Q. As to the rate increase which the Company is currently seeking, please provide the actual dollar amount the Company is claiming and, of that dollar amount, state how many dollars will go to Fortis Inc. pursuant to Rate of Return, and how many dollars the Company is claiming for other expenses and specify the amount for each and every expense.

A. Exhibit BVP-28, page 2 of 2, provides the adjusted[1] revenue requirement for 2003 and 2004. To achieve the proposed revenue requirement of $377.4 million in 2003 and $385.0 million in 2004 requires an increase in revenue from rates of $2.5 million and $4.6 respectively, for a proposed average increase in electrical rates of 1.39 per cent effective May 1, 2003.

The *Public Utilities Act* entitles Newfoundland Power to recover all reasonable and prudent costs incurred in providing electrical service to its customers, and to earn a just and reasonable return on its rate base.

Revenue requirement is the sum of the return on rate base, depreciation, taxes and total operating costs to be recovered from customers. Total operating costs include purchased power plus other operating expenses.

The components of the Company's revenue requirement, as shown in Exhibit BVP-26 must be looked at in their total context and cannot be segregated in the manner suggested by the question. Put another way, one aspect of revenue requirements cannot be looked at in isolation. Mr. Hughes referred to this during the Company's 2003 Capital Budget Hearing when cross-examined by the Consumer Advocate on November 13, 2002. Mr. Hughes stated that, "The 1.39 is the revenue requirement result. For example, it counts rate of return, it would also count increased insurance costs, pension costs, so it's the sum of all the items including return on equity, return on rate base, that arise from all those items building up to the revenue requirement."

A just and reasonable return on rate base is the sum of the forecast return on debt (finance charges), the forecast return on preferred equity and the forecast return on regulated common equity (a return of 10.75% is proposed by Newfoundland Power in this proceeding). This return is required to achieve the required level of interest coverage (2.5 to 2.7 times) to maintain overall creditworthiness (an A bond rating). Table 13 on page 43 of the *Finance and Accounting Evidence* provides a breakdown of the forecast return on rate base of $62.6 million and $64.9 million for 2003 and 2004. These amounts are proposed by Newfoundland Power in this proceeding as being necessary to achieve these financial targets.

In it's application the Company has proposed several changes in accounting amortizations and policies that reduce revenue requirements in 2003 and 2004 by $8.9

[1] Adjusted to reflect recovery of 1992-1993 excess earnings as described in Section 6.2 of the *Finance & Accounting Evidence*.

million and $6.8 million respectively (as per Table 20 on page 75 of the *Finance & Accounting Evidence*). These accounting changes benefit customers by reducing revenue requirements in 2003 and 2004, thereby reducing the required increase in electricity rates needed to achieve the Company's financial targets.

The total dollars which are forecast to go to Fortis Inc. as dividends during the forecast period of 2003 and 2004 are forecast at $14.2 million and $19.0 million respectively.

The actual return on common equity accrues to the benefit of Fortis Inc. In 2003 and 2004 the proposed return on common equity for ratemaking purposes is 10.75 per cent and 10.71 per cent approximately. This translates into earnings applicable to common shares for 2003 and 2004 of approximately $30.9 million and $32.5 million respectively.