Q. Please indicate the criteria used to determine that the minimum distribution size system study would apply only to 'conductor poles and fittings,' and that the zero intercept study would apply to 'distribution transformers.'

A. The National Association of Regulatory Utility Commissioners ("NARUC") Manual states that:

> *"The minimum size method involves determining the minimum size pole, conductor, cable, transformer and service that is currently installed by the utility."*[1]

The cost of this minimum amount of plant and the expense necessary to maintain it, are assigned to the customer costs.

Another method for calculating what portion of the distribution system costs should be attributed to the customer related function is the "zero intercept method". The essence of this method is that if the cost of providing a distribution system for various levels of demand were plotted on a graph, we would have a line that decreases as the demand decreases. This line can then be extrapolated to cross the cost axis at zero demand. Thus the name "zero intercept".

Both the zero intercept method and the minimum size method are accepted methods of determining that portion of distribution system costs to be treated as customer related. As indicated in responses to the Company's survey of Canadian utility practices on the Basic Customer Charge, discussed in Exhibit LBB-3, and the Fosters and Associates' survey provided in response to PUB-205, the use of both methods are common in cost classification. Similar to Newfoundland Power, other utilities use both methods in determining that portion of the distribution system to be treated as customer-related. The choice of method often depends on the availability of data to conduct the analysis. Either method can be viewed as acceptable.

[1] *NARUC Electric Utility Cost Allocation Manual*, January 1992, page 90.