

## **PART THREE. SUMMARY OF BOARD DECISIONS**

### **I. CAPITAL STRUCTURE**

1. The Board accepts that the Government guarantee plays a fundamental role in NLH's ability to maintain a sound credit rating in the financial markets of the world. The Board concurs that the guarantee fee of \$12,336,000 in the 2002 test year is appropriate.
2. The Board feels the proposed dividend payment of \$70,000,000 in the 2002 test year places an excessive burden on consumers when it is included in revenue requirement. The Board finds that the interest expense and return on equity in the 2002 test year revenue requirement should be based on NLH's dividend policy providing for dividends of up to 75% of its net operating income. The interest cost for the 2002 test year will be required to be reduced using the embedded cost of debt to reflect the cost of financing the dividend in excess of NLH's dividend policy. A corresponding increase in return on equity or net earnings reflecting the requested 3% return on the notional increase in equity will partially offset the interest reduction.
3. The Board finds no statutory basis for treating NLH as an investor owned utility. The Board concludes approval in principle of NLH's request to be treated as an investor owned utility is not justified based on its current operating characteristics. The Board believes NLH's request is premature in the absence of a sound plan by NLH of how it will achieve financial targets similar to an investor owned utility and what impact this will have on its customers. The Board notes that NLH's debt is guaranteed by Government and this ensures NLH's continued access to the capital markets of the world.
4. The Board accepts NLH's proposals for a debt/equity ratio in the 2002 test year of 83/17 and a target short term debt/equity ratio of 80/20. The Board concludes the evidence does not support the principle of NLH moving to a capital structure of 60/40 at the present time. If NLH is committed to move in this direction, it must formulate an appropriate long term financial plan to present to the Board.
5. The Board accepts NLH's request for a 3% ROE in the 2002 test year. The Board acknowledges this level of ROE is below normal market returns because of NLH's position taken in this Application to lessen the rate impact on its customers. Consideration of a more normal return will be subject to a future request by NLH.

### **II. FORECASTING: PRODUCTION AND FUEL COSTS**

6. NLH will be required to use the 30 year average annual hydraulic production of 4,425 GWh as the basis for the test year hydraulic forecast. The Board will also require NLH to commission an independent study into its current forecasting methodology to address the concerns raised in this hearing, including the issues of data reliability, long term trends and climate change. The terms of reference for this study should be filed with the Board in advance. The results of the study will be required to be filed with the Board as part of NLH's next rate application.

7. The 2002 test year forecast of thermal generation will be adjusted to reflect a forecast hydraulic production of 4,425 GWh.
8. The Board finds that a fuel efficiency factor in the range of 615-620 kWh/bbl is warranted. To mitigate potential impacts on NLH's margin which, at 3%, is already below a normal market rate the Board will order an efficiency factor of 615 kWh/bbl. This efficiency factor will also be used for calculating hydraulic variation in the Rate Stabilization Plan (RSP).
9. The Board accepts the 2002 test year forecasts for fuel prices as filed.
10. The Board will require NLH to file by December 31, 2002 a statement of policies and procedures outlining a coordinated, integrated and strategic approach to fuel purchasing. The statement should address managerial accountability for fuel purchasing along with consideration of such issues as an oil hedging program and the adequacy of existing storage capacity.

### **III. REVENUE REQUIREMENT**

11. The Board accepts the depreciation study and approves the changes in depreciation policies as filed by NLH. The depreciation expense proposed by NLH will be required to be adjusted to reflect the Board's decisions on NLH's 2002 capital budget. NLH will be required to submit its next depreciation study in 2005.
12. The Board will approve the extension of the service lives for the transmission lines affected by the Avalon upgrade program as proposed by NLH.
13. The forecast price for No. 6 fuel, as set out by NLH in Table 1 on page 1 of R. J. Henderson's 2<sup>nd</sup> Supplementary Evidence (See Schedule 1 attached to the Order), which shows a 2002 weighted annual average price of No. 6 fuel of \$25.91 Cdn/bbl, will be used in the 2002 test year costs for No. 6 fuel.
14. The Board accepts the diesel fuel costs of \$6,508,000 for the 2002 test year.
15. The Board accepts the Other Fuel Costs of \$871,000 for the 2002 test year.
16. The Board accepts purchased power costs in the amount of \$15,100,000 for the 2002 test year.
17. Certain other costs (insurance, transportation, office supplies, building rentals and maintenance, equipment rentals and loss on disposal) as proposed by NLH for the 2002 test year are accepted subject to any reduction by NLH resulting from the productivity allowance set (See No. 27) by the Board.

18. The Board finds that any reduction in salary costs to be incorporated in the 2002 test year is best managed by NLH within the scope of the vacancy credit adjustment (See No. 19) and in the application of the productivity allowance set by the Board.
19. The Board will order NLH to reduce salaries and fringe benefit expenses for the 2002 test year by an additional \$500,000 to reflect a higher vacancy credit.
20. The Board accepts NLH's proposals for the treatment of employee future benefits and accepts the 2002 test year costs.
21. System equipment maintenance costs as proposed by NLH for the 2002 test year are accepted subject to any reduction by NLH resulting from the productivity allowance set by the Board.
22. NLH will be required to submit to the Board by December 31, 2002 a detailed plan of projected maintenance expenditures over the next ten years for the Holyrood Generating Station.
23. Professional services costs as proposed for NLH for the 2002 test year are accepted subject to any reduction by NLH resulting from the productivity allowance set by the Board.
24. Travel costs as proposed by NLH for the 2002 test year are accepted subject to any reduction by NLH resulting from the productivity allowance set by the Board. NLH will be directed to exclude spousal travel costs from regulated expenses. NLH will also be required to file its policies and procedures for employee travel with the Board.
25. The Board approves NLH's proposal to discontinue treatment of Bay D'Espoir street lighting costs as a regulated expense and will order its removal from the 2002 test year revenue requirement.
26. Miscellaneous costs as proposed by NLH for the 2002 test year, including inventory gain/loss, are accepted subject to any reduction by NLH resulting from the productivity allowance set by the Board.
27. In addition to the other adjustments to the 2002 test year revenue requirement, the Board will require a reduction of \$2,000,000 on NLH's "*other costs*" for the 2002 test year to reflect a productivity allowance.
28. The Board will request its financial consultants to work with NLH to recommend suitable regulatory performance standards which will be used to measure operating efficiencies at NLH and these will be incorporated as part of NLH's ongoing reporting to the Board.
29. The Board will not accept the \$75,000 for "*Communication Plan*" advertising as a regulated expense for the 2002 test year.

30. Subject to adjustments for Bay D'Espoir street lighting, spousal travel and "*Communication Plan*" advertising, the Board concludes that non-regulated expenses are properly excluded from NLH's 2002 test year costs.
31. The Board accepts the capitalized expenses in the amount of \$5,722,000 as proposed by NLH for the 2002 test year.
32. The Board accepts the CF(L)Co allocation in the amount of \$1,910,000 as proposed by NLH for the 2002 test year.
33. The Board acknowledges the benefit to ratepayers of the flow through income from recall power in that it reduces NLH's borrowing costs during the year and accepts NLH's calculation of the notional interest in the 2002 test year revenue requirement.
34. The Board will require NLH to file prior to June 30, 2003 details of the methodology used for calculation of notional interest.
35. The Board will require NLH to include in the 2002 test year revenue requirement an appropriate credit for interest collected on overdue accounts.
36. NLH will be required to revise the calculation of the interest expense for the 2002 test year to incorporate the decisions of the Board.

#### **IV. RATE STABILIZATION PLAN**

37. The Board is not convinced that the interests of the consumers or NLH would be served through the elimination of the RSP and, other than the specific adjustments and changes described in this decision, will not make any other change in the RSP or its operation at this time.
38. The Board is convinced, based on the evidence and issues raised at the hearing, that the design and elements of the existing plan should be reviewed. To that end the Board will commission a study of the RSP, which will include a review of the plan since its implementation, together with the operational issues raised by the intervenors at the hearing. The Board will decide based on the results of that study what action should be taken.
39. The COS price for No. 6 fuel to be used in the RSP for calculating the fuel price adjustment will be based on the monthly 2002 forecast fuel prices as filed in Table 1 of R. J. Henderson's, 2<sup>nd</sup> Supplementary Evidence. This table indicates that the weighted average fuel price for the test year will be \$25.91 Cdn/bbl. In addition, NLH will be required to file updated 12-month fuel forecasts as part of its quarterly report to the Board.

40. The Board does not accept NLH's proposal to increase the cap on the retail portion of the RSP to \$100,000,000. The Board will remove the existing cap of \$50,000,000 on the retail portion of the RSP.
41. Because of the magnitude of the anticipated rate increases which will result from the Board's decision to use the forecast average fuel price in base rates, the Board will not allow any additional recovery of the existing RSP balance until 2003. The Board believes that deferral of the RSP mill rate adjustments together with an extended recovery period mitigates the impact of moving to true "*cost based*" rates incorporating the forecast price of No. 6 fuel.
42. With respect to the recovery of the balance in the RSP the Board will order the following:
  - The existing balances in the RSP are to be fixed as of the end of the month prior to the effective date of rate implementation based on the current methodology.
  - The RSP mill rate for the IC will be reset as of the effective date of rate implementation for the remainder of 2002 to 2.80 mills/kWh, which was the rate effective January 1, 2001.
  - The RSP mill rate for 2002 for NP will remain at 1.77 mills/kWh, which was the rate effective as of July 1, 2001.
  - Recovery of the fixed balance outstanding will be spread over a five year period commencing in 2003 using a straight line recovery method. The method for calculating the mill rate adjustments and the date of the adjustments for both the IC and NP will remain the same. The amounts recovered will be credited against the outstanding balance of the plan. Interest will be accumulated and maintained on the balance using the WACC.
  - Recovery or credits of balances that accumulate in the plan after the effective date of rate implementation will be calculated using a straight-line method over a two year period, to be effective January 1, 2004 for the IC and July 1, 2004 for NP.
43. The Board will not make any adjustments to the RSP prior period balances as requested by the IC.
44. The Board accepts the changes in the RSP as proposed by NLH with the exception of the price of No. 6 fuel, the Holyrood efficiency factor, the test year hydraulic production and the increase in RSP cap which are dealt with elsewhere in this decision.

## **V. CAPITAL BUDGET**

45. The Board will require NLH, commencing with its 2003 capital budget application, to use a net present value methodology together with supporting justification to evaluate projects of a material amount. Where a project is not evaluated against other acceptable alternatives and/or, if the project does not produce a positive net present value, sufficient rationale must be provided to justify implementation. The Board has set out guidelines to be used by NLH in future capital budget applications in Schedule 3, attached to this decision.

46. The Board will order that, for the purposes of establishing the revenue requirement, NLH reduce its approved capital budget by 7½%. This downward adjustment will reduce depreciation and interest expense as well as the forecast rate base for the 2002 test year.
47. The Board will approve an “*Allowance for Unforeseen Events*” of \$1,000,000 as part of the 2002 capital budget but will impose conditions on its use.
48. The Board agrees that further justification should be completed of NLH’s proposal to replace its VHF Mobile Radio system, including a cost benefit analysis of alternatives. The Board will also require NLH to prepare and file an updated version of its Telecommunications Plan with the Board.
49. The Board will approve the remaining capital budget projects not approved in P.U. 30 (2001-2002) with the exception of B-66 (VHF Mobile Radio system).
50. The Board will approve a 2002 test year capital budget of \$36,765,000, adjusted to remove the VHF Mobile Radio system project.

## **VI. RATE BASE**

51. At the present time the Board will not act to adjust the CWCA to reflect the timing difference between the payment of semi-annual long term bond interest and the receipt of the funds for their payment. The Board feels this issue warrants further consideration and will require NLH to submit to the Board, prior to the next rate application, an analysis of this issue.
52. The Board accepts NLH’s proposed treatment of amortizing the foreign exchange loss at the rate of \$2,157,000 per year and its inclusion in the 2002 test year revenue requirement with the average balance of \$85,200,000 forming part of the rate base.
53. The Board approves the approach and methodology used by NLH in determining the 2002 test year rate base.
54. NLH will be required to file a revised rate base and revised calculation of return on rate base which reflects the decisions of the Board.

## **VII. COST OF SERVICE**

55. The Board is not convinced that the LOLH study provides sufficient evidence to justify using a 2 CP allocator for generation demand costs. Furthermore, the Board is not persuaded that the use of any other multiple allocator is correct in this situation. The Board finds that the evidence supports the use of a 1 CP allocator and the Board will order that NLH use a 1 CP allocator for allocation of generation demand costs.

56. The Board finds that the use of the zero intercept method for classification of distribution system costs as proposed by NLH is an acceptable method for dividing distribution costs into demand and customer related components.
57. The Board accepts the use of a 1 CP allocator for distribution demand costs, as approved by the 1993 generic COS methodology.
58. Based on the evidence before it at this hearing the Board is not prepared to confirm the change in assignment from NLH rural to common of the generation and transmission assets on the GNP. The proposed change in the assignment of the Doyles-Port aux Basques assets from NP specifically assigned to common is also not accepted. The Board will reconsider this issue at NLH's next rate hearing. The Board will require NLH to undertake the necessary studies and analyses to support the value of the interconnection of the GNP assets to the grid, including an assessment of the impacts on system reliability and the conditions and operating scenarios under which the GNP generation would be of benefit to the operation of the Island Interconnected system. This study should also review the value of the Doyles-Port aux Basques and the Burin Peninsula systems to the grid.
59. The Board accepts NLH's proposal that the frequency converters be specifically assigned to the IC in the COS.
60. The Board accepts NLH's treatment of the generation credit for NP and the Interruptible 'B' credit for the IC.
61. The Board accepts NLH's treatment for classification of hydraulic plant as being in accordance with the 1993 generic COS methodology.
62. NLH's proposal for treatment of transformer losses is accepted.
63. The Board has already ruled in the 1993 generic COS methodology that there be a single cost of service study for the Labrador Interconnected system and is not persuaded that there is sufficient evidence to reconsider the matter at this time.
64. The Board accepts NLH's proposal and reasons to use a 1 CP allocator for generation demand costs for the Labrador Interconnected system.

## **VIII. RURAL SYSTEMS**

65. The Board will direct NLH to assume responsibility for the development of an evidentiary record involving the rural deficit. This record should involve appropriate consultation with Government and should address the magnitude of the rural subsidy, comparative practices elsewhere, as well as future funding options for the rural deficit. The record should also contain a concise statement of other public policy initiatives being implemented by NLH on behalf of Government and their associated costs. The Board will require NLH to file this evidentiary record at its next rate hearing.

66. The Board will order that the existing policy be continued of allowing NLH, as NP changes its rates, to automatically adjust the rates it charges its Island Rural Interconnected customers, its customers serviced from the L'Anse au Loup system and its Isolated Rural customers for the first 700 kWh per month of consumption, other than Government departments and agencies so that rates are the same as the rates charged by NP to its customers and to automatically change the rates charged for consumption over 700 kWh per month of electricity sold to Isolated Rural customers, other than Government departments and agencies, by the average rate of change granted to NP.
67. The Board finds preferential rates are discriminatory and will order that NLH increase rates to the Federal and Provincial Governments effective with the implementation of other rate changes arising from this decision to recover the full costs of providing this service in rural areas. Preferential rates will continue to apply to hospitals, fish plants, churches, schools, community halls, municipal buildings and like facilities currently benefiting from preferential rates. NLH's proposal is accepted to present to the Board at its next rate application a plan to phase out preferential rural rates.
68. The Board will approve the existing "*lifeline block*" of 700 kWh for both domestic and general service customers. NLH will be required to undertake a review of the existing "*lifeline block*" for domestic customers to assess its adequacy and prior to December 31<sup>st</sup>, 2002 file a report with the Board.
69. The Board accepts NLH's proposal to address at its next rate application the elimination of the "*lifeline block*" for general service customers on isolated systems. This proposal is to be appropriately coordinated with the Board's decision to implement a demand energy rate structure for this same class of customers.
70. NLH will be required to take the necessary steps required to prepare for implementation of a demand energy rate structure for general service customers on isolated systems and to file at its next rate application a proposal for such a rate structure. The implementation of this decision is to be coordinated with the elimination of the "*lifeline block*" for general service customers to be addressed by NLH at its next rate application.
71. The Board will not direct NLH to provide a refund to reflect a gradual reduction of the IC portion of the rural subsidy over the period 1996-1999.

## **IX. RATE ISSUES/RATE DESIGN**

72. NLH's proposal to implement the Island Interconnected rate structure (six classes) for the Labrador Interconnected system will be approved.
73. NLH's proposal to phase-in a cost based rate system for the Labrador Interconnected system as of the implementation of rates that arise from this decision will be approved. NLH will be required to file a five year plan outlining further alterations in rates on the Labrador Interconnected system, with the cost recovery targets as identified in this Application to be incorporated as part of NLH's next rate application.

74. The Board recognizes NLH's efforts in this Application to minimize rate increases to its customers on the Labrador Interconnected system to a level that, in its view, would not cause "*rate shock*" by applying these guidelines in its rate design. The Board sees these guidelines as reasonable and encourages NLH to adhere to these guidelines as it redesigns its rates to be submitted to the Board as a result of this decision. If application of the guidelines, as they are, prevent the design of rates that will recover costs, the Board will support some adjustment in the parameters if required. The Board reiterates its support of keeping the level of rate increases on the Labrador Interconnected system as low as possible as NLH moves to a uniform rate structure.
75. The secondary energy rate as proposed by NLH for customers serviced from the Labrador Interconnected system will be approved.
76. The Board finds that the credit from secondary energy sales to CFB Goose Bay (5 Wing) would be more appropriately applied against the rural deficit before allocation to NP and Labrador Interconnected customers. However, because of the magnitude of this adjustment relative to the total revenue requirement on the Labrador Interconnected, together with the impact of other decisions of the Board, the Board believes that implementation of this decision would introduce rate shock for the Labrador Interconnected customers. For the 2002 test year, the credit should be applied to the Labrador Interconnected system as proposed by NLH. The Board will require NLH to include, as part of its five year rate plan to be submitted at the next rate hearing, a plan which phases in to the Labrador Interconnected customers, the impact of applying the credit for secondary energy sales to the rural deficit.
77. The Board will approve the refund of the Wabush surplus of \$2,922,755 as proposed by NLH.
78. The Board will approve the rules and regulations set out in NLH's contracts with the IC, with the exception of the proposed contract with North Atlantic Refinery Limited.
79. The Board will approve the rules and regulations set out in NLH's contract with North Atlantic Refinery Limited, but excludes Clause 9.04, which describes the liability of NLH.
80. The Board accepts NLH's methodology for calculating the wheeling rate but will require the calculation of the rate to be revised in light of the Board's decision on the assignment of the GNP costs. In the case of transmission losses, NLH will be required to use the average losses on the system for the last five years (1996-2000) calculated at 3.47%.

81. The Board finds it is not in a position at this time to make a final determination on the issue of whether an energy only rate is appropriate for purchase of power by NP from NLH. The Board has noted the positions of the parties but further evidence will be required from both NP and NLH before making a final decision. If the Electricity Policy Review currently underway does not address this issue as put before the Board at the pre-hearing conference in September 1998, the Board will address it at NLH's next general rate hearing. At that time the Board will expect NLH to file supporting evidence with its application to address the demand energy pricing issues raised in this hearing.
82. The Board believes that, in light of the many other matters which it has requested NLH to address and also the fact that the Electricity Policy Review is ongoing, it would not be timely to commence any study of marginal costs considerations at this time. The Board will continue to monitor this situation with a view to determining an opportune time to act on this initiative.
83. NLH will be required to submit revised Rules and Regulations incorporating changes to Clause 4 and Clause 10 (c) as accepted by the Board for final approval with the revised Rate Schedules to be filed.
84. In order to finalize rates to be implemented as a result of this Application, NLH will be directed to incorporate the decisions of the Board by:
  1. adjusting its revenue requirement and calculation of rate base and return on rate base;
  2. completing a revised COS study for the 2002 test year; and
  3. revising its proposed Schedule of Rates for the various customer classes based on the updated cost of service.

and filing the above with the Board for approval. The Board will review NLH's revised filing to ensure its decisions are appropriately incorporated and then issue a final Order approving or modifying, as it deems appropriate, the rate base, NLH's return on rate base and the revised rates for NLH's customers for the 2002 test year.

## **X. OTHER ISSUES**

85. The Board will approve the code of accounts submitted by NLH and will require NLH to file written policies and procedures for the accounting of all intra and inter-corporate transactions, indicating what is to be included in regulated and non-regulated activities.
86. NLH will be required to file separate financial statements for regulated and non-regulated activities. This will apply to all regulatory reporting including both quarterly and annual reports. NLH will continue to file annual consolidated statements which should be accompanied by precise reconciliation between regulated and non-regulated activities.
87. NLH will be directed to prepare a summary and index of all policies related to regulated activities and place this summary on file with the Board on or before June 30, 2003.

88. The Board will require that NLH submit a final report on the results of joint efforts to date to reduce duplication between NLH and NP. The report should identify and make recommendations concerning additional collaborative opportunities between the two utilities on eliminating duplication and expanding cooperation in the interests of electricity consumers. This report should be concluded by both utilities, if possible, and in any event should be provided to the Board no later than December 31, 2002.
89. The Board will direct NLH to review the issues raised during the hearing and file with the Board a summary report with recommendations on how NLH may reasonably improve the reliability and quality of service for customers in coastal Labrador communities.
90. The Board is persuaded that community based conservation initiatives, similar to those undertaken by the Conservation Corps of Newfoundland and Labrador, have merit in assisting consumers and reducing energy demands which, if sustained, may lower generating capacity requirements into the future. The Board believes NLH should focus attention on conservation and bring forward to the Board a multi-year plan directed to these kinds of initiatives.
91. The Board will require NLH to include, in all applications for capital expenditure programs where generation is being replaced or upgraded, a cost benefit analysis of any alternatives that may result in reduced load or a deferral of capacity expansion.
92. NLH is encouraged to integrate the Board's findings into its strategic planning process.
93. The Board will order pursuant to Section 70 of the *Act*, that NLH submit its next general rate application no later than December 31, 2003.

#### **XI HEARING COST AWARDS**

94. The Board will award costs to the IC. Upon receipt of a detailed statement of costs the Board will fix an amount. The Board's decision in this matter is solely to recognize the circumstances surrounding this Application and is not intended to set a precedent.
95. The application by the Towns of Labrador City and Wabush for costs will be denied.

**PART FOUR. THE ORDER****IT IS THEREFORE ORDERED THAT:****CAPITAL STRUCTURE**

1. NLH's debt/equity ratio in the 2002 test year of 83/17 and a short term debt/equity target rate of 80/20 is approved for use in calculating the rate of return on rate base.

**FORECASTING: PRODUCTION/FUEL COSTS**

2. The 2002 test year forecast of hydraulic production shall be 4,425 GWh.
3. The 2002 test year forecast of thermal generation shall be reduced to reflect the revised hydraulic forecast.
4. A fuel efficiency factor of 615 kWh/bbl shall be used to calculate 2002 test year fuel costs for No. 6 fuel.
5. NLH shall file with the Board:
  - i. As part of its next general rate application, an independent study of its hydraulic production forecasting methodology and the terms of reference shall be filed with the Board for approval in advance.
  - ii. On or before December 31, 2002, a statement of policies and procedures outlining a coordinated, integrated and strategic approach to fuel purchasing; as outlined in the decision of the Board.

**REVENUE REQUIREMENT – TEST YEAR 2002**

6. NLH shall calculate and file a revised total revenue requirement for the 2002 test year based on its proposals in this Application, incorporating the changes set out in this Order, which include:
  - i. Depreciation expense, adjusted to reflect NLH's 2002 Capital Budget as revised by this Order, including the elimination of the VHF Mobile Radio system project and the reduction of 7½%.
  - ii. The monthly forecast price of No. 6 fuel, as set out in Schedule 1 attached to this Order.
  - iii. Salaries and Fringe Benefits, reduced by an additional \$500,000 to reflect a higher vacancy credit.

- iv. **“Other costs”, reduced by \$2,000,000 to incorporate a productivity allowance.**
  - v. **An appropriate credit for interest collected on overdue accounts.**
  - vi. **The interest expense component of the 2002 test year return on rate base, incorporating:**
    - (a) **a reduction (calculated using the embedded cost of debt) to reflect the cost of financing the dividend in excess of NLH’s existing dividend policy; and**
    - (b) **an adjustment to reflect the reduction of 7½% to NLH’s approved 2002 capital budget for revenue requirement purposes.**
  - vii. **The return on equity component of the 2002 test year return on rate base, incorporating an adjustment to reflect the 3% return on the notional increase in equity resulting from payment of a dividend which is consistent with NLH’s existing dividend policy.**
7. **Regulated expenses for the 2002 test year and subsequent years shall exclude:**
- i. **Spousal travel;**
  - ii. **“Communication Plan” advertising; and**
  - iii. **Bay D’Espoir street lighting.**
8. **NLH shall file with the Board:**
- i. **On or before December 31, 2002, a detailed plan of projected maintenance expenditures for the Holyrood Generating Station for the period 2003-2013.**
  - ii. **On or before December 31, 2002, a statement of policies and procedures governing employee travel.**
  - iii. **On or before June 30, 2003, details of the methodology used for calculation of notional interest.**
  - iv. **On or before December 31, 2005, an updated depreciation study.**

#### **RATE STABILIZATION PLAN**

9. **NLH shall continue to utilize the RSP, incorporating the changes proposed by NLH and those set out in this Order including:**
- i. **A Cost of Service price of No. 6 fuel, as set out in Schedule 1 attached to this Order.**
  - ii. **A fuel efficiency factor of 615 kWh/bbl.**
  - iii. **A forecast hydraulic production of 4,425 GWh.**
  - iv. **The elimination of the cap on the retail portion of the RSP.**
10. **The existing balances in the RSP shall be fixed as of the end of the month prior to the effective date of rate implementation based on the current methodology, and additional recovery of this balance is not allowed in the 2002 test year.**

11. The balance in the RSP shall be recovered in the following manner:
  - i. The RSP mill rate for the IC shall be reset as of the effective date of rate implementation for the remainder of 2002 to 2.80 mills/kWh, which was the rate effective January 1, 2001.
  - ii. The RSP mill rate for 2002 for NP shall remain at 1.77 mills/kWh, which was the rate effective as of July 1, 2001.
  - iii. Recovery of the fixed balance outstanding shall be spread over a five year period commencing in 2003 using a straight-line recovery method.
  - iv. The method for calculating the mill rate adjustments and the date of the adjustments for both the IC and NP shall remain the same.
  - v. The amounts recovered shall be credited against the fixed balance of the plan.
  - vi. Interest shall be accumulated and maintained on the balance using the WACC.
  - vii. Recovery or credits of balances that accumulate in the plan after the effective date of rate implementation (the new balance) shall be calculated using a straight-line method over a two year period, to be effective January 1, 2004 for the IC and July 1, 2004 for NP.
12. NLH shall file with the Board updated 12-month fuel forecasts as part of its quarterly reports.

#### 2002 CAPITAL BUDGET

13. The capital budget projects, excluding the VHF Mobile Radio system, as listed in Schedule 2 attached to this Order, are approved, pursuant to subsection 41(3) of the *Act*.
14. The 2002 capital budget in the amount of \$36,765,000, adjusted to reflect the removal of the \$3,081,000 associated with the VHF Mobile Radio system is approved, pursuant to subsection 41(1) of the *Act*.
15. Order No. P.U. 30 (2001-2002) is hereby amended to reflect the removal of B-47 (Replace 75 kW Diesel Unit No. 252, Petites).
16. An “*Allowance for Unforeseen Events*” fund of \$1,000,000 shall replace the Contingency Fund and shall be used by NLH pursuant to the guidelines of the Board as set out in the decision which may be amended by the Board from time to time.

17. NLH shall file with the Board:
- i. Upon further application for approval of the VHF Mobile Radio system project, a full cost benefit analysis of the project.
  - ii. As part of its 2003 capital budget application, an updated Telecommunications Plan.
  - iii. In all applications for approval of capital projects where generation is being replaced or upgraded, a cost benefit analysis of alternatives that may result in reduced load or a deferral of capacity expansion, including appropriate conservation or DSM programs.
  - iv. In all applications for approval of capital budget projects under subsection 41(3) of the *Act*, documentation showing the use of a net present value methodology to evaluate projects, pursuant to the guidelines of the Board as set out in Schedule 3 attached to this Order, which may be amended by the Board from time to time.

#### RATE BASE

18. NLH shall calculate and file a revised rate base, using the approach and methodology proposed in this Application incorporating the changes set out in this Order.
19. NLH shall file with the Board, prior to its next general rate application, a study of the implications upon Cash Working Capital Allowance of the timing difference between the payment of semi-annual long term bond interest and the receipt of the funds for their payment.

#### COST OF SERVICE

20. NLH shall complete and file a revised COS study for the 2002 test year, using the COS methodology as proposed by NLH, incorporating the changes set out in this Order, which include:
- i. The allocation of generation demand costs for both the Island and Labrador Interconnected systems based upon a 1 CP allocator.
  - ii. The COS assignment of GNP assets, proposed to be assigned to common in this Application, to rural.
  - iii. The COS assignment of the Doyle's-Port aux Basques assets, proposed to be assigned to common in this Application, to NP specifically assigned.
21. NLH shall file with the Board, as part of its next general rate application, a detailed study as outlined in the decision of the Board, as to the proper COS assignment of the GNP assets, the Doyles-Port aux Basques assets and the Burin Peninsula assets.

**RURAL SYSTEMS**

22. Pursuant to section 70, the existing rate structures in respect of the rural systems are approved, except that NLH shall increase the rates it charges to the Federal and Provincial Governments effective with the implementation of rates arising from this Application, to recover the full costs of providing this service in rural areas.
23. Preferential rates shall continue to apply to hospitals, fish plants, churches, schools, community halls and municipal buildings and like facilities currently benefiting from preferential rates.
24. Pursuant to Section 70, the existing “*lifeline block*” of 700 kWh is approved for both domestic and general service customers.
25. Pursuant to Section 70, the existing policy of allowing NLH, as NP changes its rates, to automatically adjust the rates it charges its Island Rural Interconnected customers, its customers serviced from the L’Anse au Loup System and its Isolated Rural customers for the first 700 kWh per month of consumption, other than Government departments and agencies, so that the rates are the same as the rates charged by NP to its customers and to automatically change the rates charged for consumption over 700 kWh per month of electricity sold to Isolated Rural customers, other than Government departments and agencies, by the average rate of change granted to NP, is approved.
26. NLH shall file with the Board:
  - i. On or before December 31, 2002, a report in respect of the existing “*lifeline block*” for domestic isolated rural customers to assess its adequacy.
  - ii. As part of its next general rate application, a multi-year plan to phase out preferential rural rates and move to a full cost recovery rate structure.
  - iii. As part of its next general rate application, a proposal for the implementation of a demand energy rate structure for general service customers on isolated systems.
  - iv. As part of its next general rate application, a plan to eliminate the “*lifeline block*” for general service customers on isolated systems, co-ordinated with the implementation of a demand energy rate structure for these customers.
  - v. As part of its next general rate application, an evidentiary record in respect of the rural deficit which addresses the relevant issues, including those outlined by the Board in its decision.

**RATE ISSUES/RATE DESIGN**

27. NLH shall apply to the Board for approval of a revised 2002 test year rate base, return on rate base, and Schedule of Rates incorporating the changes set out in this Order.

28. The revised Schedule of Rates shall be based on the proposals of NLH in this Application incorporating the changes set out in this Order.
29. NLH shall refund the Wabush surplus in the amount of \$2,922,755, in the manner proposed.
30. NLH shall calculate the wheeling rate based upon transmission losses of 3.47%.
31. The Rules and Regulations as set out in the contracts with the industrial customers, except North Atlantic Refinery Limited, are approved.
32. The Rules and Regulations as set out in the contract with North Atlantic Refinery Limited, excluding Clause 9.04, which describes the liability of NLH, are approved.
33. NLH shall submit revised Rules and Regulations for its rural customers, incorporating the changes to Clause 4 and Clause 10 (c) set out in the decision of the Board.
34. NLH shall file with the Board, as part of its next general rate application, a five year plan outlining further alterations in rates on the Labrador Interconnected system, with the cost recovery targets as identified in this Application, including a phase in of the impact of applying the credit for secondary energy sales to CFB Goose Bay (5 Wing) to the rural deficit.

#### OTHER/GENERAL

35. NLH shall file its next general rate application, pursuant to Section 70 of the *Act*, no later than December 31, 2003.
36. Pursuant to Section 58 of the *Act*, the code of accounts submitted by NLH, is approved.
37. Pursuant to Section 68 of the *Act*, the changes in depreciation policies as proposed by NLH, including the extension of the service lives for the transmission lines affected by the Avalon upgrade program, are approved.
38. NLH shall file with the Board:
  - i. On or before September 30, 2002, a report with recommendations on how NLH may reasonably improve the reliability and quality of service for customers served in coastal Labrador communities.
  - ii. On or before December 31, 2002, a final report on the results of joint efforts to date to reduce duplication between NLH and NP.

- iii. On or before December 31, 2002, the written policies and procedures to account for all intra and inter-corporate transactions, identifying what is to be included in regulated and non-regulated activities as a normal reporting function.
- iv. On or before December 31, 2002, a multi-year plan directed towards its community-based conservation initiatives.
- v. On or before June 30, 2003, a summary and index of all policies related to regulated activities.
- vi. In all regulatory reporting, separate financial statements for regulated and non-regulated activities, including reconciliation with annual consolidated statements.

#### HEARING COSTS

- 39. The IC be awarded costs in an amount to be determined by the Board, following receipt of a detailed statement of their costs.
- 40. The application by the Towns of Labrador City and Wabush for costs is denied.
- 41. NLH shall pay the expenses of the Board arising from this Application, including the expenses of the Consumer Advocate as ordered by the Lieutenant-Governor in Council pursuant to Section 117 of the *Act*.

Dated at St. John's, Newfoundland and Labrador this 7<sup>th</sup> day of June 2002.

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Robert Noseworthy,  
Chair & Chief Executive Officer.

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Darlene Whalen, P.Eng.,  
Vice-Chairperson.

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G. Fred Saunders,  
Commissioner.

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Don Powell, C.A.,  
Commissioner.

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G. Cheryl Blundon,  
Board Secretary.