

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 proposed average customer rate**
5 **change of 5.3% as shown in Exhibit 11.**

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7 A. The information in Exhibits 9, 10, and 11 is presented on a pro-forma basis assuming a
8 5.3% average change in customer rates:

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>Revised</u>
1 Return on Rate Base	54,204	17,474	71,678
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	8,267	22,523
11	<u>436,115</u>	<u>13,775</u>	<u>449,890</u>
12			
13 Total Costs and Return	490,319	31,249	521,568
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	30,131	508,666
21			
22 Revenue Deferral Amortizations	-	(6,180)	(6,180)
23			
24 Revenue Required From Rates	478,535	23,951 ²	502,486

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>Revised</u>
1			
2 Average Invested Capital			
3 Total Debt	450,632	(11,916) ¹	438,716
4 Preference Shares	9,353	-	9,353
5 Common Equity	356,043	8,408 ²	364,451
6	<u>816,028</u>	<u>(3,508)</u>	<u>812,520</u>
7			
8 Average Invested Capital Ratios			
9 Total Debt	55.22%	-1.22% ¹	54.00%
10 Preference Shares	1.15%	-	1.15%
11 Common Equity	43.63%	1.22% ²	44.85%
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%	4.48% ²	10.33%
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%	2.08%	4.63%
23	<u>6.67%</u>	<u>2.18%</u>	<u>8.85%</u>
24			
25 Returns			
26 Return on Debt	33,034	401 ¹	33,435
27 Return on Preference Shares	586	-	586
28 Regulated Return on Common Equity	20,843	16,814 ²	37,657
29 Z Factor Effects	(259)	259 ³	-
30 Return on Rate Base	<u>54,204</u>	<u>17,474</u>	<u>71,678</u>

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

² Reflects an average increase in customer rates of 5.3%.

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

Reduction in 2008 Operating Expenses of \$474,000

	Existing ¹	Revised ²	Difference	Price Elasticity ³	Revised Increase ⁴
	A	B	C	D	E
1 Revenue From Rates	478,535	502,486	23,951	2,606	26,557
2					
3 RSA Charges	22,741	22,593	(148)	148	-
4					
5 MTA Charges	11,935	12,499	564	67	631
6					
7 Total	513,211	537,578	24,367	2,821	27,188
8					
9 Customer Rate Change⁵					5.3%

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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).

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	17,741	71,945
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	8,408	22,664
11	<u>436,115</u>	<u>13,508</u>	<u>449,623</u>
12			
13 Total Costs and Return	490,319	31,249	521,568
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	30,131	508,666
21			
22 Revenue Deferral Amortizations	<u>-</u>	<u>(6,180)</u>	<u>(6,180)</u>
23			
24 Revenue Required From Rates	478,535	23,951 ²	502,486

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	Revised	
1				
2	Average Invested Capital			
3	Total Debt	450,632	(12,025) ¹	438,607
4	Preference Shares	9,353	-	9,353
5	Common Equity	356,043	8,543 ²	364,586
6		816,028	(3,482)	812,546
7				
8	Average Invested Capital Ratios			
9	Total Debt	55.22%	-1.24% ¹	53.98%
10	Preference Shares	1.15%	-	1.15%
11	Common Equity	43.63%	1.24% ²	44.87%
12		100.00%	0.00%	100.00%
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%	4.55% ²	10.40%
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%	2.12%	4.67%
23		6.67%	2.22%	8.89%
24				
25	Returns			
26	Return on Debt	33,034	396 ¹	33,430
27	Return on Preference Shares	586	-	586
28	Regulated Return on Common Equity	20,843	17,086 ²	37,929
29	Z Factor Effects	(259)	259 ³	-
30	Return on Rate Base	54,204	17,741	71,945

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

² Reflects an average increase in customer rates of 5.3%.

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	502,486	23,951	2,606	26,557
2					
3 RSA Charges	22,741	22,593	(148)	148	-
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7 Total	513,211	537,578	24,367	2,821	27,188
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9 Customer Rate Change⁵					5.3%

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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.

30
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.

33
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

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

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

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