

May 20 2005

Board of Commissioners of Public Utilities
P.O. Box 21040
120 Torbay Road
St. John's, Newfoundland
A1A 5B2

Attention: Ms. Cheryl Blundon
Board Secretary

Ladies & Gentlemen:

Re: Application for Revision to Contribution in Aid of Construction (CIAC) Policies

Enclosed herewith are 15 copies of Newfoundland Power's application for approval of revisions to its CIAC Policies for domestic and general service customers.

General

The Company's current CIAC policies (the "CIAC Policies") were approved following a public hearing in 1997. With some notable exceptions, the current policies have been generally well-received by customers. However, the Company's experience in administering the current policies suggests there are several areas where improvements can usefully be made.

Proposed Changes

The Application proposes changes for both the CIAC Policy for domestic customers (the "Domestic Policy") and the CIAC Policy for general service customers (the "General Service Policy"). The proposed revisions are detailed in the report entitled *2005 CIAC Policy Review* which is Schedule A to the Application. Also included in Schedule A are copies of the formal CIAC policy documents incorporating the changes.

The revised CIAC policies retain the basic principles and structure of the current policies, and Newfoundland Power considers the proposed changes to be in the nature of incremental improvements. The changes are primarily intended to address known sources of customer dissatisfaction and reduce the administrative burden associated with CIACs. The following is a brief summary of the more significant changes:



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Domestic Policy

Since its implementation in 1997, the principal source of customer dissatisfaction with CIACs has been the provision of a higher level of Company investment (and, hence, a lower CIAC) for residents of cottage areas who could establish that they were permanent, rather than seasonal, residents. The revised Domestic Policy eliminates this two-tier approach by tying the level of Company investment to geographic criteria, rather than occupancy.

The revised Domestic Policy also introduces a non-refundable CIAC option for cottage areas, and eliminates the requirement that all CIACs for extensions serving primarily seasonal residents be specifically approved by the Board.

General Service Policy

The principal revision in the General Service Policy is the introduction of a simplified method for determining the amount of investment, additional to the basic Company investment, that is supported by the revenue expected to be generated by an individual customer. This simplified method for calculating additional plant support will also be extended to customers whose demand is 350 kVA or greater, thus eliminating the more detailed calculation method now applicable to such customers. The new plant support table is a more practical approach and will also better reflect the new wholesale purchased power rate structure.

Revisions Common to Both Policies

Certain proposed changes are common to both policies and are intended to reduce administrative and regulatory costs.

The existing policies employ different cost per metre factors for calculating CIACs for joint use and non-joint use extensions. The new policies employ a single blended cost per metre. In addition, the construction cost threshold above which a CIAC must receive specific Board approval is proposed to be raised from \$25,000 to \$50,000.

Process Considerations

Prior to 1997, Newfoundland Power's CIAC policies were considered by the Board on an *ex parte* basis. This is consistent with the Board's treatment of other administrative policies affecting customers, such as those respecting credit and bill collection. For example, the CIAC policy in effect immediately prior to the current policy was submitted to the Board in August 1993 and approved at the Board's regular monthly meeting held on October 7, 1993.

The Board's approval of the current CIAC policy, on the other hand, followed a public hearing held in June 1997.



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The 1997 hearing followed a compliance audit of the Company's CIAC policy and administration carried out by the Board's financial consultants, Doane Raymond, in 1996. The audit was requested by the Board following a number of customer complaints regarding both the content and the application of the CIAC Policy. Particularly noteworthy in this regard was a complaint from a customer in Whiteway regarding inconsistent interpretation of the CIAC Policy that resulted in a two-day hearing in 1995.

Since 1997, the implementation of the CIAC System, which automated aspects of the process and provided for better quality control and record keeping, and a focus on addressing the shortcomings identified in the Doane Raymond report, have resulted in significant improvements in Newfoundland Power's CIAC administration. At the same time, the level of oversight by the Board has increased, and includes annual audit by Board staff and review by the Board's financial consultants.

Since 1997, these improvements have substantially eliminated the customer controversy and policy application difficulties existing in 1997.

The process requirements for the Application should be considered in light of current levels of CIAC policy oversight, the greater consistency and control, and the low level of customer controversy surrounding this issue.

Newfoundland & Labrador Hydro

Because the CIAC Policies also apply to customers served by Hydro's distribution system, Newfoundland Power developed its proposed revisions to the CIAC Policies in consultation with Hydro. Hydro has indicated its agreement with the proposed revisions and its willingness to adopt them in relation to its own CIAC process.

Concluding

The revised CIAC policies proposed in the Application retain the basic principles and structure of the current policies, but with modifications to address known sources of customer dissatisfaction and reduce the administrative burden associated with CIACs. The proposed changes are incremental improvements that reflect the Company's experience in CIAC administration since 1997 and also take into account the feedback received from customers during that period.



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Board of Commissioners
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Newfoundland Power believes the proposed changes will improve customer acceptance of the CIAC process and reduce the costs associated therewith.

Yours very truly,

Gerard M. Hayes
Senior Counsel

c. Newfoundland & Labrador Hydro



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IN THE MATTER OF the *Public Utilities Act*, (the "Act"); and

IN THE MATTER OF an Application by Newfoundland Power Inc. for approval of revisions to the policies respecting the demanding from customers of contributions toward the cost of improvements or additions to its property ("CIAC Policies") pursuant to Sections 41(6) and 55 of the Act.

TO: The Board of Commissioners of Public Utilities (the "Board")

THE APPLICATION OF Newfoundland Power Inc. (the "Applicant") **SAYS THAT:**

1. The Applicant is a corporation duly organized and existing under the laws of the Province of Newfoundland and Labrador, is a public utility within the meaning of the Act, and is subject to the provisions of the *Electrical Power Control Act, 1994*.
2. In order to ensure that the Applicant's investment in improvements or additions to its property necessary to provide electrical service to individual customers is compensatory and will not be to the detriment of the Applicant's other customers, the Applicant may demand a contribution in aid of the construction of the improvements or additions to its property (a "CIAC").
3. By Orders No. P.U. 4 (1997-98) and No. P.U. 7 (1997-98), the Board approved CIAC Policies applicable to the Applicant and its domestic and general service customers. The CIAC Policies establish the terms and conditions under which the Applicant may demand CIACs from its customers as contemplated in Section 41 (6) of the Act.
4. The Applicant proposes revisions to the CIAC Policies. Schedule A to this Application is a report in two volumes entitled *2005 CIAC Policy Review* outlining the Applicant's proposals for revisions to the CIAC Policies, including detailed explanations of the proposed revisions and the benefits expected to be achieved as a result of their implementation.
5. Schedule A, Volume 1, contains the formal CIAC policy documents incorporating the revisions proposed by the Applicant (the "Revised CIAC Policies").
6. Implementation of the Revised CIAC Policies will ensure that the Applicant's investment in improvements or additions to its property to provide electrical service to individual customers is compensatory over the useful life of the improvements or additions and will not be to the detriment of the Applicant's other customers, all as required under the Act and the *Electrical Power Control Act, 1994*.

7. This application seeks approval of the Revised CIAC Policies as policies of the Board to apply to the Applicant's demanding from customers of contributions to improvements or additions to its property to serve those customers as contemplated in Section 41 (6) of the Act.
8. Communications with respect to this Application should be forwarded to the attention of Gerard M. Hayes, Counsel to the Applicant.

THE APPLICANT REQUESTS that the Board approve, pursuant to Section 41(6) and Section 55 of the Act, the Revised CIAC Policies as set out in Schedule A, Volume 1, to this Application.

DATED at St. John's, Newfoundland and Labrador, this 20th day of May, 2005.

NEWFOUNDLAND POWER INC.

Gerard M. Hayes
Counsel to the Applicant
Newfoundland Power Inc.
P.O. Box 8910
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St. John's, Newfoundland
A1B 3P6

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IN THE MATTER OF the *Public Utilities Act*, (the "Act"); and

IN THE MATTER OF an Application by Newfoundland Power Inc. for approval of revisions to the policies respecting the demanding from customers of contributions toward the cost of improvements or additions to its property ("CIAC Policies") pursuant to Sections 41(6) and 55 of the Act.

AFFIDAVIT

I, Lorne Henderson, of St. John's in the Province of Newfoundland and Labrador, Professional Engineer, make oath and say as follows:

1. That I am the Director, Regulatory Affairs of Newfoundland Power Inc.
2. To the best of my knowledge, information and belief, all matters, facts and things set out in this Application are true.

SWORN to before me at St. John's
in the Province of Newfoundland and
Labrador this 20th day of May, 2005,
before me:

Barrister

Lorne Henderson

2005 CIAC POLICY REVIEW
May 20, 2005

VOLUME 1 of 2

2005 CIAC POLICY REVIEW
May 20, 2005

2005 CIAC POLICY REVIEW

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SCHEDULE 2: PROPOSED GENERAL SERVICE CIAC POLICY

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- Appendix B: Basic Investment for Domestic Customers
- Appendix C: Domestic Customer Investment – Survey of Canadian Utilities
- Appendix D: Proposed Cost Recovery Adjustment Factors - Examples
- Appendix E: Non-Refundable Payment Option – Examples & Sample Quotation Letter

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- Appendix F: The Existing General Service CIAC Policy
- Appendix G: Calculation of Additional Load Based Investment
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- Appendix I: Pro-forma Impact of Change in Additional Load Based Investment
- Appendix J: Example of Investment Disparity at 10 kW of Maximum Annual Demand
- Appendix K: Sample Quotation Letter for Customers Receiving Additional Load Based Investment

Other Policy Revisions:

- Appendix L: Calculation of Blended Costs per Metre
- Appendix M: Comparison of CIAC Approval Thresholds

1 **SUMMARY OF PROPOSALS**

2
3 **Overview**

4
5 **The proposals set out below, which are based on the Company’s review of its existing**
6 **CIAC policies, are designed to enhance the fairness, clarity and practicality of those**
7 **policies and to improve administrative and regulatory efficiency. These proposals are**
8 **reflected in the proposed Domestic and General Service CIAC Policies which are Schedules**
9 **1 and 2, respectively, of this report.**

10
11 **The Company has made additional revisions to the CIAC policies. These revisions are**
12 **intended to improve the clarity and organization of the policies and do not effect changes in**
13 **policy. All proposed policy changes are set out below.**

14
15
16 **Domestic CIAC Policy Proposals**

17
18 *The Company proposes to replace the Customer Designation Methodology with a geographic*
19 *designation methodology.*

20
21 *The Company proposes to include the cost of transformation in its Basic Investment for line*
22 *extensions to all domestic customers.*

23
24 *The Company proposes to implement a non-refundable payment option for line extensions to*
25 *domestic customers in cottage areas.*

26
27
28 **General Service CIAC Policy Proposals**

29
30 *The Company proposes that Additional Load Based Investment that is determined from the*
31 *Plant Support Table be based on the projected distribution costs recovered through rates.*

32
33 *The Company proposes that Additional Load Based Investment be calculated on the*
34 *incremental maximum annual demand above 10 kW.*

35
36 *The Company proposes that detailed cost estimates be used to calculate construction costs*
37 *when the total cost of a line extension or Upgrade, estimated using the standard costs per*
38 *metre, exceeds \$100,000.*

39
40 *The Company proposes that Additional Load Based Investment that is determined from the*
41 *Plant Support Table be reduced by 2.5% for each year that the estimated life of the customer’s*
42 *operations is less than the depreciable life of the distribution plant used in the line extension*
43 *or Upgrade.*

1 *The Company proposes that if a general service CIAC, recalculated pursuant to the required*
2 *review after 24 months, differs from the original calculations by more than \$100, such*
3 *difference will be charged or refunded to the customer, as applicable.*
4

5
6 **Proposals Common to Both Policies**
7

8 *The Company proposes to eliminate separate pricing for joint use and non-joint use line*
9 *extensions for both domestic and general service customers through the introduction of a*
10 *blended CIAC cost per metre.*
11

12 *The Company proposes that Board approval be required for line extensions or Upgrades*
13 *involving CIACs that have a construction cost exceeding \$50,000.*

1
2
3 **1. CIAC POLICY**

4 **1.1 Background**

5 The purpose of a CIAC policy is to ensure that the costs for line extensions required to serve new
6 customers and upgrades of existing plant to meet individual customers' requirements will not
7 adversely impact the rates of other customers.

8 The Company's existing CIAC policies provide:

- 9 (i) the guidelines for determining how much investment will be provided by the Company
10 (and included in the rate base) and how much investment will be required from customers
11 requesting new or upgraded service;
- 12 (ii) the refund and cost sharing requirements when additional customers connect to plant for
13 which a customer contribution has been paid;
- 14 (iii) the payment terms available to customers for financing required contributions; and,
15
16 (iv) the requirement for specific Board approval of CIACs.
17
18
19

20 **1.2 Principles of a Sound Policy**

21 The generally accepted ratemaking principles of fairness, clarity and practicality are all
22 important considerations in establishing a sound CIAC policy.
23

24 The Company strives to implement a CIAC policy that is fair from a cost recovery perspective.
25 A CIAC policy must also provide for consistent treatment of customers in similar circumstances.
26 Fairness from both perspectives is a prerequisite for a sound policy.
27

28 The basis for charges to customers under the policy must be understandable by customers. A
29 policy that is simple and clear aids in customers' understanding and acceptance of the policy.
30

31 In the interest of efficiency, the policy must be practical to administer. The higher the degree of
32 administrative practicality, the lower the cost of administration. Precision in cost recovery under

1 the CIAC policy must be property balanced against materiality to produce a policy that is
2 practical. As well, consistent treatment of customers in similar circumstances improves
3 customer perception of fairness and this, in turn, makes the policy easier to administer.

4
5 All three of these principles must be balanced to achieve a sound CIAC policy. For example, too
6 strong an emphasis on precision in cost recovery would require detailed cost and revenue
7 estimates for each CIAC quotation. This would result in a policy that is neither practical for the
8 Company to administer nor understandable to customers. The Company's proposals are
9 designed to achieve an appropriate balance among the principles that underlie a sound CIAC
10 Policy.

1 investment proposed for Residential Planning Areas is justified by the higher revenue levels
2 provided by the Permanent Domestic Customers who generally live in those areas. The
3 Geographic Methodology is therefore consistent with the goal of reasonable cost recovery.
4

5 **2.2.2 Benefits of Proposal**

6 Domestic customers have expressed concern that CIACs for customers in the same seasonal area
7 can be significantly different because of designations as Seasonal vs. Domestic Customers. Such
8 differences arise because the physical location of a customer's premises is not the determinant of
9 the customer's designation and CIAC under the existing policy. Customers often do not
10 understand why their CIAC is different from that of their neighbour, which leads them to
11 question the fairness of the difference and the policy upon which it is based.
12

13 The Geographic Methodology avoids this problem because it treats all customers within
14 Residential Planning Areas on a consistent basis and all customers outside of Residential
15 Planning Areas on a consistent basis.
16

17 **2.3 Transformer Charge**

18 *The Company proposes to include the cost of transformation in its Basic Investment for line*
19 *extensions to all domestic customers.*
20

21 **2.3.1 Basis for Proposal**

22 "Basic Investment" refers to the level of investment the Company will provide for a line extension
23 before a contribution will be required. As set out in Volume 2, Appendix B, a level of Basic
24 Investment for line extensions that includes the cost of transformation can be supported by revenue
25 generated from Domestic customers that are connected to those line extensions. The absence of a
26 separate charge for transformation is consistent with the domestic CIAC policies of other Canadian
27 utilities. A summary of the investment provided to new customers of other Canadian utilities is
28 provided in Volume 2, Appendix C.

1 **2.3.2 Benefits of Proposal**

2 The practice of explicitly charging Seasonal Domestic Customers for transformation has been an
3 issue with customers since its inception in 1997. Subsequent policy modifications to address this
4 issue have not been successful, and there is an ongoing difficulty in explaining the requirement
5 for the transformation charge (currently \$650). The Company’s proposal addresses this issue.
6

7 **2.4 Non-Refundable Payment Option**

8 *The Company proposes to implement a non-refundable payment option for line extensions to*
9 *domestic customers in cottage areas.*

10
11 The non-refundable payment option will be offered only in cottage areas where the owners of at
12 least 50% of the potential building lots in an area agree to take electrical service and become
13 Initial Customers.² Once the 50% threshold is met, the Company will construct the Main Line to
14 serve all of the potential building lots in the area, as well as the Service Lines for the Initial
15 Customers.³ The Service Lines for future connections will be constructed as additional
16 customers require service. Under the Company’s proposal, the calculated non-refundable CIAC
17 will apply to all building lots connected in an area for a period of 20 years from the date that the
18 Main Line extension is initially placed into service.
19

20 **2.4.1 Basis for Proposal**

21 The Company’s proposal to offer the non-refundable payment option is based on a review of the
22 take-up rates achieved in 41 cottage areas under the non-refundable CIAC methodology that was
23 in place prior to 1997. While the initial required take-up rate for many of the cottage areas was
24 25% of potential cottage lots, the overall average take-up rate achieved was 92% over an average
25 timeframe of 17 years. By increasing the required initial take-up rate to 50% and establishing a
26 20 year time frame, the proposed non-refundable payment option will enable the Company to
27 recover its investment.
28

² Initial Customers are those who have made their minimum CIAC payment prior to the commencement of construction of the line extension. The minimum payment under the existing Domestic CIAC Policy is the greater of (i) \$300 and (ii) 25% of the owner’s CIAC.

³ Main Line is any distribution line that is not a Service Line. A Service Line is any distribution line across a private property or along a private road required to serve a single customer.

1 **2.4.2 CIAC Calculation**

2 The minimum CIAC for each building lot (the “Minimum CIAC”) will be the difference between
3 the total estimated cost of the line extension and the Company investment, divided by the
4 number of potential building lots in the cottage area.

5
6 To ensure reasonable recovery of the Company investment provided for future service
7 connections, the Company proposes to apply an initial cost recovery adjustment factor to the
8 Minimum CIAC. A cost recovery adjustment factor of 5%, 15% or 25% will be applied,
9 depending on the participation percentage of Initial Customers.

10

11 The proposed participation percentage bands and the related CIACs are set out in Table 1 below.

12

13

Table 1
Non-refundable CIAC Charges

14

15

16

Participation Percentage ¹	CIAC
50% - 65%	Minimum CIAC plus 25%
66% - 80%	Minimum CIAC plus 15%
> 80%	Minimum CIAC plus 5%

17

18

19

20

21

¹ Total number of Initial Customers in the area divided by the potential number of building
lots in the area.

22

23

24 Through the cost recovery adjustment factor, the CIACs recovered over the 20 year time frame
25 will have a net present value approximately equal to the CIACs charged under the existing
26 domestic policy. The required cost recovery adjustment factor is dependent on the initial take-up
27 rate, the growth rate of new connections over the 20 year period and the cost of capital.

28 Examples illustrating each of the three proposed cost recovery adjustment factors (25%, 15% and
29 5%) are set out in Volume 2, Appendix D.

30

31 Volume 2, Appendix E provides examples that compare CIAC calculations under the non-
32 refundable payment option to those under the existing refundable approach. A sample customer
33 quotation letter is also provided to illustrate the Company’s proposal.

1 **2.4.3 *Benefits of Proposal***

2 The proposed non-refundable payment option eliminates the current need to prepare revised
3 initial quotes each time the potential customer group changes prior to the commencement of line
4 extension construction.

5
6 The proposed approach also enhances administrative efficiency by eliminating ongoing
7 monitoring and the provision of refunds in cottage areas where customers choose to avail of the
8 non-refundable payment option.

9
10 Under the non-refundable payment option, the initial CIAC for cottage owners will be reduced
11 because the cost of the Main Line extension is spread over all potential building lots, rather than
12 being paid up front by the Initial Customers. This will make electrical service to cottage areas
13 more accessible.

14
15 **2.4.4 *Transitional Provision***

16 The Company proposes to make the non-refundable payment option available in cottage areas
17 where domestic customers have already paid a CIAC for a line extension under the existing
18 Domestic CIAC Policy, where:

- 19 (i) owners of at least 50% of the potential building lots in the cottage area have already
20 agreed to take electrical service; and,
21
22 (ii) all existing customers in the area that have already paid a CIAC agree to avail of the
23 non-refundable payment option.

24
25 There are currently 30 cottage areas with line extensions for which refundable CIACs have been
26 paid. Each of these areas has to be monitored for a period of ten years from the date that the
27 Main Line extension was initially placed into service. Each time a new customer is connected in
28 an area, the CIACs have to be recalculated. The recalculation often requires a site visit and an
29 update to the CIAC drawings. For the period 2003 to 2004, the Company issued 495 CIAC
30 refunds to domestic customers in cottage areas.

31
32 In order to maintain the current CIAC differential between permanent and seasonal customers in
33 existing cottage areas, the transitional refund provided to all customers will be the same.

1 Appendix G, Table 1 provides the basis for the calculation of the maximum investment per kW
2 of monthly billing demand.⁶

3
4 For ease in administering CIACs, the Plant Support Table (Appendix B of General Service
5 Policy) calculates Additional Load Based Investment upon the customer's peak or maximum
6 annual demand. The Company uses customer load factor as a method to translate Company
7 investment per kW of monthly billing demand to Company investment per kW of maximum
8 annual demand.

9
10 For high load factor customers, the monthly billing demand and maximum annual demand are
11 substantially the same. Therefore, a customer with a high annual load factor will receive the
12 Additional Load Based Investment of \$180 per kW of maximum annual demand. The level of
13 Additional Load Based Investment per kW declines with the customer's annual load factor to
14 reflect corresponding reductions in demand revenue. The derived Plant Support Table is shown
15 in Table 2 in Volume 2, Appendix G.⁷

16
17 Based on a survey of the contribution policies of other Canadian utilities, the Company's
18 proposal for Additional Load Based Investment for general service customers is reasonable. The
19 results of that survey are provided in Volume 2, Appendix H.

20

21 **3.2.2 Benefits of Proposal**

22 Under the existing policy, changes in purchased power costs, including its cost of service
23 allocation, can impact the calculation of additional Company investment. Basing the calculation
24 on distribution costs alone eliminates this impact, and ensures a better match between the
25 Company investment in a distribution extension or upgrade and the resulting distribution revenue
26 from the customer requiring the extension.

27

⁶ The distribution investment per average kW/kVA is calculated based on primary conductor and related plant. The cost of secondary distribution plant is excluded from the calculation of additional load based investment because it is included in the Company's Basic Investment.

⁷ The investment per kW of maximum annual demand at various load factors was based on a review of the relationship of billing demand to maximum annual demand for General Service Customers.

1 In addition, the proposed approach can also be applied to the determination of Additional Load
2 Based Investment for general service customers with a maximum annual demand exceeding 350
3 kVA, thus eliminating the detailed calculation method employed under the current policy for
4 such customers.

6 ***3.2.3 Customer Impact of Change in Plant Support Table***

7 Overall, the proposed methodology provides a lower amount of Additional Load Based
8 Investment to new customers than that calculated using the existing Plant Support Table.
9 To illustrate the impact of the Company's proposal on future general service CIACs, the
10 Company recalculated all 35 CIAC quotes that were accepted in 2002 and reviewed in 2004 by
11 general service customers with demands of 10 kW or greater. As set out in Volume 2, Appendix
12 I, the total CIAC would have increased by approximately 4%, from \$273,186 under the existing
13 policy to \$284,315 under the proposed policy.

15 **3.3 Additional Load Based Investment – Incremental Approach**

16 ***The Company proposes that Additional Load Based Investment be calculated on the***
17 ***incremental maximum annual demand above 10 kW.***

19 ***3.3.1 Basis for Proposal***

20 The initial 10 kW of a customer's maximum annual demand provides the revenue support for the
21 Company's standard Basic Investment. Additional Load Based Investment is not provided to a
22 customer with a maximum annual demand of less than 10 kW. However, a general service
23 customer with a maximum annual demand of 10 kW or higher currently receives Additional
24 Load Based Investment on their total maximum annual demand, rather than on the incremental
25 maximum annual demand above 10 kW.

26
27 The current approach effectively double counts the plant support for the first 10 kW of demand
28 for customers whose maximum annual demand is at least 10 kW. This results in a significant
29 disparity in Company investment for customers with a difference in maximum annual demand of
30 0.1 kW (i.e., from 9.9 kW to 10 kW). This investment disparity is not cost based, and customers

1 in very similar situations can pay significantly different CIACs. A calculation illustrating this
2 investment disparity is provided in Volume 2, Appendix J.

3

4 Under the Company's proposal, a general service customer with a maximum annual demand of
5 11 kW would receive Additional Load Based Investment on only the 1 kW of incremental
6 maximum annual demand above 10 kW, rather than on the total maximum annual demand of
7 11 kW.

8

9 ***3.3.2 Benefits of Proposal***

10 The Company's proposal eliminates the significant investment disparity at the 10 kW transition
11 threshold.

12

13 **3.4 Use of Detailed Cost Estimates**

14 *The Company proposes that detailed cost estimates be used to calculate construction costs*
15 *when the total cost of a line extension or Upgrade for general service customers, estimated*
16 *using the standard costs per metre, exceeds \$100,000.*

17

18 ***3.4.1 Basis for Proposal***

19 The costs per metre upon which Company investment and customer CIACs are based reflect
20 average costs based on standard contractor pricing. For lengthy line extensions or Upgrades, the
21 Company may be able to negotiate lower costs with contractors. It is therefore appropriate that
22 estimated costs for these larger projects be based on detailed cost estimates rather than on
23 standard costs per metre.

24

25 ***3.4.2 Benefits of Proposal***

26 The use of detailed cost estimates for costly line extensions or Upgrades for general service
27 customers will provide a more accurate estimate of the required CIACs.

28

1 **3.5 Services with Short Life Expectancy**

2 *The Company proposes that Additional Load Based Investment that is determined from the*
3 *Plant Support Table be reduced by 2.5% for each year that the estimated life of the customer’s*
4 *operations is less than the depreciable life of the distribution plant used in the line extension*
5 *or Upgrade.*

6
7 **3.5.1 Basis for Proposal**

8 The factors in the Plant Support Table that are used to calculate Additional Load Based
9 Investment are designed to provide recovery of the Company’s investment over the depreciable
10 life of distribution plant. For some general service customers, such as mines and other non-
11 renewable resource processors, the expected life of the operations may be significantly shorter
12 than the depreciable life of the distribution plant used in the Line extension or Upgrade. In these
13 circumstances, the Company would not have the opportunity to recover the Additional Load
14 Based Investment from the customer.

15
16 The proposed investment reduction is based on a regression analysis that estimates the decline in
17 the Additional Load Based Investment that should occur for each year that the service life of the
18 customer’s operations is less than the depreciable life of the distribution plant used in a line
19 extension or Upgrade.

20
21 **3.5.2 Benefits of Proposal**

22 Under the existing General Service CIAC Policy, it is necessary to perform detailed calculations
23 to determine Additional Load Based Investment for services with short lives. The proposal
24 simplifies the application of the policy while maintaining a reasonable method of estimating the
25 appropriate level of investment.

26
27 **3.6 Review and Recalculation of General Service CIACs**

28 *The Company proposes that if a general service CIAC, recalculated pursuant to the required*
29 *review after 24 months, differs from the original calculations by more than \$100, such*
30 *difference will be charged or refunded to the customer, as applicable.*

1 *The additional charge or a refund will occur regardless of whether the difference in the*
2 *recalculated CIAC is due to inaccurate information supplied by the customer.*

3 4 **3.6.1 Basis for Proposal**

5 Variations in demand and energy consumption that exceed the 20% threshold used under the
6 existing policy to trigger refunds or charges may be offsetting. This can result in the requirement
7 for an additional charge or refund of an insignificant amount.

8
9 Conversely, variances within the 20% threshold may yield a significant discrepancy between the
10 Company's investment and a customer's CIAC, but not trigger a refund or additional charge.

11 12 **3.6.2 Benefits of Proposal**

13 By basing refunds and further changes on a threshold dollar variance in the CIAC payable, only
14 CIACs that are significantly different than initially calculated will require a refund or additional
15 charge. Further, it is appropriate that general service customers bear the responsibility of
16 estimating their demand and energy consumption requirements. The Company's proposal
17 enhances the fairness and practicality of the general service CIAC review and the recalculation
18 process.

19 20 **3.6.3 Minimizing Customer Impacts**

21 To ensure customers understand the revised approach, the Company's CIAC quotation letters
22 will be revised to provide a quote with Additional Load Based Investment both included and
23 excluded. If customers are not comfortable with their demand and load factor estimates, they
24 can choose to accept a CIAC that excludes Additional Load Based Investment. In these cases,
25 the Additional Load Based Investment, if warranted, will be provided as a refund pursuant to the
26 24 month review process.

27
28 Volume 2, Appendix K provides a sample letter to general service customers that are eligible to
29 receive Additional Load Based Investment.

1 **4.2.2 Benefits of Proposal**

2 The use of a blended cost per metre for line extensions for all customers will (i) eliminate the
3 need for separate pricing in customer quotes, (ii) eliminate the need to monitor CIACs that have
4 been paid on a non-joint use basis to determine if the poles in the area have become joint use,
5 and (iii) eliminate the need to process refunds for areas where poles have become joint use.

6
7 **4.3 Board Reviews and Approvals**

8 *The Company proposes that Board approval be required for line extensions or Upgrades*
9 *involving CIACs that have a construction cost exceeding \$50,000.*

10

11 As a result of this proposal, the Domestic and General Service CIAC Policies will require that
12 the Company obtain Board approval for:

- 13 (i) all line extensions or Upgrades involving CIACs where the construction costs are
14 estimated to exceed \$50,000; and,
15 (ii) all deviations from the Domestic or General Service CIAC Policies.

16

17 **4.3.1 Basis for Proposal**

18 Pursuant to the CIAC review and approval process, the Board has issued 53 domestic CIAC
19 orders and 31 general service CIAC orders since the inception of existing policy on September
20 30, 1997. In discharging the Board's responsibility to monitor the Company's compliance with
21 the CIAC policy, Board staff annually review the calculations for a significant number of CIAC
22 quotes. The Board's financial consultants also review compliance annually. In addition, the
23 Company provides details on CIAC quotes in the CIAC Activity Report provided quarterly to the
24 Board.

25

26 The Company submits that opportunities to enhance regulatory efficiency in this area that do not
27 impede the Board's oversight of CIAC's, should be pursued, because the potential to reduce
28 regulatory cost is in the best interest of customers.

1 **4.3.2 Benefits of Proposal**

2 The Company's proposal will enhance regulatory efficiency by reducing the number of
3 applications for specific approval of individual CIACs.

4
5 As shown in Volume 2, Appendix M, the number of line extensions involving CIACs for
6 domestic customers that required Board approval would have been reduced from 53 to 13 under
7 the Company's proposal.⁹ However, the total construction cost associated with CIACs that
8 received Board approval would have declined by only \$630,330 or 24.3%, from \$2,588,838 to
9 \$1,958,508. Likewise, the number of line extensions and Upgrades involving CIACs for general
10 service customers that required Board approval would have declined from 31 to 15. The total
11 construction cost associated with CIACs that received Board approval would have declined by
12 only \$522,428 or 22.7%, from \$2,296,771 to \$1,774,343.

⁹ For the period since the inception of the existing Domestic CIAC Policy on September 30, 1997 up until the end of 2004.

SCHEDULE 1

PROPOSED DOMESTIC CIAC POLICY

NEWFOUNDLAND POWER INC.

CONTRIBUTION IN AID OF CONSTRUCTION POLICY:

DISTRIBUTION LINE EXTENSIONS TO

DOMESTIC CUSTOMERS

1. THE POLICY: GENERAL

The Company will provide Line extensions for Permanent Service to Domestic Customers without a CIAC when the cost to construct and maintain the Line extension will be recovered through electricity rates paid by those customers. Otherwise, a CIAC calculated in accordance with this policy will be required.

2. INTERPRETATION

Board means the Board of Commissioners of Public Utilities for Newfoundland and Labrador.

CIAC means a contribution in aid of construction.

Clearing Costs means the estimated costs for the required brush clearing along the route for a Line extension.

Community Infilling Limits, which are determined by the Lands Division, define the extent to which Crown land may be available for development within a defined area beyond the developed part of a Municipality or Local Service District.

Company means Newfoundland Power Inc.

Cost per Metre means the average construction and maintenance cost per metre of Line extension as calculated by the Company and filed from time to time with the Board. See Appendix A.

Cottage Area means either (i) an area that is not a Residential Planning Area and is comprised of 3 or more premises, or (ii) an area designated for cottage development by the Lands Division. Where customer premises are separated by a distance of 300 metres or more, an area may be divided into multiple Cottage Areas for the purpose of determining a CIAC.

Cottage Area Potential means the total potential number of building lots in the Cottage Area as determined based on the Company's review of the surveyed lots for the Cottage Area and any development plan that has been approved by the Lands Division.

Domestic Customer means a customer eligible for Permanent Service or Temporary Service pursuant to Rate #1.1 of the Company's Schedule of Rates, Rules & Regulations.

Easement Costs means the estimated costs to complete a survey of the right-of-way for a Line extension and includes the labour costs to complete the survey, survey document and drawing; travel costs; and registration fees.

General Service Policy means the Company's policy entitled "Contribution in Aid of Construction Policy: Distribution Line Extensions and Upgrades to General Service Customers" as approved by the Board.

Lands Division means the Lands Management Division of the Department of Environment and Conservation of the Government of Newfoundland and Labrador, or its successor.

Local Area Plan is a plan developed for an area by the Lands Division to ensure that physical development proceeds in a systematic and orderly manner, in accordance with the *Urban and Rural Planning Act, 2000*.

Local Service District is a community, town or region that is not a Municipality.

Line means an electrical distribution line and includes a Main Line or a Service Line.

Main Line means any Line required to supply electricity that is not a Service Line.

Municipality is as defined in the *Municipalities Act, 1999*.

Municipal Plan is a development plan for a Municipality prepared and implemented in accordance with the *Urban and Rural Planning Act, 2000*.

Permanent Service means electrical service required for at least three years.

Protected Road Plan is a plan developed by the Department of Works, Services & Transportation of the Government of Newfoundland and Labrador, or its successor, for the purpose of controlling development alongside a highway or roadway, in accordance with the *Urban and Rural Planning Act, 2000*.

Public Road means any road that is (i) maintained to be open year round by the Department of Works, Services & Transportation of the Government of Newfoundland and Labrador, or its successor, or by a Municipality or Local Service District or, (ii) is categorized as Class I, Class II or Class III by the *Protected Road Zoning Regulations* under the *Urban and Rural Planning Act, 2000*.

Residential Planning Area is an area or region located along a Public Road that is either:

- (i) approved for residential development within a Municipal Plan; or
- (ii) approved for residential development within a Protected Road Plan; or
- (iii) approved for residential development within a Local Area Plan; or
- (iv) located within the Community Infilling Limits of a Municipality or a Local Service District for which no development plan exists.

Schedule of Rates, Rules & Regulations means the schedule setting out the rates, rules and regulations relating to the Company's service as approved from time to time by the Board.

Service Line means any Line across private property or along a private road required to serve a single customer.

Subdivision means a subdivided area of four or more building lots being developed for residential use within a Municipality.

Temporary Service means a service that is required for a period of less than three years.

3. BASIC INVESTMENT

The Company's Basic Investment in a single phase Line extension for Permanent Service to Domestic Customers shall include:

- (i) for Domestic Customers in a Residential Planning Area, up to 85 metres of Line, as measured from the customer's meter location, and all plant directly associated with that specific length of Line;
- (ii) for Domestic Customers in an area that is not a Residential Planning Area, up to 25 metres of Line, as measured from the customer's meter location, and all plant directly associated with that specific length of Line; and,
- (iii) transformation, metering and, where the service location is on the side of the road opposite the Company's Line, the number of metres of Service Line equal to the width of the road right-of-way.

4. ADDITIONAL INVESTMENT

In addition to its Basic Investment, the Company may provide Additional Investment in the form of single phase Main Line extensions for Permanent Service to Domestic Customers in a Residential Planning Area. Additional Investment will be provided if there is satisfactory evidence that future growth along the route of the Main Line extension will be sufficient to support the cost to construct and maintain the Main Line extension.

- (i) For Domestic Customers in a Residential Planning Area that is not a Subdivision, the existence of a foundation for a new building along the route of the Main Line extension shall constitute satisfactory evidence of sufficient future growth. For each such foundation, the Company will provide the number of metres of single phase Main Line, and all plant, applicable Clearing Costs and applicable Easement Costs directly associated with that specific length of Main Line, that would be provided as Basic Investment under this policy or the General Service Policy to a customer requiring service at the location of the foundation.

- (ii) For Domestic Customers in a Subdivision, satisfactory evidence of sufficient future growth shall be deemed to exist when:
 - (1) road work to and within the Subdivision is substantially complete;
 - (2) Line easements are in place;
 - (3) legal survey drawings that indicate lot layouts and roads, and that show all relative distances and bearings, are complete; and,
 - (4) written municipal approval has been obtained and/or there exists a written development agreement between the Subdivision developer and the municipal council.

For a Subdivision meeting all of these requirements, the Company will provide up to 60 metres of single phase Main Line, and all plant directly associated with that specific length of Main Line, per approved Subdivision building lot.

5. REFUNDABLE CIACs

- (a) The total CIAC for a single phase Line extension for Permanent Service to Domestic Customers shall be calculated by first multiplying (i) the number of metres of single phase Line in excess of that provided by the Company pursuant to Clauses 3 and 4, by (ii) the Cost per Metre for single phase Line extensions, and then adding applicable Easement Costs and applicable Clearing Costs.
- (b) (i) Subject to Clauses 5 (b) (ii) and 6, where a Domestic Customer connects to an existing Line extension in respect of which a CIAC was paid within ten years from the date that the Line extension was initially placed in service, that customer shall pay a CIAC calculated as if connection had occurred at the initial service date.
- (ii) Where a new connection, pursuant to Clause 5 (b) (i), to an existing Line extension in a Cottage Area would have resulted in an increase in the total CIAC for the entire Line extension as at the initial service date, the addition shall be deemed to be a separate Line extension.
- (c) In cases where a Line extension will be shared by two or more customers and the Line extension is in a Cottage Area, the total CIAC shall be apportioned, subject to Clause 6, based on the number of customers that connect to the Line extension. If the Line extension is not in a Cottage Area, the total CIAC shall be apportioned based on the length of Line extension required to serve each customer.
- (d) Subject to Clauses 5 (b) (ii) and 6, where additional Domestic Customers are connected to a Line extension within ten years from the date it was initially placed in service and CIACs have been previously paid for that Line extension, CIAC refunds will be provided. The Company will refund to each existing customer the amount by which (i) the CIAC paid by that existing customer less any refunds already received thereon, exceeds (ii) the CIAC which would have been payable by that existing customer under this Clause 5 if all customers had taken service at the time the Line extension was initially placed in service. A refund becomes due 90 days following the connection of the additional customer(s).

- (e) Interest paid through the financing option outlined in Clause 9 is not refundable.
- (f) The Company shall advise Domestic Customers of its CIAC refund policy. The Company shall make all reasonable efforts to identify customer refunds. A refund that is past due will accrue interest at the rate prescribed in Clause 9 (c) commencing on the day following the day it became due.

6. NON-REFUNDABLE CIAC OPTION

- (a) (i) Domestic Customers in Cottage Areas may be provided the option of paying a non-refundable CIAC determined in accordance with Table 1.

**Table 1
Non-Refundable CIAC Option**

Participation Percentage	Non-Refundable CIAC
50% - 65%	Minimum CIAC plus 25%
66% - 80%	Minimum CIAC plus 15%
Greater than 80%	Minimum CIAC plus 5%

- (ii) Participation Percentage is the ratio of (i) the total number of lot owners in the Cottage Area who have paid at least their minimum downpayment, determined in accordance with Clause 9 (b) (i), prior to the commencement of Line extension construction by the Company, to (ii) the Cottage Area Potential. The non-refundable CIAC option shall be available only in Cottage Areas where the Participation Percentage is at least 50%.

- (iii) The total CIAC for a Cottage Area shall be calculated by first multiplying (i) the number of metres of single phase Line in excess of that provided by the Company pursuant to Clauses 3 (ii) and 3 (iii) for the Cottage Area Potential, by (ii) the Cost per Metre for single phase Line extensions, and then adding applicable Easement Costs and applicable Clearing Costs.
 - (iv) The Minimum CIAC for each customer is the total CIAC required for the Line extension for the Cottage Area determined in accordance with Clause 6 (a) (iii), divided by the Cottage Area Potential.
- (b) The non-refundable CIAC shall apply to all building lots connected in the Cottage Area for a period of 20 years from the date that the Line extension was initially placed in service.

7. SERVICE ENTRANCE LOCATIONS

Should a Domestic Customer request the Company to attach to a service entrance that is not as close as practical to the distribution pole from which the Service Line is to be run, the customer will be required to pay the costs associated with any additional plant.

8. UNDERGROUND SERVICE¹

- (a) A Domestic Customer may have an underground Service Line installed for their dwelling provided that the customer pays, in addition to the CIAC required under this policy, the amount by which the installed cost of the underground Service Line exceeds the installed cost of an overhead Service Line.
- (b) A Subdivision developer who wishes to provide underground distribution service to a housing development within the Subdivision shall pay, in addition to the CIAC required under this policy, the amount by which the installed cost of the underground system exceeds the cost of an equivalent overhead system.

¹ This Clause does not apply to Newfoundland and Labrador Hydro.

9. PAYMENT

- (a) Subject to Clause 9 (b), all CIACs shall be paid in advance of construction.

- (b) Where approval has been given in advance by the Company, a Domestic Customer may pay a CIAC on the following basis:
 - (i) \$300 or $\frac{1}{4}$ of the CIAC, whichever is greater, as a down-payment in advance of construction; and
 - (ii) the balance together with interest by way of not more than 120 equal monthly installments of not less than \$20 each.

- (c) The interest rate on a CIAC financed pursuant to Clause 9 (b) shall be set at the time of issuance of the Domestic Customer's CIAC quote. The rate shall be equal to the prime rate of the Company's bankers as of the last day of the month immediately preceding the issuance of the CIAC quote to the customer, plus:
 - (i) 3% for customers that choose financing over a period of not more than 60 months; and
 - (ii) 4% for customers that choose financing over a period of more than 60 months.

- (d) Installments shall be subject to the Company's credit policy. Default in payment of any installment shall, at the Company's option, render the unpaid balance immediately due and payable.

- (e) Should a Domestic Customer wish to prepay all or a portion of the unpaid balance, the Company will accept such pre-payment without bonus or penalty.

10. BOARD APPROVALS

The Company shall apply to the Board for approval of:

- (i) all Line extensions involving CIACs where the sum of the CIAC calculated pursuant to Clause 5 (a) and the Basic and Additional Investment calculated pursuant to Clauses 3 and 4 is greater than \$50,000; and,
- (ii) any deviations from this policy in the calculation of CIACs for Line extensions to Domestic Customers.

**NEWFOUNDLAND POWER INC.
DISTRIBUTION LINE COST PER METRE FOR DOMESTIC CIACs**

TYPE OF CONSTRUCTION	COST / METRE \$
Single Phase Line Extensions	24

SCHEDULE 2
PROPOSED GENERAL SERVICE CIAC POLICY

NEWFOUNDLAND POWER INC.

CONTRIBUTION IN AID OF CONSTRUCTION POLICY:
DISTRIBUTION LINE EXTENSIONS AND UPGRADES
TO GENERAL SERVICE CUSTOMERS

1. THE POLICY: GENERAL

The Company will provide Line extensions or Upgrades for Permanent Service to General Service Customers without a CIAC when the cost to provide and maintain the Line extension or Upgrade will be recovered through electricity rates paid by those customers. Otherwise, a CIAC calculated in accordance with this policy will be required.

2. INTERPRETATION

Board means the Board of Commissioners of Public Utilities for Newfoundland and Labrador.

CIAC means a contribution in aid of construction.

Clearing Costs means the estimated costs for the required brush clearing along the route of a Line extension or Upgrade.

Company means Newfoundland Power Inc.

Cost per Metre means the average construction and maintenance cost per metre of Line extension or Upgrade as calculated by the Company and filed from time to time with the Board. For Upgrades, this includes only the costs associated with the primary conductor and related hardware. See Appendix A.

Demand means the quantity of electricity which is delivered to a customer. It is expressed in kilowatts or kilovoltamperes, either at a given point in time or averaged over a period of time.

Domestic Policy means the Company's policy entitled "Contribution in Aid of Construction Policy: Distribution Line Extensions to Domestic Customers" as approved by the Board.

Easement Costs means the estimated costs to complete a survey of the right-of-way for a Line extension or Upgrade, and includes the labour costs to complete the survey, survey document and drawing; travel costs; and registration fees.

General Service Customer means a customer eligible for Permanent Service or Temporary Service pursuant to any of Rate #'s 2.1, 2.2, 2.3 or 2.4 of the Company's Schedule of Rates, Rules & Regulations.

Line means an electrical distribution line and includes a Main Line or a Service Line.

Load Factor means the ratio of the average Demand in kilowatts supplied during a designated period to the maximum Demand in kilowatts supplied in that period. The average Demand is determined by dividing the energy consumption in kilowatt hours by 730 hours (if monthly) or by 8760 hours (if yearly).

Main Line means any Line required to supply electricity that is not a Service Line.

Municipality is as defined in the *Municipalities Act, 1999*.

Peak Demand means the maximum annual Demand that will be required by a customer.

Permanent Service means electrical service required for at least three years.

Schedule of Rates, Rules & Regulations means the schedule setting out the rates, rules and regulations relating to the Company's service as approved from time to time by the Board.

Service Drop means the span of Service Line from a customer's service entrance to the first pole that is connected to the Company's electrical system.

Service Line means any Line across private property or along a private road required to serve a single customer.

Temporary Service means a service that is required for a period of less than three years.

Upgrade means the upgrade of either (i) single phase Line to two phase, or (ii) single or two phase Line to three phase.

3. BASIC INVESTMENT

The Company's Basic Investment in a Line extension for Permanent Service to General Service Customers shall include:

- (i) Up to 85 metres of Line¹, as measured from the point where the customer takes service, and all plant directly associated with that specific length of Line;
- (ii) transformation for service up to 500 kVA where the required service voltage is one of the Company's standard service voltages and installation is in accordance with Company standards,²
- (iii) secondary metering; and,
- (iv) where the service location is on the side of the road opposite the Company's Line, the number of metres of Service Line equal to the width of the road right-of-way.

4. ADDITIONAL INVESTMENT

- (a) Additional Growth Based Investment

In addition to its Basic Investment, the Company will provide Additional Growth Based Investment in the form of single phase Main Line extensions for Permanent Service to General Service Customers. Additional Growth Based Investment will be provided if there is satisfactory evidence that future growth along the route of the Main Line extension will be sufficient to support the cost to construct and maintain the Main Line extension. The existence of a foundation for a new building along the route of the Main Line extension shall constitute satisfactory evidence of sufficient future growth.

¹ Single phase, where the maximum Demand is estimated to be less than 75 kW. Otherwise, three phase. The Company may provide three phase service where maximum Demand is less than 75 kW, if requested by the customer, to the extent that such service is supported by projected revenue from the customer as set out in Regulation 5(b) of the Schedule of Rates, Rules & Regulations.

² The Company may, on such conditions as it deems acceptable, provide transformation for services greater than 500 kVA as set out in Regulation 5(j) of the Schedule of Rates, Rules & Regulations.

For each such foundation, the Company will provide the number of metres of single phase Main Line, and all plant directly associated with that specific length of Main Line, that would be provided as Basic Investment under this policy or the Domestic Policy to a customer requiring service at the location of the foundation.

(b) Additional Load Based Investment

In addition to its Basic Investment and Additional Growth Based Investment, the Company will provide Additional Load Based Investment for Permanent Service to General Service Customers with a Demand exceeding 10 kW. Additional Load Based Investment will be provided to the extent that it will be recovered from revenue generated by the customer(s) requesting the Line extension or Upgrade. The amount of Additional Load Based Investment that will be supported by such revenue shall be determined by reference to the anticipated Load Factor and Peak Demand of the customer(s) in accordance with the Plant Support Table in Appendix B.

5. CALCULATION OF CIACs

(a) The cost of a Line extension or Upgrade for a General Service Customer shall, as applicable, be composed of the following:

- (i) for a three phase Line extension or Upgrade to a customer with an estimated maximum Demand of under 75 kW, construction cost that is equal to the sum of (1) the number of metres of Line extension or Upgrade beyond the Service Drop multiplied by the applicable Cost per Metre as set out in Appendix A, and (2) the cost of the Service Drop, transformation and metering, based on the costs set out in Appendix C;
- (ii) for all other Line extensions or Upgrades, construction cost that is equal to the product of (1) the total number of metres of Line extension or Upgrade, and (2) the applicable Cost per Metre as set out in Appendix A;
- (iii) applicable Clearing Costs and Easement Costs;

- (iv) for an Upgrade, the costs associated with the replacement, transfer or installation of additional poles or anchors, including, without limitation, the costs set out in Appendix C.

- (b) The CIAC for Line extensions or Upgrades for General Service Customers shall, subject to Clause 5 (c), be equal to the cost of the Line extension or Upgrade, as determined in accordance with Clause 5 (a), less the value of the Company's Basic and Additional Investment as provided for in Clauses 3 and 4.

- (c) In cases where the Line extension or Upgrade will be shared by more than one customer, any CIAC required will be apportioned based on the length of the Line extension or Upgrade required to serve each customer. Where a customer is connected to a Line extension or Upgrade in respect of which a CIAC was paid within ten years from the date that the Line extension or Upgrade was placed in service, that customer shall pay a CIAC calculated as if service was connected to that customer when the Line extension or Upgrade was originally placed in service.

- (d) For Upgrades, Clause 5 (c) does not apply to customers that require single phase service and are connected to a Line for which a CIAC was paid solely for an Upgrade.

- (e) Detailed cost estimates will be used in place of the applicable Cost per Metre in determining the cost of a Line extension or Upgrade when either: (i) the cost of a Line extension or Upgrade calculated using the applicable Cost per Metre is estimated to be greater than \$100,000, or (ii) an Upgrade is required from single phase to two phase Line.

- (f) The Company's Additional Load Based Investment for a Permanent Service will be reduced by 2.5% for each year that the estimated life of the customer's operations is less than the depreciable life of the distribution plant used in the Line extension or Upgrade.

6. REFUNDS

- (a) Subject to Clause 5 (d), where additional customers are connected to a Line extension or Upgrade within 10 years from the date that the Line extension or Upgrade was placed in service, the Company will refund all or part of a CIAC previously paid in respect of that Line extension or Upgrade by the existing customers. The amount of the refund to each existing customer will be the amount by which (i) the CIAC paid by that existing customer less any refunds already received thereon, exceeds (ii) the CIAC which would have been payable by that existing customer under Clause 5 if the additional customers had taken service at the time the Line extension or Upgrade was originally placed in service. A refund becomes due 90 days following the connection of the additional customer(s).
- (b) Interest paid through the financing option outlined in Clause 8 is not refundable.
- (c) The Company shall advise customers of its CIAC refund policy. The Company shall make all reasonable efforts to identify customer refunds. A refund that is past due will accrue interest at the rate prescribed in Clause 8 (b) commencing on the day following the day it became due.

7. SERVICE ENTRANCE LOCATIONS

Should a General Service Customer request the Company to attach to a service entrance that is not as close as practical to the distribution pole from which the Service Line is to be run, the customer will be required to pay the costs associated with any additional plant.

8. PAYMENT

- (a) All CIACs shall be paid in advance of construction, except in the following cases:
 - (i) Federal or Provincial Government Departments may provide a purchase order;
 - (ii) General Service Customers, if approval has been given in advance by the Company's credit personnel, may provide a purchase order; and,

- (iii) where approval has been given in advance by the Company's credit personnel, a customer may pay a CIAC on the following basis:
 - (1) \$300 or $\frac{1}{4}$ of the CIAC, whichever is greater, as a down-payment in advance of construction; and,
 - (2) the balance together with interest by way of not more than 60 equal monthly installments of not less than \$20 each.

- (b) The interest rate applied to an unpaid CIAC balance shall be set at the time of the issuance of the customer's CIAC quote. The rate shall be equal to the prime rate of the Company's bankers as of the last day of the month immediately preceding the issuance of the CIAC quote to the customer, plus 3%.

- (c) CIAC Installments shall be subject to the Company's credit policy. Default in payment of any installment on a CIAC shall, at the Company's option, render the unpaid balance immediately due and payable.

- (d) Should a customer wish to prepay all or a portion of the unpaid balance, the Company will accept such pre-payment without bonus or penalty.

9. REVIEW OF CIACs

All CIACs collected from General Service Customers will be subject to a review after a period of 24 months from the date the service is made available. The purpose of the review is to determine the reasonableness of the original CIAC calculation. If the recalculated CIAC differs from that originally calculated by more than \$100, such difference will, as applicable, be charged or refunded to the customer's electric service account.

10. BOARD APPROVALS

The Company shall apply to the Board for approval of:

- (i) all Line extensions or Upgrades involving CIACs where the costs of the Line extension or Upgrade calculated pursuant to Clause 5 (a) are estimated to be greater than \$50,000; and,
- (ii) any deviations from this policy in the calculation of CIACs for Line extensions and Upgrades to General Service Customers.

**NEWFOUNDLAND POWER INC.
DISTRIBUTION LINE COST PER METRE
FOR GENERAL SERVICE CIACs**

TYPE OF CONSTRUCTION	COST / METRE (\$)
<u>LINE EXTENSIONS</u>	
Single Phase	24
Three Phase	33
<u>UPGRADES³</u>	
Single Phase to Three Phase	31
Two Phase to Three Phase	18

³ These costs include only the cost associated with primary conductors and related hardware.
For additional costs refer to Appendix C.

**NEWFOUNDLAND POWER INC.
DISTRIBUTION PLANT SUPPORT TABLE
FOR GENERAL SERVICE CIACs**

Annual Load Factor	Dollars per kW/kVA ⁴
Less than 5%	61
5%-10%	88
11%-15%	97
16%-20%	110
21%-25%	119
26%-30%	124
31%-35%	131
36%-40%	140
41%-45%	147
46%-50%	153
51%-55%	158
56%-60%	163
61%-65%	170
66%-70%	175
Over 70%	180

⁴ The Additional Load Based Investment, which applies to customers with a maximum annual demand exceeding 10 kW, will be determined by multiplying (i) the estimated maximum annual demand, less 10 kW, and (ii) the appropriate dollars per kW/kVA.

**NEWFOUNDLAND POWER INC.
DISTRIBUTION PLANT UPGRADE COST
FOR GENERAL SERVICE CIACs**

TYPE OF TRANSFER OR REPLACEMENT	COST ⁵ (\$)
REPLACE POLES - UP TO 45'	1,190
DISTRIBUTION SECONDARY PER POLE / SPAN	
Transfer Only	520
Replace Conductor	700
SERVICE DROP PER POLE / SPAN	
Transfer Only	50
Replace Conductor	150
TRANSFORMER MOUNTINGS	
Single Transformer	710
Two or Three Transformers	1,890
POLE GUY	
Transfer Only	30
Replace Guy	70
REPLACE ANCHOR	280
STREETLIGHTING - TRANSFER SINGLE FIXTURE	230
STREETLIGHTING DUPLEX PER POLE / SPAN	
Transfer Only	50
Replace Conductor	90
UNWARRANTED THREE PHASE CONSTRUCTION COST (SERVICE DROP, METER & TRANSFORMER)	
New Service	6,500
Upgrade Single Phase to Three Phase	3,500
Upgrade Two Phase to Three Phase	2,000
VALUE OF SINGLE PHASE BASIC INVESTMENT	4,500

⁵ Includes all overheads.

2005 CIAC POLICY REVIEW
May 20, 2005

VOLUME 2 of 2

The Existing Domestic CIAC Policy

1.0 Overview

The Domestic CIAC Policy provides the framework for calculating CIACs for line extensions to customers requiring domestic service¹.

Under the existing Domestic CIAC Policy, the level of Company investment and the resultant customer CIAC are dependent upon whether a customer receiving domestic service is a seasonal customer on a permanent customer (the “Customer Designation Methodology”). A seasonal customer (a “Seasonal Domestic Customer”) is defined under the existing Domestic CIAC Policy to be “ a customer whose premises is a self-contained domestic unit, occupied intermittently or seasonally during the year, which is not the customer’s primary or permanent residence. A customer that is not a Seasonal Domestic Customer is referred to as a “Permanent Domestic Customer”.

2.0 Company Investment

Basic Investment

For a Permanent Domestic Customer, the Company’s “Basic Investment” under the Domestic CIAC Policy includes all of the following:

- (i) Up to 85 metres of single phase line, as measured from the customer’s meter location, and all directly related plant;
- (ii) in addition to (i) above, and to the extent required, the number of metres of Service Line² required to cross a road right-of-way;
- (iii) transformation; and,
- (iv) metering.

¹ Domestic service refers to service received pursuant to Rate #1.1 of the Schedule of Rates, Rules & Regulations. It is commonly referred to as residential service.

² Service Line is defined under existing Domestic and General Service CIAC Policies to be “any line across private property or along a private road required to serve a single customer”.

For a Seasonal Domestic Customer, the number of metres of single phase line is reduced from 85 to 25 and the customer is required to pay for any necessary transformation. This reduced Basic Investment reflects the fact that Seasonal Domestic Customers generally produce lower revenue levels than Permanent Domestic Customers.

Additional Investment

In addition to its Basic Investment, the Company may provide Additional Investment for Permanent Domestic Customers. The Company's maximum Additional Investment is calculated as follows:

- (i) For a Main Line extension to Permanent Domestic Customers residing in a Subdivision³, the Company will provide up to 60 metres of single phase Main Line and all directly related plant per approved building lot. Main Line required above this level is charged to the Subdivision developer.
- (ii) For all other Main Line extensions to Permanent Domestic Customers, the Company will, for each foundation for a new building along the route of the Main Line extension, provide the number of metres of single phase Main Line and all directly related plant that would be provided as Basic Investment under Domestic or General Service CIAC Policy to a customer residing at the foundation site.

3.0 CIAC Calculation

A domestic customer's CIAC is calculated by deducting the Company investment from the estimated cost of the line extension⁴. In the case of a Seasonal Domestic Customer, the cost of any necessary transformation is added to that result to determine the CIAC.

³ A Subdivision is defined under existing Domestic CIAC Policy to be "a subdivided area of four or more building lots being developed for residential use within a municipality".

⁴ The estimated cost is determined by multiplying the approved cost per metre by the length of the extension and adding any applicable easement costs and clearing costs.

The current single phase line extension cost used in calculating a CIAC is \$29 per metre⁵. The transformation charge is \$650. The resultant maximum CIAC difference between Seasonal Domestic Customers and Permanent Domestic Customers is approximately \$2,390 plus HST $[(85-25) \times \$29] + \650 .

In cases where a line extension will be shared by several customers, the total CIAC is apportioned (i) on the basis of the number of participating customers in cases where the line extension will serve primarily Seasonal Domestic Customers, and (ii) on the length of the line extension required to serve each customer in cases where the line extension will serve primarily Permanent Domestic Customers.

4.0 Transformer Charge

Upon approval of the current policy in 1997, the Company levied an average transformation charge on all line extensions for Seasonal Domestic Customers regardless of whether it incurred additional transformation costs. Customers objected to paying this charge where existing transformation could be utilized. To address this concern, the Company modified its approach in January 1999.

The current approach is that no transformation charge is levied on line extensions for Seasonal Domestic Customers when existing transformation can be utilized and either (i) no CIAC was previously paid for the transformer that will be used by the customer, or (ii) a CIAC was paid, but the refund period for the CIAC had expired.

5.0 The Refund Mechanism

The existing Domestic CIAC Policy contains a mechanism (the “Refund Mechanism”) that is employed when a new customer connects to an existing line extension for which a CIAC was previously paid. Under the Refund Mechanism, for a period of 10 years following the construction of the line extension, the CIAC previously charged to each customer connected to

⁵ Per Order No. P.U. 48 (2004).

the line extension is recalculated as if the new customer was an Initial Customer⁶. The recalculated CIAC charge is then collected from the new customer and refunded to the remaining customers such that all customers end up paying the recalculated CIAC charge per customer.

6.0 CIACs for Cottage Areas

6.1 Policy History

Prior to September 1997, the Company applied a non-refundable CIAC approach in providing service to cottage areas. If the number of Initial Customers was sufficient, the price would be determined based on the overall cost of serving the cottage area divided by the total number of potential lots in the cottage area. Under this system, refunds were not issued to existing customers whenever a new customer connected to the system. That is because existing customers would already have paid the lowest possible CIAC by virtue of the fact that CIACs were apportioned among the maximum number of building lots in the cottage area.

An issue with the non-refundable CIAC approach for cottage areas was the uncertainty with respect to the ability of the Company to recover its investment. The investment recovery was dependent upon the extent to which lot owners, who did not initially connect, would connect in future years.

A number of changes were implemented to address the cost recovery issue. The initial take-up required was modified from 50% of cottages constructed (1981) to also require 25% of the total potential cottages (1986) and later modified to require a 50% take-up based on the total potential cottages for the area (1990). The Company also implemented a CIAC price escalation factor of 5% per year for a period of five years commencing one year following the provision of service to the cottage area. Furthermore, the applicable period for the CIAC was extended to 20 years, rather than five years, from the completion of construction.

⁶ Initial Customers are those who have made their minimum CIAC payment prior to the commencement of line extension construction by the Company. The minimum payment under the existing Domestic CIAC Policy is the greater of (i) \$300 and (ii) 25% of the owner's CIAC.

The implementation of the existing Domestic CIAC Policy on September 30, 1997 eliminated this cost recovery issue entirely through a refundable CIAC approach. Under this approach, the Company's investment in a line extension is recovered up front through the CIAC charged to the Initial Customers.

6.2 *Customer Specific CIAC Quotes*

CIAC quotes under the existing Domestic CIAC Policy are customer specific. This creates several issues for new cottage areas.

Typically, the Company is approached by one or more persons who act as the spokesperson for the group of potential customers. The spokesperson identifies the persons who wish to receive electrical service and the Company prepares a CIAC quote for that group. However, it is common for the list of potential customers to change a number of times during the quote process. Each revision to the list of potential customers requires the preparation of a revised quote. The result is a quote process that can be impractical and frustrating to customers who often experience significant delays in obtaining a final CIAC quote.

Some customers have expressed concern when they have been excluded from a CIAC quote prepared for their cottage area. This can easily occur as the spokesperson is not always familiar with the locations of all the residents within the area. In such circumstances, the excluded customers often believe the Company has treated them unfairly.

6.3 *Refunds in Cottage Areas*

There are currently 30 cottage areas with line extensions to which the Refund Mechanism applies. Each of these areas has to be monitored for a period of 10 years from the date that the construction of its line extension was completed. Each time a new customer is connected in each area, the CIAC has to be recalculated. The recalculation often requires a site visit and an update to the CIAC drawings. Refunds then have to be calculated and refund cheques with an

explanatory cover letter have to be sent to each eligible recipient. For example, the Company connected seven customers in the Whelan's Pond – Ryan's Pond cottage area in 2004. These connections triggered 137 refunds.

7.0 Joint Use vs. Non-Joint Use CIAC Cost per Metre for Line Extensions

When Aliant Telecom Inc. ("Aliant") and/or a cable operator agree to utilize the poles in a proposed line extension for which a customer CIAC is required, the amount of the CIAC is reduced via the application of a lower cost per metre (currently, a \$7 per metre reduction if Aliant attaches and a further \$1 per metre reduction if a cable operator attaches⁷). The lower CIAC reflects the fact that revenue from joint use tenants reduces the amount of line extension cost that must be recovered from other customers.

The existing Domestic CIAC Policy also contains a refund provision that requires monitoring of all CIAC's for line extensions that have been paid on a non-joint use basis for a period of 10 years from the date the line extension was completed. If the line extension becomes joint use, the CIACs previously paid by the customers attached to the line extension have to be recalculated using the lower joint use cost per metre and the resultant differences refunded to customers.

8.0 Board Reviews and Approvals

Under existing Domestic CIAC Policy, the Company is required to obtain Board approval of:

- (i) all line extensions involving CIACs where the construction costs are estimated to be greater than \$25,000;
- (ii) any deviations from the Domestic CIAC Policy in the calculation of CIACs for line extensions; and,
- (iii) all CIACs for Main Line extensions for primarily Seasonal Domestic Customers.

⁷ Per Order No. P.U. 48 (2004). See Table 1 in Appendix L.

In discharging the Board's responsibility to monitor the Company's compliance with the CIAC policy, Board staff annually review the calculations for a significant number of CIAC quotes. The Board's financial consultants also review compliance annually.

Basic Investment for Domestic Customers

Estimated Plant Support		Basic Investment	
Permanent Domestic Customer ¹	\$2,594	Minimum Cost for 85m Extension ²	\$2,319
Seasonal Domestic Customer ³	<u>1,324</u>	Minimum Cost for 25m Extension ⁴	<u>928</u>
Difference in Plant Support	\$1,270	Difference in Basic Investment	\$1,391

-
- 1 Based on an average domestic usage (excluding cottages) of 15,890 kWh per year and the total unit demand, energy and customer cost associated with metering, services, transformers, distribution primary and distribution secondary as determined by the 2003 Pro-forma Cost of Service Study (i.e. 2003 Cost of Service Study adjusted to reflect (i) removal of 2003 depreciation true-up and (ii) 2005 return and taxes).
 - 2 Includes metering, service drop, transformation, secondary, pole (blended cost) and 60 metres of primary. Assumes that, on average, more than one customer shares transformation and secondary. Excludes a service pole that is sometimes required at a cost of approximately \$600.
 - 3 Based on an average seasonal domestic usage of 4,111 kWh per year and the total unit demand, energy and customer cost associated with metering, services, transformers, distribution primary and distribution secondary as determined by the 2003 Pro-forma Cost of Service Study.
 - 4 Includes metering, service drop, transformation and secondary. Assumes, on average, more than one customer shares transformation and secondary. Excludes a service pole that is sometimes required at a cost of approximately \$600.

Domestic Customer Investment – Survey of Canadian Utilities

Utility	Investment per Customer
Atco Electric	\$810
FortisAlberta	Maximum \$900
FortisBC	Service drop (30 metres) plus transformation
Hydro One	30 metres, transformation and investment based on load
Hydro Quebec	\$2,000 plus transformation
Manitoba Hydro	\$4,300 plus transformation (customers with electric heat) \$1,845 plus transformation (customers without electric heat) \$800 plus transformation (seasonal) 1.25 km plus transformation (rural residential)
Maritime Electric	90 metres plus transformation
NB Power	90 metres plus transformation
Newfoundland Power	85 metres (permanent) plus transformation 25 metres (seasonal ¹)
Northland Utilities	\$1,500 (permanent) \$425 (per unit, multi-family)
Nova Scotia Power	92 metres plus transformation
SaskPower	\$1,300

¹ Newfoundland Power is proposing to include transformation in its investment for all Domestic customers.

25% Cost Recovery Adjustment Factor - Example

Total CIAC Required for Cottage Area (A)	\$200,000
Number of Potential Lots (B)	100
Minimum CIAC Required for each Potential Lot (A/B)	\$2,000
CIAC Required (Minimum CIAC of \$2,000, plus 25%)	\$2,500

Table 1
Estimated Payment Schedule

	Year	Customers	Payments	Cumulative Customers
Initial Take-up Rate of 50%	0	50	\$125,000.00	50
Connected in Year	1	5	\$12,500.00	55
Connected in Year	2	5	\$12,500.00	60
Connected in Year	3	5	\$12,500.00	65
Connected in Year	4	5	\$12,500.00	70
Connected in Year	5	5	\$12,500.00	75
Connected in Year	6	3	\$7,500.00	78
Connected in Year	7	3	\$7,500.00	81
Connected in Year	8	3	\$7,500.00	84
Connected in Year	9	3	\$7,500.00	87
Connected in Year	10	3	\$7,500.00	90
Connected in Year	11	1	\$2,500.00	91
Connected in Year	12	1	\$2,500.00	92
Connected in Year	13	1	\$2,500.00	93
Connected in Year	14	1	\$2,500.00	94
Connected in Year	15	1	\$2,500.00	95
Connected in Year	16		\$0.00	95
Connected in Year	17		\$0.00	95
Connected in Year	18		\$0.00	95
Connected in Year	19		\$0.00	95
Connected in Year	20		\$0.00	95

Net Present Value of CIACs ¹

Initial Payment	\$125,000.00
Future Payments	<u>\$73,952.77</u>
Total NPV of CIACs	<u>\$198,952.77</u>

Investment Recovery 99.5%

¹ Based on incremental weighted average cost of capital of 8.29%.

15% Cost Recovery Adjustment Factor - Example

Total CIAC Required for Cottage Area (A)	\$200,000
Number of Potential Lots (B)	100
Minimum CIAC Required for each Potential Lot (A/B)	\$2,000
CIAC Required (Minimum CIAC of \$2,000, plus 15%)	\$2,300

Table 2
Estimated Payment Schedule

	Year	Customers	Payments	Cumulative Customers
Initial Take-up Rate of 66%	0	66	\$151,800.00	66
Connected in Year	1	3	\$6,900.00	69
Connected in Year	2	3	\$6,900.00	72
Connected in Year	3	3	\$6,900.00	75
Connected in Year	4	3	\$6,900.00	78
Connected in Year	5	3	\$6,900.00	81
Connected in Year	6	2	\$4,600.00	83
Connected in Year	7	2	\$4,600.00	85
Connected in Year	8	2	\$4,600.00	87
Connected in Year	9	2	\$4,600.00	89
Connected in Year	10	2	\$4,600.00	91
Connected in Year	11	2	\$4,600.00	93
Connected in Year	12	2	\$4,600.00	95
Connected in Year	13	1	\$2,300.00	96
Connected in Year	14	1	\$2,300.00	97
Connected in Year	15	1	\$2,300.00	98
Connected in Year	16	1	\$2,300.00	99
Connected in Year	17	1	\$2,300.00	100
Connected in Year	18	0	\$0.00	100
Connected in Year	19	0	\$0.00	100
Connected in Year	20	0	\$0.00	100

Net Present Value of CIACs ¹

Initial Payment	\$151,800.00
Future Payments	<u>\$46,769.01</u>
Total	<u>\$198,569.01</u>

Investment Recovery 99.3%

¹ Based on incremental weighted average cost of capital of 8.29%.

5% Cost Recovery Adjustment Factor - Example

Total CIAC Required for Cottage Area (A)	\$200,000
Number of Potential Lots (B)	100
Minimum CIAC Required for each Potential Lot (A/B)	\$2,000
CIAC Required (Minimum CIAC of \$2,000, plus 5%)	\$2,100

Table 3
Estimated Payment Schedule

	Year	Customers	Payments	Cumulative Customers
Initial Take-up Rate of 81%	0	81	\$170,100.00	81
Connected in Year	1	3	\$6,300.00	84
Connected in Year	2	3	\$6,300.00	87
Connected in Year	3	3	\$6,300.00	90
Connected in Year	4	3	\$6,300.00	93
Connected in Year	5	3	\$6,300.00	96
Connected in Year	6	1	\$2,100.00	97
Connected in Year	7	1	\$2,100.00	98
Connected in Year	8	1	\$2,100.00	99
Connected in Year	9	1	\$2,100.00	100
Connected in Year	10	0	\$0.00	100
Connected in Year	11	0	\$0.00	100
Connected in Year	12	0	\$0.00	100
Connected in Year	13	0	\$0.00	100
Connected in Year	14	0	\$0.00	100
Connected in Year	15	0	\$0.00	100
Connected in Year	16	0	\$0.00	100
Connected in Year	17	0	\$0.00	100
Connected in Year	18	0	\$0.00	100
Connected in Year	19	0	\$0.00	100
Connected in Year	20	0	\$0.00	100

Net Present Value of CIACs ¹

Initial Payment	\$170,100.00
Future Payments	<u>\$29,603.71</u>
Total NPV of CIACs	<u>\$199,703.71</u>

Investment Recovery 99.9%

¹ Based on incremental weighted average cost of capital of 8.29%.

Non-Refundable Payment Option - Examples and Sample Quotation Letter

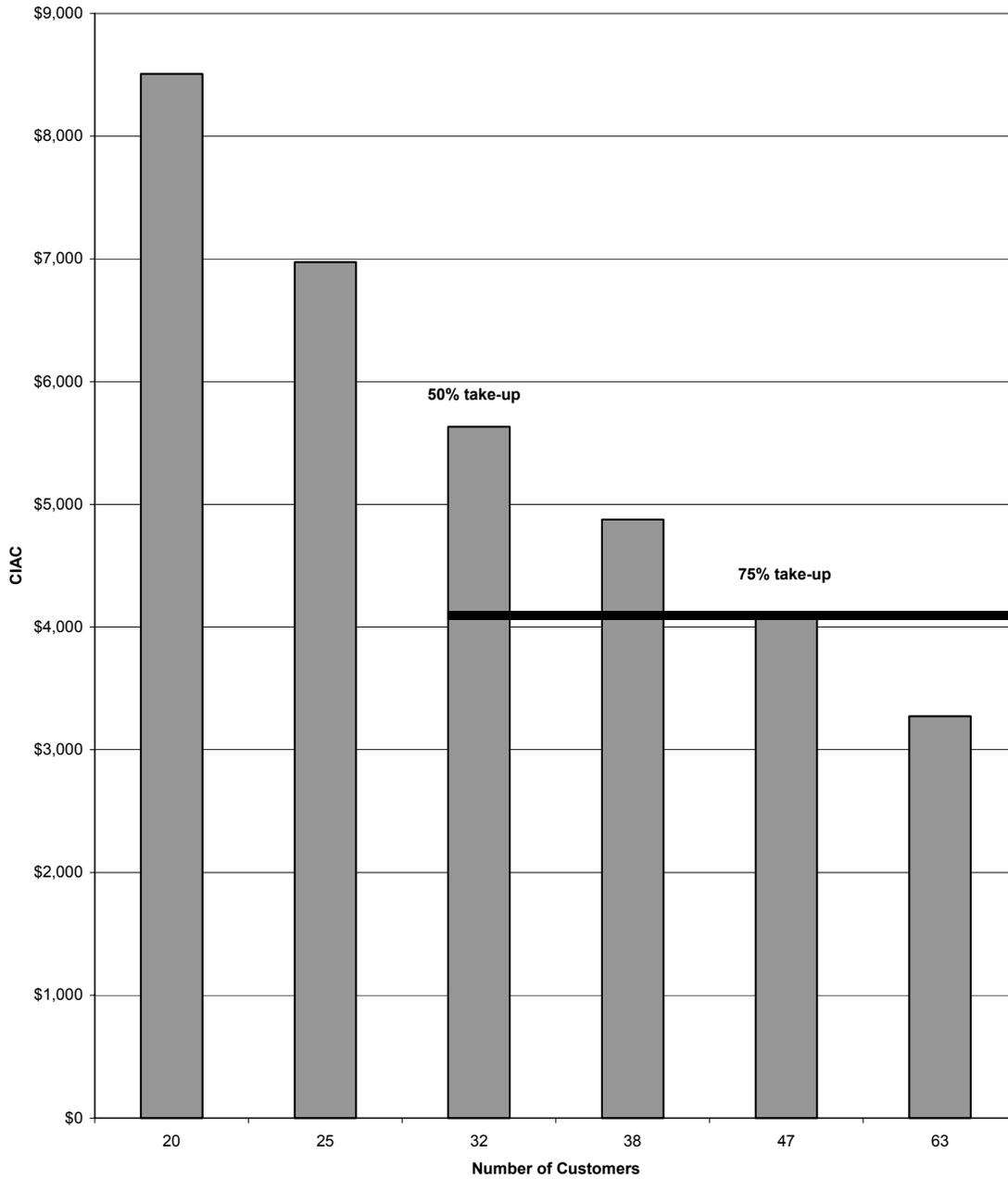
The following graphs compare the refundable CIACs at various take-up rates to the non-refundable CIAC at a 50% take-up rate for each of four cottage areas that have recently requested quotations. Summary statistics on each of these cottage areas is provided in Table 1 below.

Table 1		
Cottage Area	Potential Lots	Construction Costs (\$)
Boy Scout Road, Georges Lake	63	270,000
Cape Pond Road, Southern Shore	96	169,000
Tobacco Road, Fortune	43	130,000
Howley Cabin Area, Howley	415	1,232,000

For the Boy Scout Road cottage area, for example, at a 50% take-up rate the refundable CIAC is approximately \$5,600 plus HST and the non-refundable CIAC is approximately \$4,100 plus HST. The non-refundable CIAC is equivalent to the refundable CIAC at a 75% take-up rate. In effect, if the cottage owners on Boy Scout Road accept the non-refundable payment option, they are accepting the initial benefit of 15 future customer connections (approximately 25% of potential) in lieu of possible future refunds.

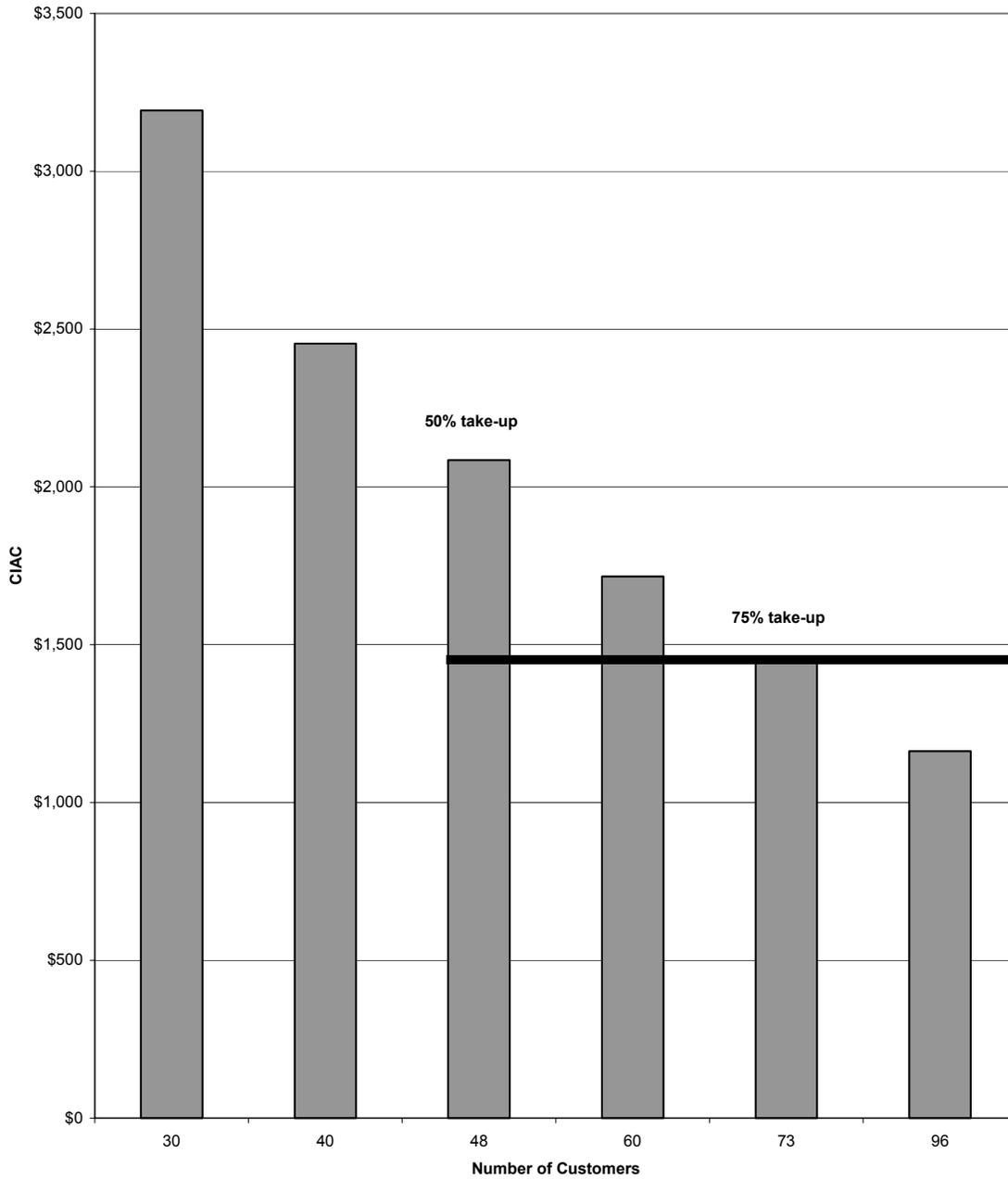
Also attached is a sample quotation letter to the spokesperson for Boy Scout Road to illustrate the proposed approach to explaining the non-refundable payment option.

**Boy Scout Road
Comparison of Quote Options**



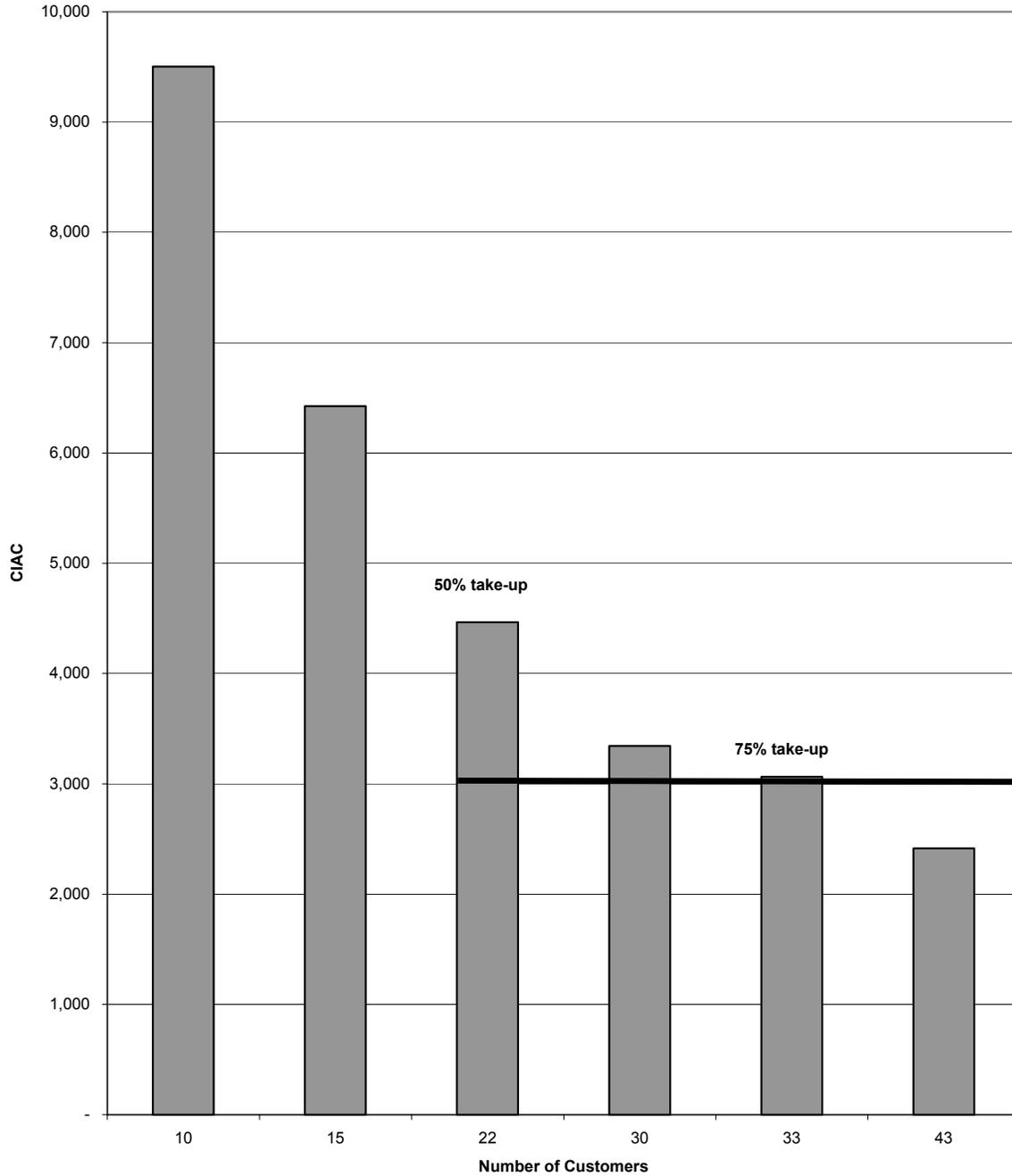
- Notes: 1. Potential number of customers is 63.
2. Vertical bars represent refundable CIACs. Horizontal bar represents non-refundable CIAC.

**Cape Pond Road
Comparison of Quote Options**



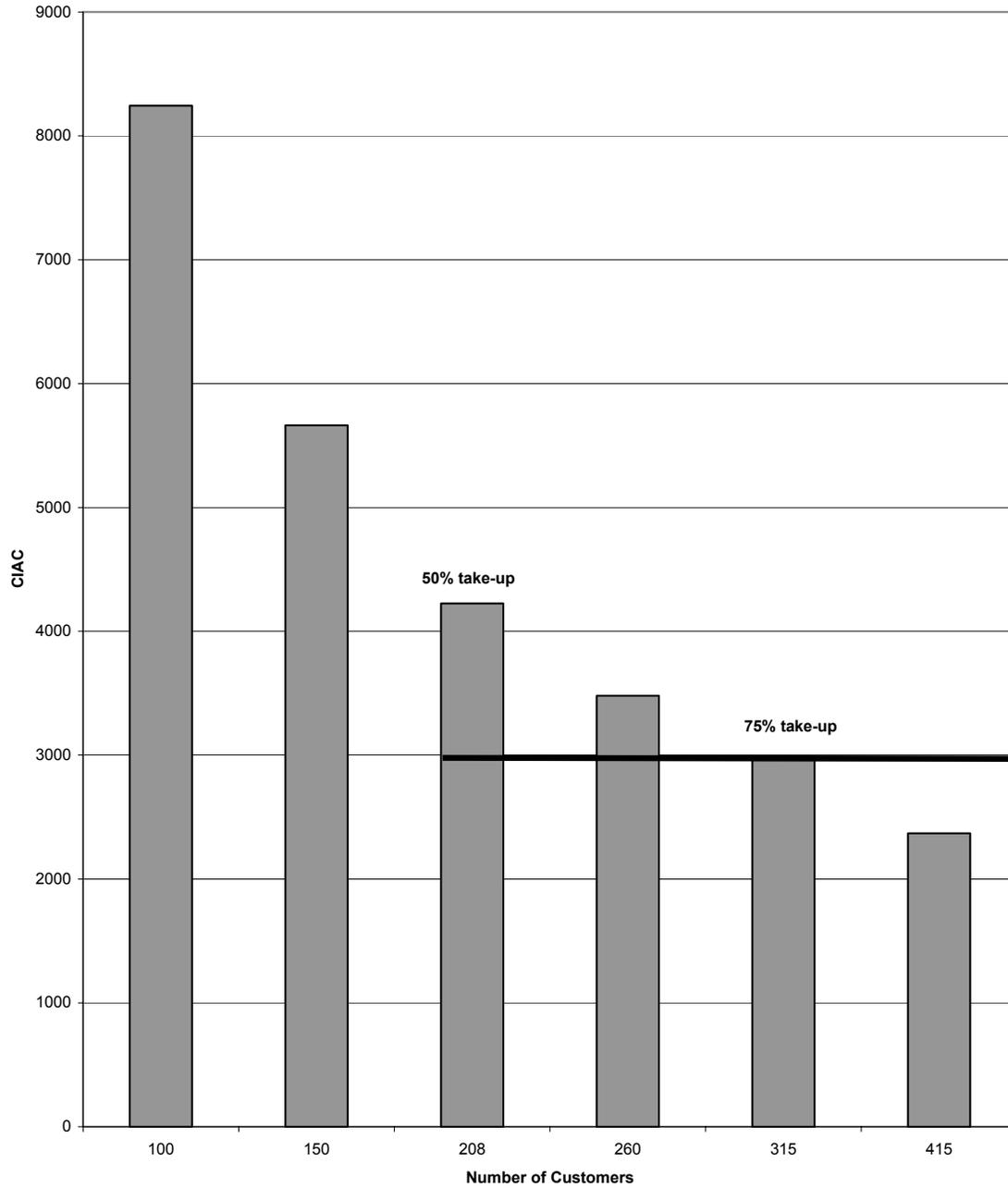
- Notes: 1. Potential number of customers is 96.
2. Vertical bars represent refundable CIACs. Horizontal bar represents non-refundable CIAC.

**Tobacco Road Cabin Area
Comparison of Quote Options**



- Notes: 1. Potential number of customers is 43.
2. Vertical bars represent refundable CIACs. Horizontal bar represents non-refundable CIAC.

**Howley Cabin Area
Comparison of Quote Options**



- Notes: 1. Potential number of customers is 415.
2. Vertical bars represent refundable CIACs. Horizontal bar represents non-refundable CIAC.

All information and calculations contained in this letter are subject to the approval of the Board of Commissioners of Public Utilities of Newfoundland & Labrador.

Dear Customer:

Thank you for your inquiry regarding the provision of electrical service to the Boy Scout Road cottage area. According to the Contribution in Aid of Construction (CIAC) Policy approved by the Board of Commissioners of Public Utilities of Newfoundland & Labrador, customers in cottage areas are required to pay a CIAC which represents their portion of the construction cost of the line extension.

Under the CIAC Policy, service to cottage areas is available on either a refundable or a non-refundable basis.

The refundable approach determines the CIAC required based on the number of customers that initially accept service. If additional customers connect within a 10-year period, refunds are provided to the customers that initially accepted service and paid a CIAC.

The non-refundable approach determines the CIAC required based on both the number of cottage owners that initially accept service and the number of cottages that may connect in the future. The non-refundable approach sets a fixed CIAC amount that will apply to all cottages that connect for a 20-year period. No refunds are provided when additional customers connect. The non-refundable option is available only if CIAC payments are provided for at least 50% of the total potential lots in your cottage area.

A Newfoundland Power representative recently visited your cottage area and has developed a design for the required line extension. (Please see enclosed drawing). Based on our review, your cottage area has a potential of 63 lots. Newfoundland Power can provide service to your cottage area under the non-refundable CIAC approach for a CIAC per lot of \$4,100 + \$615 HST, for a total of \$4,715. To proceed with the non-refundable approach the CIAC must be accepted by at least 32 lot owners. If greater than 65% (or 42 lot owners) initially accept service, the non-refundable price will be reduced.

If less than 50% of the potential customers are prepared to pay the required CIAC, the CIAC quotation will be determined under the refundable approach based on those currently interested in receiving electrical service. The names and locations of each cottage resident will be required in order to provide a firm quotation for service. A preliminary estimate of the CIAC that would be required under the refundable approach if 50% of the cottage lots accepted service is \$5,600 + HST of \$840, for a total of \$6,440. However, this amount is subject to change until each interested cottage owner has been identified.

Your CIAC Reference Number is 2005-50-XXX and the non-refundable quote is valid until (● date). After this date, a new quotation must be calculated to reflect possible changes in labor and material costs.

Customers are able to finance CIACs, pending credit approval, through Newfoundland Power's Time Payment Plan. Details regarding both the 5-year option and the 10-year option available under the Time Payment Plan are enclosed with this letter.

If you wish to proceed with your request for a line extension on the basis of a non-refundable quote, please provide the names, addresses and telephone numbers of those interested (which must total at least 32). Newfoundland Power will then provide each individual with a quotation letter and the appropriate forms to complete.

If you chose a refundable quote please provide the names and locations of those that may be interested. Newfoundland Power will provide a new quote based on the number of customers interested and their locations.

Please fax the completed list of names to the attention of {Technican} at 709-XXX-XXXX.

Newfoundland Power looks forward to serving you. If you require additional information on your CIAC, please contact {Technican} at 709-XXX-XXXX.

The Existing General Service CIAC Policy

1.0 Overview

The General Service CIAC Policy provides the framework for calculating CIACs for single and three phase line extensions and line Upgrades¹ to general service customers for Permanent Service².

Under existing General Service CIAC Policy, the Company provides a standard basic level of investment for all line extensions to general service customers for Permanent Service. The Company will provide additional investment on line extensions or Upgrades to the extent that projected revenue is expected to be sufficient to support the additional investment.

2.0 Company Investment

Basic Investment

For a general service customer, the Company's "Basic Investment" in a line extension for Permanent Service is all of the following:

- (i) Up to 85 metres of line³, as measured from where the customer takes service, and all related plant.
- (ii) In addition to (i) above, and to the extent required, the number of metres of Service Line required to cross a road right-of-way.
- (iii) Transformation for service up to 500 kVA where the required service voltage is one of the Company's standard service voltages and installation is in accordance with Company standards.⁴
- (iv) Secondary metering.

There is no Basic Investment provided for an Upgrade.

¹ Under existing General Service CIAC Policy, an Upgrade refers to an upgrade of single phase service to either two phase or three phase service, or an upgrade of two phase service to three phase service. In all cases, it is contemplated that the upgraded service will be a Permanent Service.

² Permanent Service refers to service required for at least three years.

³ The Company may provide three phase service, if requested by the customer, to the extent that such service is supported by projected revenue from the customer as determined in accordance with Regulation 5(b) of the Schedule of Rates, Rules & Regulations.

⁴ The Company may, on such conditions as it deems acceptable, provide transformation for services greater than 500 kVA as set out in Regulation 5(j) of the Schedule of Rates, Rules & Regulations.

Additional Growth Based Investment

In addition to its Basic Investment, the Company provides Additional Growth Based Investment in the form of single phase Main Line and all directly related plant for a Main Line extension to general service customers for Permanent Service where there is satisfactory evidence indicating future development or growth along the route of the Main Line extension. Specifically, for each foundation for a new building along the route of the Main Line extension, the Company will provide the number of metres of single phase Main Line and all directly related plant that would be provided as Basic Investment under Domestic or General Service CIAC Policy to a customer residing at the foundation site.

Additional Load Based Investment

The Company also provides Additional Load Based Investment in the form of line extensions or Upgrades for Permanent Service to general service customers having a forecast maximum annual demand of at least 10 kW. This additional investment is provided to the extent that revenue from the customer requesting the line extension or Upgrade is sufficient to support the investment.

For general service customers with a forecast maximum annual demand of at least 10 kW but not more than 350 kVA, a “Plant Support Table” is used to determine the number of metres of line extension or Upgrade that is supported by revenue from the customer. The Plant Support Table, which is updated by the Company and approved by the Board annually, is based on a determination of the present value of the annual contribution associated with the customer’s load in excess of 10 kW. The calculated amount represents the Additional Load Based Investment in line extensions or Upgrades that is supported by that contribution. The actual investment in metres for each customer is determined from the Plant Support Table on the basis of the maximum annual demand and the annual load factor for that customer.

For general service customers with a forecast maximum annual demand exceeding 350 kVA, detailed calculations are used instead of the Plant Support Table to determine the Additional Load Based Investment that is supported by revenue from a general service customer.

Detailed cost calculations are also used for Upgrades from single phase to two phase service because these Upgrades are infrequent and actual costs per metre may vary significantly from project to project.

3.0 General Service Customer CIAC

The CIAC for a general service customer is calculated by deducting the Company investment from the estimated cost⁵ for a line extension or Upgrade.

CIACs for line extensions and Upgrades that are shared by more than one customer are apportioned based on the length of the line extension or Upgrade required for each customer.

The General Service CIAC Policy is identical to Domestic CIAC Policy with respect to the Refund Mechanism and joint use refunds.

4.0 Review and Recalculation of General Service CIACs

All CIACs collected from general service customers with a demand of 10 kW or greater are subject to a review after 24 months from the date the service is made available. The purpose of the review is to determine the reasonableness of the calculated Additional Load Based Investment and the resultant customer CIAC.

Where the variation between (i) the estimated demand and actual demand, and/or (ii) the estimated energy consumption and actual energy consumption, for the 12 months preceding the review exceeds 20% and such variation was the result of inaccurate information supplied by the customer, then the CIAC is recalculated and the difference is either charged or refunded to the customer.

⁵ For a general service customer with a maximum annual demand up to 350 kVA, the estimated cost is determined by multiplying the approved cost(s) per metre by the length of the line extension or Upgrade and adding to that product any applicable easement costs, clearing costs and other upgrade costs. For a general service customer with maximum demand exceeding 350 kVA, a detailed cost estimate is calculated.

5.0 Board Reviews and Approvals

Under existing General Service CIAC Policy, the Company is required to obtain Board approval of:

- (i) all line extensions and Upgrades involving CIACs where the construction costs are estimated to be greater than \$25,000; and
- (ii) any deviations from the General Service CIAC Policy in the calculation of CIACs for line extensions and Upgrades.

Calculation of Additional Load Based Investment

Table 1

Calculation of Distribution Investment per kW/kVA

Rate Class	Annual Distribution Primary Costs ¹	
	Demand Related ²	Customer Related ³
	(\$)	(\$)
Rate 2.2 (10 - 100 kW)	3,586,000	450,000
Rate 2.3 (110 - 1000 kVA)	3,840,000	57,000
Rate 2.4 (1000 kVA & Over)	<u>1,426,000</u>	<u>3,000</u>
Subtotals	8,852,000	510,000
<hr/>		
Total Distribution Primary Cost (\$8,852,000 + \$510,000)	\$9,362,000	
Total Billing Demand (kW/kVA) ⁴	5,822,750	
Distribution Primary (\$9,362,000/5,822,750)	\$1.61 per kW/kVA of Billing Demand	
Incremental Fixed Charge Rate	10.7%	
Distribution Investment per kW/kVA of Billing Demand [\$1.61/10.7% x 12]	\$180.56	

¹ Only distribution primary costs recovered through rates are included in the analysis as distribution secondary, transformation, services and metre costs are included in Basic Investment. The cost estimates are based on the 2003 Pro-forma Cost of Service Study.

² From 2003 Pro-forma Cost of Service Study, Schedule 1.2, column E.

³ From 2003 Pro-forma Cost of Service Study, Schedule 1.2, column F.

⁴ From 2003 Pro-forma Cost of Service Study, Schedule 1.6, column C.

Calculation of Additional Load Based Investment

Table 2

**Distribution Plant Support Table
For General Service CIACs**

Annual Load Factor	Dollars per kW/kVA ¹
Less than 5%	61
5%-10%	88
11%-15%	97
16%-20%	110
21%-25%	119
26%-30%	124
31%-35%	131
36%-40%	140
41%-45%	147
46%-50%	153
51%-55%	158
56%-60%	163
61%-65%	170
66%-70%	175
Over 70%	180

¹ The Additional Load Based Investment, which applies to customers with a maximum annual demand exceeding 10 kW, will be determined by multiplying (i) the estimated maximum annual demand, less 10 kW, and (ii) the appropriate dollars per kW/kVA.

General Service (GS) Customer Investment - Survey of Canadian Utilities

Utility	Metre or \$ of Basic Investment	Additional Company Investment
ATCO Electric	\$290 per kW ¹ for small customers, credit per kW for large customers based on term of contract	None
FortisAlberta	\$667 per kW for first 150 kW ¹	\$167 for each kW above 150 kW ¹
FortisBC	30 metres plus transformation	None
Hydro-One	30 metres plus transformation, investment based on load	Additional investment based on economic analysis of revenue
Hydro-Quebec	\$325 per kW	None
Manitoba Hydro	3 years anticipated revenue	None
Maritime Electric	90 metres plus transformation	None
NB Power	90 metres plus transformation	20% of construction cost up to 1.6 km
Newfoundland Power (Existing)	85 metres plus transformation	Additional metres of investment dependent on demand ² and load factor
Newfoundland Power (Proposed)	85 metres plus transformation	Investment dependent on demand and load factor (max. \$180 per kW ²)
Northland Utilities	\$175 per kW	None
Nova Scotia Power	92 metres plus transformation	None
SaskPower	2 years anticipated revenue	None

¹ Investment is per kW Distribution Contract Demand

² Investment is per kW of Maximum Annual Demand

Pro-forma Impact of Change in Additional Load Based Investment

CIAC Number ¹	Construction Cost	CIAC		Change
		Existing Policy	Proposed Policy	
	\$	\$	\$	\$
2002-40-119	8,893	8,214	8,513	299
2002-10-127	5,710	5,710	5,710	-
2002-10-154	910	-	-	-
2002-10-150	630	-	-	-
2002-20-167	2,835	-	-	-
2002-20-102	91,905	87,405	87,405	-
2001-41-113	4,148	1,128	2,502	1,374
2002-10-148	385	-	-	-
2002-10-143	7,365	-	-	-
2002-10-147	6,035	-	-	-
2001-20-141	6,450	6,450	6,450	-
2002-10-139	6,875	130	1,748	1,618
2002-41-104	7,540	-	2,914	2,914
2002-10-140	6,875	170	2,304	2,133
2002-41-105	11,148	-	2,784	2,784
2002-10-115	35,665	27,766	30,676	2,910
2002-10-129	18,148	-	-	-
2002-10-117	8,120	-	995	995
2002-10-112	3,500	2,330	2,845	515
2002-30-103	12,774	8,209	2,480	(5,729)
2002-10-113	4,485	-	-	-
2002-51-104	10,500	6,000	4,445	(1,556)
2002-20-111	34,321	2,975	-	(2,975)
2002-10-110	700	-	-	-
2002-30-100	9,428	739	3,893	3,154
2001-51-110	101,450	86,710	77,707	(9,002)
2002-41-100	3,430	-	-	-
2002-10-106	5,240	3,709	4,372	663
2001-20-189	11,970	1,874	6,393	4,518
2002-51-100	9,908	4,742	5,162	419
2001-51-105	9,332	5,284	7,066	1,782
2001-10-125	6,128	-	-	-
2001-51-126	16,497	7,993	11,203	3,210
2001-40-124	4,841	1,582	2,684	1,102
2001-10-142	5,565	4,066	4,066	-
Total	479,706	273,186	284,315	11,128

¹ Represents CIACs accepted in 2002 that were finalized in 2004 pursuant to the 24 month review process.

**Example of Investment Disparity
at 10 kW of Maximum Annual Demand**

Customer A		Customer B	
Maximum Annual Demand	9.9 kW	Maximum Annual Demand	10.0 kW
Load Factor	36%	Load Factor	36%
Basic Investment	85 metres	Basic Investment	85 metres
Additional Load Based Investment	0 metres	Additional Load Based Investment	95 metres ¹
Total Investment	85 metres	Total Investment	180 metres

¹ Derived from 2005 Plant Support Table based on 9.5 metres per kW of maximum annual demand.

Sample Quotation Letter for Customers Receiving Additional Load Based Investment

Dear (Customer Name)

Thank you for your inquiry regarding the provision of electrical service to your facility. In accordance with the Contribution in Aid of Construction (CIAC) Policy approved by the Board of Commissioners of Public Utilities, general service customers are sometimes required to pay a CIAC, which represents a portion of the construction cost of the line extension required to serve their premises. The amount of your CIAC depends on both the length of the line extension that you require and your load requirements.

You are entitled to a basic investment by Newfoundland Power equivalent to 85 metres of single-phase distribution line. Also, depending on your load requirement, Newfoundland Power may provide an additional investment. Your CIAC is equal to the difference between the total cost of the line extension that you require and Newfoundland Power's investment.

Two years following the connection of your electrical service, your CIAC will be reviewed to determine the accuracy of your originally estimated load requirements. It is therefore important that your original load information be as accurate as possible. Your CIAC will be recalculated using your actual load data for the 12 months preceding the review, and if there is a variation of more than \$100.00 from your original CIAC, the difference will be applied to your account as either a credit or an additional charge.

A Newfoundland Power representative recently visited your facility and has developed a design for the requested line extension. (Please see enclosed drawing). Based on this design, your CIAC is estimated to be \$XXXX + \$XXX HST totalling \$XXXX. This estimate is based on the installation of a 400 amp, three phase, 347/600 volt service with a connected load of 23 kW and an estimated demand of 17 kW, and annual usage of XXXX kWh. If this electrical service information is not correct, please contact us by (• date) with the correct information.

Newfoundland Power can provide additional company investment in the amount of \$XXXX based on the estimated demand and energy consumption derived from the load information provided in your letter of (• date). With the inclusion of this additional company investment, your CIAC would be reduced to \$XXXX plus \$XXX HST totalling \$XXXX.

Your CIAC Reference Number for the above quotes is 2005-10-128 and these quotes are valid until (• date). After that date, new quotations must be calculated to reflect possible changes in labour and material costs. In addition to the above contribution, a security deposit may be required.

If you wish to proceed with your request for a line extension, please complete the enclosed CIAC Quote Acceptance Form and mail it to us in the envelope provided or fax it to the attention of (employee name) at 709-737-2903. When completing the CIAC Quote Acceptance Form, please indicate whether you accept or decline the additional company investment of \$XXXX in determining your CIAC.

Customers are able to finance CIACs, pending credit approval, through Newfoundland Power's Time Payment Plan. Details regarding this option are enclosed with this letter. If you wish to finance your CIAC through this plan, please complete the financing portion of the CIAC Quote Acceptance Form.

Before Newfoundland Power can proceed with construction of your line extension/upgrade, payment of your CIAC is required. Payments can be made by visiting one of our local area offices or by mailing a cheque or money order to: Newfoundland Power, P.O. Box 8910, St. John's, NL, A1B 3P6, Attention: (employee name). Please accompany your payment with the CIAC Payment Voucher provided as this will help us to clearly identify that your payment is for a CIAC for your electrical service.

Construction of your line extension is subject to the following conditions:

1. Before construction begins, Newfoundland Power requires standard easement rights for any portion of the line that we must construct over private property. This ensures that Newfoundland Power has access to the line and equipment should the need arise. Newfoundland Power will arrange for any necessary easements. If, however, easements cannot be obtained for the proposed route, Newfoundland Power will determine a new route and calculate a corresponding revised CIAC.
2. Should additional customers connect to the line extension within 10 years from the date of its construction, you may be entitled to a CIAC refund. Newfoundland Power will calculate the refund in accordance with established guidelines as approved by the Board of Commissioners of Public Utilities.
3. Newfoundland Power shall make all reasonable efforts to identify when a CIAC refund is required and to ensure the appropriate refund is paid within 90 days of any new connection. If your refund is not processed within 90 days of the connection of another customer, the refund amount will earn interest for each day past the 90 day deadline.

4. If you are on the Time Payment Plan, Newfoundland Power will apply any refund given as a credit to your account. Newfoundland Power will not refund any interest paid on the Time Payment Plan.
5. Newfoundland Power retains legal title to the line extension and may connect other customers to it at any time.
6. Newfoundland Power is responsible for the maintenance of the line and for its eventual replacement.

Newfoundland Power looks forward to serving you. If you require additional information on your CIAC, please contact (employee name) at 1-800-663-2802 or 737-2802 if you live in the St. John's area.

Calculation of Blended Costs per Metre

Table 1 below sets out the CIAC costs per metre for line extensions and Upgrades, and related joint use cost per metre reductions, for 2005. Amounts rounded to the nearest dollar are those charged to customers as approved by the Board in Order Nos. P.U. 48 (2004) and P.U. 5 (2005). Their corresponding amounts, rounded to two decimal places, are also shown.

Table 1
2005 CIAC Costs and Cost Reductions per Metre
(As Approved by the Board)

	Cost and Cost Reductions per Metre	
	Board Approved Cost	Underlying Cost ¹
	(\$)	(\$)
Line Extensions		
Single Phase	29	28.94
Three Phase	38	37.84
Upgrades		
Single Phase to Three Phase	31	30.60
Two Phase to Three Phase	18	18.06
Joint Use Tenants		
Aliant	(7)	(6.73)
Cable	(1)	(1.01)
Aliant & Cable	(8)	(7.74)

¹ In the interest of precision, it is proposed that blended cost per metre calculations for line extensions be based on costs rounded to two decimal places rather than those rounded to the nearest dollar. This is illustrated in Tables 2 and 3 of Appendix L.

Calculation of Blended Costs per Metre

Table 2 below sets out the calculation of the 2005 blended CIAC cost per metre for single phase line extensions.

Table 2
2005 Blended CIAC Cost per Metre
(Single Phase Line Extensions)

Tenants	Number of Poles (A)	Cost per Metre ¹ (B)	Total Cost (A x B)
		(\$)	(\$)
NP, Aliant and Cable	114,145	21.20	2,419,874
NP and Aliant	72,672	22.21	1,614,045
NP and Cable	1,001	27.93	27,958
NP	71,491	28.94	2,068,950
	259,309		6,130,827

Blended Cost per Metre = $\$6,130,827 / 259,309 = \23.64

Blended Cost per Metre – Charged to Customers = $\$24.00$

¹ Derived from underlying costs in Table 1 in Appendix L.

Calculation of Blended Costs per Metre

Table 3 below sets out the calculation of the 2005 blended CIAC cost per metre for three phase line extensions.

Table 3
2005 Blended CIAC Cost per Metre
(Three Phase Line Extensions)

Tenants	Number of Poles (A)	Cost per Metre ¹ (B)	Total Cost (A x B)
		(\$)	(\$)
NP, Aliant and Cable	114,145	30.10	3,435,765
NP and Aliant	72,672	31.11	2,260,826
NP and Cable	1,001	36.83	36,867
NP	71,491	37.84	2,705,219
	259,309		8,438,677

Blended Cost per Metre = $\$8,438,677 / 259,309 = \32.54

Blended Cost per Metre – Charged to Customers = $\$33.00$

¹ Derived from underlying costs in Table 1 in Appendix L.

Table 1
Domestic CIACs
Comparison of CIAC Approval Thresholds
(Line Extensions > \$25,000)

Period	Existing \$25,000 Threshold		Proposed \$50,000 Threshold		Differences	
	Line Extensions Approved by Board ¹		Line Extensions Approved by Board		Line Extensions Approved by Board	
	Number	Construction Cost (\$)	Number	Construction Cost (\$)	Number	Construction Cost (\$)
September 30, 1997 to December 31, 1997	-	-	-	-	-	-
1998	1	33,509	-	-	1	33,509
1999	3	154,494	2	126,994	1	27,500
2000	4	461,245	3	425,820	1	35,425
2001	4	673,348	1	572,392	3	100,956
2002	3	191,442	1	131,848	2	59,594
2003	3	180,763	2	153,484	1	27,279
2004	6	631,796	4	557,970	2	73,826
	24	2,326,597	13	1,968,508	11	358,089

¹ Excludes Main Line extensions, involving CIAC's, to seasonal domestic customers that individually cost less than \$25,000 and that received Board approval pursuant to section 12(c) of the existing Domestic CIAC Policy. Those Main Line extensions are shown in Table 2 of Appendix M.

Table 2
Domestic CIACs
Main Line Extensions to Seasonal Domestic Customers Costing ≤ \$25,000

Year Constructed	Number	Construction Cost
September 30, 1997 to December 31, 1997	1	\$ 2,780
1998	4	35,610
1999	5	34,805
2000	3	28,225
2001	3	24,250
2002	1	20,510
2003	4	46,295
2004	8	69,657
Total ²	29	\$262,132

² Represents total number and construction cost of Main Line extensions involving CIAC's to Seasonal Domestic Customers that had a construction cost ≤ \$25,000 for which Board approval was required

Table 3
Domestic CIACs
Comparison of Approval Thresholds
(All Line Extensions Involving Domestic CIACs)

Period	Existing Thresholds ¹		Proposed \$50,000 Threshold		Differences	
	Line Extensions Approved by Board		Line Extensions Approved by Board		Line Extensions Approved by Board	
	Number	Construction Cost (\$)	Number	Construction Cost (\$)	Number	Construction Cost (\$)
September 30, 1997 to December 31, 1997	-	-	-	-	-	-
1998	1	2,780	-	-	(1)	(2,780)
1999	5	69,119	-	-	(5)	(69,119)
2000	8	189,299	2	126,994	(6)	(62,305)
2001	7	489,470	3	425,820	(4)	(63,650)
2002	7	697,598	1	572,392	(6)	(125,206)
2003	4	211,952	1	121,848	(3)	(90,104)
2004	7	227,167	2	153,484	(5)	(73,683)
	14	701,453	4	557,970	(10)	(143,483)
	53	2,588,838	13	1,958,508	(40)	(630,330)

¹ Includes all line extensions, involving CIAC's, to domestic customers that received Board approval.

Table 4
General Service CIACs
Comparison of Approval Thresholds
(Line Extensions and Upgrades > \$25,000)

Period	Existing \$25,000 Threshold		Proposed \$50,000 Threshold		Differences	
	Line Extensions and Upgrades Approved by Board		Line Extensions and Upgrades Approved by Board		Line Extensions and Upgrades Approved by Board	
	Number	Construction Cost (\$)	Number	Construction Cost (\$)	Number	Construction Cost (\$)
September 30, 1997 to December 31, 1997	-	-	-	-	-	-
1998	1	185,367	1	185,367	-	-
1999	5	306,885	3	250,875	(2)	(56,010)
2000	5	213,878	1	93,810	(4)	(120,068)
2001	5	570,017	4	537,122	(1)	(32,895)
2002	4	365,632	2	291,972	(2)	(73,660)
2003	6	289,358	2	159,210	(4)	(130,148)
2004	1	34,321	-	-	(1)	(34,312)
	4	331,313	2	255,987	(2)	(75,326)
	31	2,296,771	15	1,774,343	(16)	(522,428)