

Board of Commissioners of Public Utilities

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PRESS RELEASE

May 4, 2004

**The Board of Commissioners of Public Utilities
Today issued its Decision and Order with respect to
The 2003 General Rate Application of Newfoundland and Labrador Hydro**

The Newfoundland and Labrador Board of Commissioners of Public Utilities (the "Board") today released Order No. P.U. 14 (2004) with respect to a hearing into an application of Newfoundland and Labrador Hydro ("Hydro") for a General Rate Review. The hearing concluded on January 16, 2004.

In its Application, Hydro requested an increase in rates charged to Newfoundland Power of 12%, which would result in an increase of approximately 6.5% to Newfoundland Power customers and to Hydro's rural customers whose rates are based on Newfoundland Power's customer rates. Hydro also requested an increase in rates charged to its Island Industrial Customers of 12.2% for firm service. These requested increases in Hydro's rates were primarily driven by: i) increased costs relating to new sources of supply, including hydroelectric development at Granite Canal and power purchased from two non-utility generators, which have been added since 2002 to meet forecast load for the Island Interconnected System; ii) higher fuel costs for Holyrood Thermal Generating Station; iii) higher operating expenses; and iv) a request for a rate of return on equity higher than the current 3%. As well Hydro also filed a proposal for the phase-in over five years of uniform rates for customers in Labrador West and Happy Valley-Goose Bay area.

During a comprehensive public hearing, the Board considered these proposals and other matters contained in the Application, including Hydro's financial targets, its revenue requirement for 2004, which is the amount of money Hydro is allowed to recover from customers through electricity rates, and other issues relating to cost allocation and rate design.

In Order No. P.U. 14 (2004), the Board has made several decisions that will require Hydro to change the rates it proposed in the Application to charge its customers. The Board has allowed a return on equity of 5.83% for setting a fair and reasonable return on rate base for Hydro instead of the 9.75% proposed by Hydro. In addition the Board has reduced some of Hydro's proposed expenses, which along with the lower allowed return, will reduce Hydro's revenue requirement to be recovered in rates. Hydro has been directed to file a revised Schedule of Rates which will incorporate the decisions and orders of the Board.

As part of the hearing the Board considered a complaint of discriminatory rates from the Towns of Labrador City and Wabush. After hearing evidence in Labrador City and St. John's the Board found that Hydro's proposals for the Labrador Interconnected System were not unjustly discriminatory and accepted Hydro's proposal for a phase-in of uniform rates for this system. As a result of this decision rates for customers in Labrador West will be increased over a five year-period to the level of rates paid by customers in Happy Valley-Goose Bay. Rates for residential and general service customers in Happy Valley-Goose Bay are not expected to increase. Residential customers in Happy Valley-Goose Bay currently pay \$7.00¹ per month as a basic charge and an energy rate of 3.25¢ per kWh. Customers on the Island Interconnected System currently pay \$15.77 per month as a basic charge and an energy charge of 7.185¢ per kWh; these rates are expected to increase as a result of the Board's Order.

Rates for Hydro's rural customers will continue to be linked to Newfoundland Power's rates. These customers currently pay between 18% and 64% of the costs of their electrical service provided by Hydro. The shortfall in these costs is estimated to be \$41 million for 2004 and, by Government direction, is recovered from Newfoundland Power through its customer rates and from customers on the Labrador Interconnected System.

Other decisions in the Board's Order include an increase in the lifeline block for Hydro's rural isolated customers, approval for implementation of a demand-energy rate for Newfoundland Power, and a number of directions with respect to measurement of Hydro's corporate and operating performance and ongoing regulatory reporting.

The specific impact of Order No. P.U. 14 (2004) on customers in the Province will be finalized after Hydro files its revised Schedule of Rates, Rules and Regulations. The Board anticipates this revised filing will be completed within the next four to six weeks. This filing will be reviewed to ensure compliance with this Decision and Order before a final order of the Board is issued. Until this revision is completed it is not possible for the Board to determine specific customer rate impacts. Upon approval by the Board of Hydro's rates, it is expected that Newfoundland Power will file an application with the Board to recover the increased costs in its rates. New rates for all electrical customers in the Province as a result of this Decision and Order are expected to become effective as of July 1, 2004.

A Summary of Board Decisions and Board Order is included with this Press Release. A complete copy of Order No. P.U. 14 (2004) is available for pick-up at the Board's Office and can be viewed on the Board's website at www.pub.nf.ca.

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¹ See Press Release Correction, May 4, 2004 (\$8.00 should have been \$7.00)