

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

3 **Q. Please provide a table comparing revenue requirement and corresponding rate**
4 **increases as proposed in the Application to revenue requirement and corresponding**
5 **rate increases if NP’s operating costs (identified in Table 5) were allowed to increase**
6 **in 2007 and 2008 at the average real increase experienced from 2002 through the**
7 **end of 2006. For example, if inflation averaged 3%/year (i.e., GDP deflator in 2006**
8 **is 12% greater than in 2002), and NP’s operations and maintenance expenses were**
9 **flat (i.e., expenses in 2006 were the same as expenses in 2002), expenses for the 2007**
10 **test year would be set at 2006 actual expenses multiplied by the forecast GDP**
11 **deflator for 2007 less 3%.**

12
13 **A. Table 1 provides the requested information.**
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Table 1
Revenue Requirement and Customer Rate Increase
2008 Pro forma

	2008 Forecast	Change	2008 Pro forma
Revenue Requirement (\$000s)	502,486	(1,764)	500,722
Customer Rate Increase	5.33%	(0.35%)	4.98%

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18 Attachment A provides the calculation details for the values on Table 1.

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20 Newfoundland Power observes that the *pro forma* calculation of 2008 operating costs
21 requested in this request for information does not reasonably reflect the operating cost
22 dynamics of Newfoundland Power nor does it provide a reasonable estimate of the
23 Company’s forecast 2008 operating costs.

24
25 Accordingly, the values in Table 1 are not reasonably indicative of Newfoundland
26 Power’s 2008 revenue requirements.

Pro Forma 2008 Revenue Requirement from Rates

Table 1
Real Decrease in Operating Costs
2002-2006
(\$ in thousands)

2002 operating costs	48,804 ¹
GDP deflator (2002-2006)	<u>x 109.9</u>
Inflation adjusted 2006 operating costs	53,636
Actual 2006 operating costs	<u>(48,691)¹</u>
Real decrease in operating costs 2002-2006	<u>4,945</u>
Real annual rate of decrease 2002-2006	<u>2.64%</u>

Table 2
Pro Forma 2008 Revenue Requirement from Rates

	<u>\$000s</u>	<u>Impact on Rates</u>
2006 operating costs	48,691	
Inflationary increase	1,655 ²	
Real decrease	<u>(2,537)³</u>	
<i>Pro Forma</i> 2008 operating costs	47,809	
Proposed 2008 operating costs	<u>49,573</u>	
<i>Pro Forma</i> decrease in 2008 operating costs	(1,764)	(0.35%) ⁴
Proposed 2008 revenue requirement from rates ⁵	<u>502,486</u>	<u>5.33%</u>
<i>Pro Forma</i> 2008 revenue requirement from rates	<u>500,722</u>	<u>4.98%</u>

¹ Per Table 5 on page 13 of Newfoundland Power's pre filed evidence.

² (2006 operating costs x GDP deflator 2006-2008) – 2006 operating costs.
(\$48,691 x 103.4) - \$48,691 = \$1,655

³

2007 real decrease	48,691 x 2.64%	= 1,285
2008 real decrease	(48,691 – 1,285) x 2.64%	= <u>1,252</u>
		<u>2,537</u>

⁴ Excludes elasticity impacts.

Decrease in revenue requirement from rates	(1,764)	(As above)
MTA factor	<u>x 1,02393</u>	(Per footnote 2 in Exhibit 11)
	(1,806)	
	<u>÷ 510,390</u>	(“Existing” less. “Price Elasticity” per Exhibit 11)
	<u>(0.35%)</u>	

⁵ Per Exhibit 11 in Newfoundland Power's prefiled evidence.