-regulated Expenses	(983)	-	(983)
18 Other Adjustments ³	-	92	92
19			
20 2008 Revenue Requirement	478,535	29,225	507,760
21			
22 Revenue Deferral Amortizations	<u>-</u>	<u>(6,180)</u>	<u>(6,180)</u>
23			
24 Revenue Required From Rates	478,535	23,045 ²	501,580

¹ See Section 3.9, 2008 Revenue Requirements for a summary of the Company's 2008 Revenue Requirements proposals.

² Excludes price elasticity impacts related to revenue of \$2.6 million.

³ Includes \$62,000 related to the amortization of capital stock issue expenses and \$30,000 related to customer security deposits.

Newfoundland Power Inc.

2008 Return on Rate Base
(\$000s)

Reduction in 2008 Operating Expenses of \$882,000

	Existing	Changes	Pro-Forma
Average Invested Capital			
Total Debt	450,632	(11,793) ¹	438,839
Preference Shares	9,353	-	9,353
Common Equity	356,043	8,243 ²	364,286
	<u>816,028</u>	<u>(3,550)</u>	<u>812,478</u>
Average Invested Capital Ratios			
Total Debt	55.22%	-1.21% ¹	54.01%
Preference Shares	1.15%	-	1.15%
Common Equity	43.63%	1.21% ²	44.84%
	<u>100.00%</u>	<u>0.00%</u>	<u>100.00%</u>
Cost of Capital			
Debt	7.33%	0.36% ¹	7.69%
Preference Shares	6.27%	-	6.27%
Common Equity	5.85%	4.40% ²	10.25%
Weighted Average Cost of Capital			
Debt	4.05%	0.10%	4.15%
Preference Shares	0.07%	-	0.07%
Common Equity	2.55%	2.05%	4.60%
	<u>6.67%</u>	<u>2.15%</u>	<u>8.82%</u>
Returns			
Return on Debt	33,034	408 ¹	33,443
Return on Preference Shares	586	-	586
Regulated Return on Common Equity	20,843	16,483 ²	37,326
Z Factor Effects	(259)	259 ³	-
Return on Rate Base	<u>54,204</u>	<u>17,150</u>	<u>71,355</u>

¹ Reflects reduced borrowing requirements resulting from the proposed increase in cash revenue.

² Reflects the Company's proposed return on common equity of 10.25 percent in 2008.

³ Return on rate base under the ARBM does not require the inclusion of a Z Factor. See Section 3.3.3, Automatic Adjustment Formula.

Newfoundland Power Inc.
2008 Average Rate Increase
(\$000s)
Reduction in 2008 Operating Expenses of \$882,000

	<u>Existing¹</u>	<u>Revised²</u>	<u>Difference</u>	<u>Price Elasticity³</u>	<u>Pro-Forma Increase⁴</u>
	A	B	C	D	E
1 Revenue From Rates	478,535	501,580	23,045	2,606	25,651
2					
3 RSA Charges	22,741	22,593	(148)	148	-
4					
5 MTA Charges	11,935	12,522	587	67	654
6					
7 Total	513,211	536,695	23,484	2,821	26,305
8					
9 Customer Rate Change⁵					5.2%

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28 ¹ Revenue from existing rates from Exhibit 9. RSA based on the RSA factor (0.444¢/kWh) effective January 1, 2007. MTA based on MTA
29 Factor (1.02393) effective July 1, 2006.

31 ² Revenue from proposed rates from Exhibit 9. RSA based on the RSA factor (0.444 ¢/kWh) effective January 1, 2007.
32 MTA based on MTA factor (1.02393) effective July 1, 2006.

34 ³ Elasticity impacts represent revenue reductions from reduced customer usage as a result of the 5.3 percent rate increase.
35 Determined by applying existing rates to the 2008 test year sales forecast adjusted for the elasticity impacts and comparing results to Column A

37 ⁴ Difference between existing and proposed forecasts plus additional revenue requirement to offset price elasticity impact
38 (Column C plus Column D).

40 ⁵ Total of Column E expressed as percentage of (Column A less Column D).

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