

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

NEWFOUNDLAND AND LABRADOR HYDRO REVISED 2006 GENERAL RATE APPLICATION

NOTICE OF HEARING AND INVITATION FOR PUBLIC PARTICIPATION

On August 3, 2006 the Board of Commissioners of Public Utilities (the Board”) received a General Rate Application from Newfoundland & Labrador Hydro (“Hydro”). Notice of this application and Pre-hearing Conference was published in newspapers throughout the Province starting on August 15, 2006.

At the Pre-hearing Conference on September 7, 2006 the Board set the procedural rules for the conduct of the hearing, set the schedule for the filing and service of documents, and established the list of registered intervenors for the proceeding. The registered intervenors in the proceeding are Newfoundland Power Inc., the Island Industrial Customers, and the Consumer Advocate, Mr. Thomas Johnson.

During the pre-hearing process pre-filed evidence was filed and information requests from the Board and intervenors were answered. The Board established a negotiated settlement process in which all registered intervenors participated. This negotiated settlement was intended to engage parties in dialogue in order to secure agreement, where possible on issues contained in the application. Following this process the registered intervenors reached agreement on the majority of issues contained in the application. On December 6, 2006 Hydro filed a revised application proposing, among other things, lower rates than originally requested.

In December 2006 the Board granted approval on an interim basis of the proposed revised rates for Hydro, and also granted approval of rates on an interim basis for Newfoundland Power’s customers. The average rate changes effective January 1, 2007 for key customer groups are shown below:

Electricity Rate Changes for Key Customer Groups (%)

Customer Group	Hydro's Revised Application December 6, 2006	Interim End User effects, incl. NP rate adjustments, effective January 1, 2007
Newfoundland Power Customers	3.1	0.07
Island Industrial Customers	-13.9	-13.9
Hydro Rural Island Interconnected and L'anse au Loup Customers	3.1	0.07
Hydro Rural Isolated Residential Customers	0.08	0.08
Rural Isolated General Service Customers		
0 – 10 kW (kilowatts)	0.90	0.90
Over 10 kW	- 0.23	- 0.23
Happy Valley-Goose Bay Residential Customers	0.0	0.0
Labrador West Residential Customers	0.0	0.0

The actual rate change will vary for individual customers depending on the class of service and the amount of electricity used. Details of the specific proposals contained in Hydro's revised application are set in **Schedule A** below.

PUBLIC HEARING

The public hearing of Hydro's revised application will begin **10:00 a.m. on Monday, January 22, 2007** in the Board's hearing room, Prince Charles Building, 120 Torbay Road, St. John's. The purpose of the public hearing will be to hear all matters relating to the revised application including the negotiated settlement agreement. The Board will also hear from interested persons or organizations in addition to the registered intervenors.

HOW TO SEE THE APPLICATION

Copies of the application are available for public viewing at the offices of the Board between the hours of 8:30 a.m.- 12:30 p.m. and 1:30 p.m. - 4:00 p.m., or upon request from the Board Secretary at (709) 726-8600, or on the Board's website at www.pub.nl.ca. A copy of the application can also be viewed at any of Hydro's regional offices located throughout the Province as well as on Hydro's website at www.nlh.nf.ca.

HOW TO PARTICIPATE

Interested persons or organizations can participate in this hearing by submitting a **Letter of Comment** or by making an **Oral Presentation**. The Board may hold public sessions to hear **Oral Presentations** at various locations in the Province where interest is demonstrated. In order to schedule the dates and locations for these public sessions interested persons or organizations wishing to make a presentation must contact the Board no later than **Noon, Friday, January 19, 2007**. These sessions will be scheduled based on the level of public interest demonstrated.

Interested persons may also provide a **Letter of Comment** to the Board. **The Board will accept all Letters of Comment received up to and including January 26, 2007.**

Interested persons may contact the Government-appointed Consumer Advocate, Mr. Thomas Johnson by:

Mail: P.O. Box 5955, St. John's, NL, A1C 5X4
 Email: tjohnson@odeaearle.nf.ca
 Telephone: 709-726-3524

Copies of the application and information filed to date are available on the Board's website at www.pub.nl.ca. For additional information and/or inquiries please contact the Board as follows:

Board Contact Information:

Office: Suite E210, Prince Charles Building, 120 Torbay Road, St. John's
 Mail: P.O. Box 21040, St. John's, NL, A1A 5B2
 Telephone: 709-726-8600 or 1-866-782-0006 (toll free)
 Facsimile: 709-726-9604
 E-mail: ito@pub.nl.ca
 Website: www.pub.nl.ca

Dated at St. John's, Newfoundland and Labrador, this 3rd day of January 2007.

Cheryl Blundon
 Board Secretary

SCHEDULE A

In the revised Application Hydro proposes:

- (1) forecast 2007 test year costs (before return on rate base) of \$320,372,000;
- (2) a forecast average rate base for 2007 of \$1,489,323,000;
- (3) that the methodology approved by the Board for calculating the allowed rate of return on equity (for purposes of determining weighted average cost of capital) in Order No. P.U. 14 (2004) be continued;
- (4) that (consistent with this methodology) Hydro be allowed a rate of return on equity of 4.47%;
- (5) that (consistent with this methodology) Hydro be allowed a rate of return on forecast average rate base of 7.44%;
- (6) that effective January 1, 2007, the Board approve:
 - (a) that the demand and energy rates charged to Newfoundland Power be changed to a demand charge of \$4.00 per kW per month, with a first block energy rate of 32.46 mills per kWh and an end block energy rate of 88.05 mills per kW;
 - (b) that the total generation credit for Newfoundland Power be reduced to 117,930 kW;
 - (c) that the Cost of Service treatment of Newfoundland Power's thermal generation credit no longer apply to transmission costing and that it no longer impact system load factor calculations;
 - (d) that the Rate Stabilization Plan Adjustment rate charged to Newfoundland Power be decreased to 4.25 mills per kWh, as a result of setting the fuel rider to zero and applying the Hydraulic Variation balance in January 1, 2007 rates;
 - (e) that the rate charged to Newfoundland Power for firming up secondary energy purchased from Corner Brook Pulp and Paper Limited and re-sold to Newfoundland Power as firm energy be increased to 8.41 mills per kWh;
 - (f) that the rates charged to Industrial Customers for firm service be increased to a demand charge of \$6.68 per kW per month, an energy charge of 36.76 mills per kWh and the respective annual specifically assigned charges;
 - (g) that the rates charged to Industrial Customers for non-firm service continue to be calculated in the manner set out in Order No. P.U. 7 (2002), with the average system losses decreased to 2.68%, as stated on page 6 of 11 of Schedule B attached to this Application;
 - (h) that the rate for wheeling energy for non-utility customers be decreased to 3.84 mills per kWh and that the average system losses be decreased to 2.68%;
 - (i) that the policy outlined in Order No. P.U. 7 (2002-2003) of charging rates based on full cost recovery for Government departments and agencies, excluding hospitals and schools, in Isolated Rural Systems, be continued;

- (j) that the rates for Labrador Interconnected Customers remain unchanged for 2007 but that in subsequent years, 2008 through to 2011, rate setting continue as outlined in the Labrador Interconnected Rates Agreement filed with the Board;
- (k) that the Rules and Regulations which govern the provision of service to Rural Customers be confirmed with the exceptions that:
 - i) the rate for the Burgeo school and Library be deleted; and
 - ii) Sections 16 and 17 of the Rules and Regulations be amended so that all rates paid by Rural isolated customers, excluding Government departments, shall be adjusted between Hydro General Rate Applications to reflect changes made to Newfoundland Power's rates, including changes to rates arising from Municipal Tax and Rate Stabilization adjustments and from Fuel Rider adjustments;
- (l) that the Automatic Adjustment Mechanism proposed by Hydro filed with the August 3, 2006 Application as Exhibit MGB-1 in response to the Board's direction in Order No. P.U. 14 (2004) be approved;
- (m) that the Rate Stabilization Plan be amended to reflect the impact of changes that may arise from time to time from the operation of the proposed Automatic Adjustment Mechanism, as set out in the Rate Schedules 2007, Schedule C page 3 of 10, attached to this Application;
- (n) that the Rate Stabilization Plan be amended such that when new test year base rates are implemented, if the fuel rider forecast is more current than the fuel forecast used for the new test year rates, a fuel rider which is calculated using the more current fuel forecast and the new test year values will be implemented at the same time as the change in base rates;
- (o) that the Rate Stabilization Plan rules pertaining to the Rural Rate Alteration for Rural Labrador Interconnected Automatic Rate Adjustments be modified to accommodate the change in treatment of the CFB Goose Bay Credit for 2007, with further revisions to be filed with the Board for approval at a future date;
- (p) that Newfoundland Power's portion of the December 31, 2006 Rate Stabilization Plan Hydraulic Production Variation Balance be transferred to Newfoundland Power's Historic Rate Stabilization Plan Balance, and that the Rate Stabilization Plan rate charged to Newfoundland Power be reduced to reflect the credit as described in Section F of the Rate Stabilization Plan rules, such that the collection of the reduced Historic Rate Stabilization Plan Balance will be amortized over eighteen (18) months (January 1, 2007 to July 1, 2008);

- (q) that
- (i) effective December 31, 2006, the Industrial Customers' Current Rate Stabilization plan balance include the Industrial Customers' portion of the normal annual 25% allocation of the Hydraulic Variation balance; and
 - (ii) the portion of the Industrial Customer's share of the December 31, 2006 Rate Stabilization Plan Hydraulic Variation balance, net of the normal 25% allocation outlined in (i) above, be used to reduce any charge, or increase any credit, which would otherwise be applied effective January 1, 2008 to the rates of Industrial Customers under the current Rate Stabilization Plan rules;
- (r) that the Rate Stabilization Plan rules be amended to include the statement that "References to approved Test Year weighted average cost of capital mean the weighted average cost of capital in Hydro's Test Year Cost of Service study, or as adjusted by the Automatic Adjustment Mechanism"; and
- (s) that Hydro continue to use regulated equity in the calculation of Hydro's capital structure.