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2 **Volume 1, Section 2 – Customer Operations**
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4 **Q. Please provide revised versions of Exhibits 9, 10 and 11 based on the revised**
5 **Exhibits 1, 2 and 5 in the previous question and the rate increase necessary to result**
6 **in the current approved midpoint return on rate base of 8.47% in 2008 (per Table**
7 **21 at page 51).**
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9 A. The information in Exhibits 9, 10, and 11 is presented on a pro-forma basis assuming an
10 8.47% return on rate base as follows:
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12 Attachment A (Reduction in 2008 Operating Expenses of \$474,000.)

13 2008 Revenue Requirements (Exhibit 9)
14 2008 Return on Rate Base (Exhibit 10)
15 2008 Average Rate Increase (Exhibit 11)
16

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

18 2008 Revenue Requirements (Exhibit 9)
19 2008 Return on Rate Base (Exhibit 10)
20 2008 Average Rate Increase (Exhibit 11)

Attachment A

Newfoundland Power Inc.

Pro Forma 2008 Revenue Requirements¹
(\$000s)

Reduction in 2008 Operating Expenses of \$474,000

	<u>Existing</u>	<u>Changes</u>	<u>Revised</u>
1 Return on Rate Base	54,204	14,375	68,579
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	6,605	20,861
11	<u>436,115</u>	<u>12,113</u>	<u>448,228</u>
12			
13 Total Costs and Return	490,319	26,488	516,807
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	<u>-</u>	<u>92</u>	<u>92</u>
20 2008 Revenue Requirement	478,535	25,370	503,905
21			
22 Revenue Deferral Amortizations	<u>-</u>	<u>(6,180)</u>	<u>(6,180)</u>
23			
24 Revenue Required From Rates	478,535	19,190²	497,725
25			
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27			
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31			

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.

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

Reduction in 2008 Operating Expenses of \$474,000

	<u>Existing</u>	<u>Changes</u>	<u>Revised</u>	
1				
2	Average Invested Capital			
3	Total Debt	450,632	(10,696) ¹	439,936
4	Preference Shares	9,353	-	9,353
5	Common Equity	356,043	6,825 ²	362,868
6		<u>816,028</u>	<u>(3,871)</u>	<u>812,157</u>
7				
8	Average Invested Capital Ratios			
9	Total Debt	55.22%	-1.05% ¹	54.17%
10	Preference Shares	1.15%	-	1.15%
11	Common Equity	43.63%	1.05% ²	44.68%
12		<u>100.00%</u>	<u>0.00%</u>	<u>100.00%</u>
13				
14	Cost of Capital			
15	Debt	7.33%	0.35% ¹	7.68%
16	Preference Shares	6.27%	-	6.27%
17	Common Equity	5.85%	3.65% ²	9.50%
18				
19	Weighted Average Cost of Capital			
20	Debt	4.05%	0.11%	4.16%
21	Preference Shares	0.07%	-	0.07%
22	Common Equity	2.55%	1.69%	4.24%
23		<u>6.67%</u>	<u>1.80%</u>	<u>8.47%</u>
24				
25	Returns			
26	Return on Debt	33,034	469 ¹	33,503
27	Return on Preference Shares	586	-	586
28	Regulated Return on Common Equity	20,843	13,647 ²	34,490
29	Z Factor Effects	(259)	259 ³	-
30	Return on Rate Base	<u>54,204</u>	<u>14,375</u>	<u>68,579</u>
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36 ¹ Reflects reduced borrowing requirements resulting from the proposed increase in cash revenue.

37 ² Reflects a return on average rate base of 8.47 percent in 2008.

38 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.

**Pro Forma 2008 Average Rate Increase
(\$000s)**

Reduction in 2008 Operating Expenses of \$474,000

	<u>Existing¹</u>	<u>Revised²</u>	<u>Difference</u>	<u>Price Elasticity³</u>	<u>Revised Increase⁴</u>
	A	B	C	D	E
1 Revenue From Rates	478,535	497,725	19,190	2,606	21,796
2					
3 RSA Charges	22,741	22,593	(148)	148	-
4					
5 MTA Charges	<u>11,935</u>	<u>12,618</u>	<u>683</u>	<u>67</u>	<u>750</u>
6					
7 Total	513,211	532,936	19,725	2,821	22,546
8					
9 Customer Rate Change⁵					4.4%

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

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

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

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

35 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>Revised</u>
1 Return on Rate Base	54,204	14,363	68,567
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	6,598	20,854
11	<u>436,115</u>	<u>11,698</u>	<u>447,813</u>
12			
13 Total Costs and Return	490,319	26,061	516,380
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	<u>-</u>	<u>92</u>	<u>92</u>
20 2008 Revenue Requirement	478,535	24,943	503,478
21			
22 Revenue Deferral Amortizations	<u>-</u>	<u>(6,180)</u>	<u>(6,180)</u>
23			
24 Revenue Required From Rates	478,535	18,763 ²	497,298

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

	<u>Existing</u>	<u>Changes</u>	<u>Revised</u>
1			
2 Average Invested Capital			
3 Total Debt	450,632	(10,695) ¹	439,937
4 Preference Shares	9,353	-	9,353
5 Common Equity	356,043	6,818 ²	362,861
6	<u>816,028</u>	<u>(3,877)</u>	<u>812,151</u>
7			
8 Average Invested Capital Ratios			
9 Total Debt	55.22%	-1.05% ¹	54.17%
10 Preference Shares	1.15%	-	1.15%
11 Common Equity	43.63%	1.05% ²	44.68%
12	<u>100.00%</u>	<u>0.00%</u>	<u>100.00%</u>
13			
14 Cost of Capital			
15 Debt	7.33%	0.35% ¹	7.68%
16 Preference Shares	6.27%	-	6.27%
17 Common Equity	5.85%	3.65% ²	9.50%
18			
19 Weighted Average Cost of Capital			
20 Debt	4.05%	0.11%	4.16%
21 Preference Shares	0.07%	-	0.07%
22 Common Equity	2.55%	1.69%	4.24%
23	<u>6.67%</u>	<u>1.80%</u>	<u>8.47%</u>
24			
25 Returns			
26 Return on Debt	33,034	470 ¹	33,504
27 Return on Preference Shares	586	-	586
28 Regulated Return on Common Equity	20,843	13,634 ²	34,477
29 Z Factor Effects	(259)	259 ³	-
30 Return on Rate Base	<u>54,204</u>	<u>14,363</u>	<u>68,567</u>

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

² Reflects a return on average rate base of 8.47% 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>Revised Increase⁴</u>
	A	B	C	D	E
1 Revenue From Rates	478,535	497,298	18,763	2,606	21,369
2					
3 RSA Charges	22,741	22,593	(148)	148	-
4					
5 MTA Charges	11,935	12,629	694	67	761
6					
7 Total	513,211	532,520	19,309	2,821	22,130
8					
9 Customer Rate Change⁵					4.3%

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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).