

1 **Q. Explain why purchased power expense is functionalized and classified using**
2 **Hydro's 1992 cost of service, while hydraulic production direct O&M is classified**
3 **based on Hydro's 2002 cost of service. (Exhibit LCH-1, p. 8 of 15)**
4

5 A. The 2001 Cost of Service Study is based on Newfoundland Power's 2001 purchased
6 power expense (weather adjusted and exclusive of the rural deficit). The purchase power
7 rate in effect during 2001 was based on certain functionalizations, classifications and a
8 rural deficit as determined by Hydro's 1992 Forecast test year Cost of Service Study.
9 Therefore, using Hydro's 1992 Cost of Service Study ensures that Newfoundland
10 Power's 2001 Cost of Service Study reflects the cost structures behind the rates in effect
11 during 2001.
12

13 Newfoundland Power has reviewed the impact of Hydro's September 1, 2002 rate change
14 on its 2001 Cost of Service Study. Attachment A compares the revenue to cost ratios for
15 the Newfoundland Power proposed 2001 Cost of Service Study (provided on page 12 of
16 Mr. Henderson's pre-filed testimony) to the revenue to cost ratios calculated using the
17 functional classification splits derived from Hydro's 2002 forecast cost of service study.
18 The ratios, as shown in Attachment A, are similar in both cases. Both methods of
19 calculation have revenue to cost ratios for all classes within the range of 90% to 110%
20 cost recovery.
21

22 Newfoundland Power's direct O&M is related to its own hydraulic production cost. It is
23 appropriate to use the most current available estimate of system load factor in classifying
24 O&M. Therefore, the system load factor used by Newfoundland Power to classify its
25 2001 hydraulic production cost was taken from Hydro's most recently filed 2002 cost of
26 service.

NEWFOUNDLAND POWER INC.

REVENUE TO COST RATIOS
Excluding RSA, MTA and Rural Subsidy

Line		Revenue to Cost Ratios		
No.	Class of Service	Rate Code	2001 Cost of Service Study Results	2001 Cost of Service Study Results Adjusted ¹
1	DOMESTIC	1.1	<u>96.2%</u>	<u>96.0%</u>
	GENERAL SERVICE			
2	(0-10 kW)	2.1	<u>104.6%</u>	<u>106.1%</u>
3	(10-100 kW)	2.2	<u>107.9%</u>	<u>109.3%</u>
4	(110 - 1000 kVA)	2.3	<u>106.2%</u>	<u>106.2%</u>
5	(1000 kVA and Over)	2.4	<u>106.6%</u>	<u>104.4%</u>
6	STREET LIGHTING	4.1	<u>101.5%</u>	<u>101.7%</u>

NOTES:

1 - Adjusted to determine the impact of recent classification splits from Hydro's 2002 Forecast Test Year Cost of Service Study.