

1   **Q.    Please provide a copy and details of Newfoundland Power's five-year financial**  
2   **forecast.**

3  
4    A.    Attachment A contains Newfoundland Power's five year financial forecast for the period  
5           2002 to 2006 based on the Company's proposed 2003 General Rate Application filed  
6           with the Board on October 11, 2002.

7  
8           This five-year forecast is based on the assumptions provided on pages 9 and 10 thereof.  
9           No Newfoundland Power rate changes, other than the average rate increase of 1.39 per  
10          cent effective May 1, 2003 proposed in the Company's 2003 General Rate Application,  
11          have been assumed in compiling this forecast. This forecast is subject to change and  
12          variation as actuals for each of the forecast years become known, and as assumptions and  
13          circumstances change.

**Newfoundland Power Inc.**

**Five Year Financial Forecast - For the Years 2002 - 2006**  
**(Based on Proposed Rate Increase of 1.39% Effective May 1, 2003)**  
**Income Statement**  
**(000s)**

		<b>Forecast</b>				
		<b><u>2002</u></b>	<b><u>2003</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>
1						
2	Energy Sales (GWh)	4,733	4,818	4,895	4,916	4,976
3						
4	Revenue From Rates	\$ 360,692	\$ 377,554	\$ 385,359	\$ 386,811	\$ 391,016
5	2001 Excess Revenue	-	472	472		
6		360,692	378,026	385,831	386,811	391,016
7	Purchased Power Expense	209,570	224,530	228,270	229,286	232,246
8	Contribution	151,122	153,496	157,561	157,525	158,770
9						
10	Other Revenue	6,773	7,657	8,557	9,456	9,606
11						
12	Other Expenses:					
13	Operating Expenses	51,489	53,117	54,092	55,100	55,989
14	Depreciation	35,657	29,570	30,884	32,133	39,328
15	Finance Charges	26,940	30,305	30,989	31,448	32,397
16		114,086	112,992	115,965	118,681	127,714
17						
18	Income Before Income Taxes	43,809	48,161	50,153	48,300	40,662
19	Income Taxes	15,439	16,654	17,048	16,815	14,693
20						
21	Net Income	28,370	31,507	33,105	31,485	25,969
22	Preferred Dividends	613	613	613	613	613
23						
24	Earnings Applicable					
25	to Common Shares	\$ 27,757	\$ 30,894	\$ 32,492	\$ 30,872	\$ 25,356
26						
27	Rate of Return on Regulated Common Equity	10.32%	10.75%	10.71%	9.77%	7.83%
28						
29	Interest Coverage - times	2.54	2.52	2.55	2.47	2.20
30						
31	Rate of Return on Rate Base	9.79%	10.48%	10.48%	9.99%	9.05%

**Newfoundland Power Inc.**

**Five Year Financial Forecast - For the Years 2002 - 2006**  
**(Based on Proposed Rate Increase of 1.39% Effective May 1, 2003)**  
**Statement of Retained Earnings**  
**(000s)**

		<b>Forecast</b>				
		<b><u>2002</u></b>	<b><u>2003</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>
1						
2	Balance at Beginning of the Period	\$ 189,882	\$ 208,144	\$ 224,796	\$ 238,298	\$ 250,180
3	Net Income for the Period	<u>28,370</u>	<u>31,507</u>	<u>33,105</u>	<u>31,485</u>	<u>25,969</u>
4		<u>218,252</u>	<u>239,651</u>	<u>257,901</u>	<u>269,783</u>	<u>276,149</u>
5	Dividends					
6	Preference Shares	613	613	613	613	613
7	Common Shares	<u>9,495</u>	<u>14,242</u>	<u>18,990</u>	<u>18,990</u>	<u>18,990</u>
8		<u>10,108</u>	<u>14,855</u>	<u>19,603</u>	<u>19,603</u>	<u>19,603</u>
9						
10	Balance at End of the Period	<u>\$ 208,144</u>	<u>\$ 224,796</u>	<u>\$ 238,298</u>	<u>\$ 250,180</u>	<u>\$ 256,546</u>

**Newfoundland Power Inc.**

**Five Year Financial Forecast - For the Years 2002 - 2006**  
**(Based on Proposed Rate Increase of 1.39% Effective May 1, 2003)**

**Balance Sheet**

**(000s)**

		<b>Forecast</b>				
		<b><u>2002</u></b>	<b><u>2003</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>
1	<b><u>ASSETS</u></b>					
2						
3	Fixed Assets					
4	Property Plant and Equipment <sup>1</sup>	\$ 953,915	\$ 1,007,277	\$ 1,043,544	\$ 1,081,547	\$ 1,117,534
5	Less: Accumulated Depreciation <sup>2</sup>	387,240	413,442	430,294	448,072	472,246
6		<u>566,675</u>	<u>593,835</u>	<u>613,250</u>	<u>633,475</u>	<u>645,288</u>
7	Current Assets					
8	Accounts Receivable	40,580	41,175	42,233	42,131	42,440
9	Materials and Supplies, at average cost	4,400	4,400	4,500	4,500	4,500
10	Rate Stabilization Account	4,461	4,461	4,461	4,461	4,461
11		<u>49,441</u>	<u>50,036</u>	<u>51,194</u>	<u>51,092</u>	<u>51,401</u>
12	Corporate Income Tax Deposit	6,949	6,949	6,949	6,949	6,949
13	Deferred Charges <sup>3</sup>	79,882	86,941	91,690	95,949	103,092
14						
15		<u>\$ 702,947</u>	<u>\$ 737,761</u>	<u>\$ 763,083</u>	<u>\$ 787,465</u>	<u>\$ 806,730</u>
16						
17						
18	<b><u>SHAREHOLDERS' EQUITY AND LIABILITIES</u></b>					
19						
20	Shareholders' Equity					
21	Common Shares	\$ 70,321	\$ 70,321	\$ 70,321	\$ 70,321	\$ 70,321
22	Retained Earnings	208,144	224,796	238,298	250,180	256,546
23	Common Shareholder's Equity	<u>278,465</u>	<u>295,117</u>	<u>308,619</u>	<u>320,501</u>	<u>326,867</u>
24	Preference Shares	9,709	9,709	9,709	9,709	9,709
25		<u>288,174</u>	<u>304,826</u>	<u>318,328</u>	<u>330,210</u>	<u>336,576</u>
26	Long-Term Debt	332,208	328,558	324,908	321,258	391,858
27	Current Liabilities					
28	Short-Term Borrowings	21,647	41,461	54,728	72,531	14,081
29	Accounts Payable and Accrued Charges	57,268	58,235	60,298	58,817	59,815
30	Current Installments of Long-Term Debt	3,650	3,650	3,650	3,650	4,400
31		<u>82,565</u>	<u>103,346</u>	<u>118,676</u>	<u>134,998</u>	<u>78,296</u>
32						
33	Deferred Income Taxes	-	1,031	1,171	999	-
34						
35		<u>\$ 702,947</u>	<u>\$ 737,761</u>	<u>\$ 763,083</u>	<u>\$ 787,465</u>	<u>\$ 806,730</u>
36						

**Notes:**

1. Property Plant and Equipment is shown net of contributions.
2. Accumulated Depreciation is shown net of amortizations on contributions.
3. Deferred Charges include the Weather Normalization Reserve.

**Newfoundland Power Inc.**

**Five Year Financial Forecast - For the Years 2002 - 2006**  
**(Based on Proposed Rate Increase of 1.39% Effective May 1, 2003)**  
**Statement of Cash Flows**  
**(000s)**

	<b>Forecast</b>				
	<u><b>2002</b></u>	<u><b>2003</b></u>	<u><b>2004</b></u>	<u><b>2005</b></u>	<u><b>2006</b></u>
1					
2	Cash From (Used In) Operations				
3	Net Income	\$ 28,370	\$ 31,507	\$ 33,105	\$ 31,485
4					\$ 25,969
5	Items Not Affecting Cash:				
6	Depreciation	35,657	29,570	30,884	32,133
7	Deferred Income Taxes	-	1,031	140	(172)
8	Weather Normalization Reserve Transfers	(1,368)	1,126	1,126	1,126
9	Amortization of Deferred Charges	235	260	260	257
10	Changes in Non-Cash Working Capital	(4,083)	371	905	(1,379)
11		<u>58,811</u>	<u>63,865</u>	<u>66,420</u>	<u>63,450</u>
12					<u>66,402</u>
13	Cash From (Used In) External Financing				
14	Net Proceeds from Long-Term Debt	74,250	-	-	-
15	Repayment of Long-Term Debt &				74,050
16	Preferred Shares	(2,900)	(3,650)	(3,650)	(3,650)
17	Short-Term Borrowings	(53,462)	19,814	13,267	17,804
18	Contributions in Aid of Construction	1,390	1,500	1,500	1,500
19		<u>19,278</u>	<u>17,664</u>	<u>11,117</u>	<u>15,654</u>
20					<u>13,450</u>
21	Cash From (Used In) Investing				
22	Net Capital Expenditures	(58,643)	(58,229)	(51,799)	(53,860)
23	Increase In Deferred Charges	(9,198)	(8,445)	(6,135)	(5,641)
24		<u>(67,841)</u>	<u>(66,674)</u>	<u>(57,934)</u>	<u>(59,501)</u>
25					<u>(60,249)</u>
26	Dividends				
27	Preference Shares	(613)	(613)	(613)	(613)
28	Common Shares	(9,495)	(14,242)	(18,990)	(18,990)
29		<u>(10,108)</u>	<u>(14,855)</u>	<u>(19,603)</u>	<u>(19,603)</u>
30					
31	Increase (Decrease) In Cash	140	-	-	-
32	Bank Indebtedness, Beginning	(140)	-	-	-
33	Cash (Bank Indebtedness), Ending	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

**Newfoundland Power Inc.**

**Five Year Financial Forecast - For the Years 2002 - 2006**  
**(Based on Proposed Rate Increase of 1.39% Effective May 1, 2003)**  
**Rate of Return on Regulated Common Equity**  
**(000s)**

		<b>Forecast</b>				
		<b><u>2002</u></b>	<b><u>2003</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>
1						
2	Earnings Applicable to Common Shares	\$ 27,757	\$ 30,894	\$ 32,492	\$ 30,872	\$ 25,356
3						
4	Non-Regulated Expenses - Net of Income Tax	<u>800</u>	<u>800</u>	<u>800</u>	<u>800</u>	<u>800</u>
5						
	Regulated Earnings Applicable to Common					
6	Shares	<u>\$ 28,557</u>	<u>\$ 31,694</u>	<u>\$ 33,292</u>	<u>\$ 31,672</u>	<u>\$ 26,156</u>
7						
8	Regulated Average Common Equity	<u>\$ 276,638</u>	<u>\$ 294,895</u>	<u>\$ 310,772</u>	<u>\$ 324,265</u>	<u>\$ 334,188</u>
9						
10						
11	Rate of Return on Regulated Common Equity	<u>10.32%</u>	<u>10.75%</u>	<u>10.71%</u>	<u>9.77%</u>	<u>7.83%</u>

Newfoundland Power Inc.

Five Year Financial Forecast - For the Years 2002 - 2006  
(Based on Proposed Rate Increase of 1.39% Effective May 1, 2003)  
Financial Analysis  
(Regulated)

	Forecast				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<u>Interest Coverage - times</u>	2.54	2.52	2.55	2.47	2.20
<u>Regulated Average Capital Structure:</u>					
Debt	54.88%	54.55%	54.15%	53.89%	54.01%
Preferred Equity	1.53%	1.45%	1.39%	1.34%	1.30%
Common Equity	43.59%	44.00%	44.46%	44.77%	44.69%
Total	100.00%	100.00%	100.00%	100.00%	100.00%
<u>Regulated Cost of Capital:</u>					
Embedded Cost of Debt	7.79%	8.32%	8.21%	8.08%	8.05%
Preferred Equity	6.31%	6.31%	6.31%	6.31%	6.31%
Common Equity	10.32%	10.75%	10.71%	9.77%	7.83%
Weighted Average Cost of Capital	8.87%	9.36%	9.30%	8.81%	7.93%
<u>Note:</u>					
Average capital structure is the average of beginning of year and end of year balances.					

**Newfoundland Power Inc.**

**Five Year Financial Forecast - For the Years 2002 - 2006**  
**(Based on Proposed Rate Increase of 1.39% Effective May 1, 2003)**

**Rate Base**  
**(000s)**

	<b>Forecast</b>				
	<b><u>2002</u></b>	<b><u>2003</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>
1					
2	Plant Investment	\$ 1,011,515	\$ 1,066,385	\$ 1,104,409	\$ 1,143,831
3					
4	<u>Deduct:</u>				
5	Accumulated Depreciation	426,970	454,368	472,405	491,403
6					
7	Contributions in Aid of Construction	20,152	20,456	20,771	21,051
8					
9	Deferred Income Taxes	-	1,031	1,171	999
10					
11	Weather Normalization Reserve	(11,267)	(10,141)	(9,015)	(7,890)
12		<u>435,855</u>	<u>465,714</u>	<u>485,332</u>	<u>505,563</u>
13					
14		575,660	600,671	619,077	638,268
15	Add - Contributions Country Homes	<u>500</u>	<u>500</u>	<u>500</u>	<u>500</u>
16					
17	Balance - Current Year	576,160	601,171	619,577	638,768
18					
19	Balance - Previous Year	<u>553,586</u>	<u>576,160</u>	<u>601,171</u>	<u>619,577</u>
20					
21	Average	564,873	588,665	610,374	629,173
22					
23	Cash Working Capital Allowance	4,687	4,972	5,074	5,110
24					
25	Materials and Supplies	<u>3,534</u>	<u>3,595</u>	<u>3,677</u>	<u>3,677</u>
26					
27	Average Rate Base	<u>\$ 573,094</u>	<u>\$ 597,232</u>	<u>\$ 619,125</u>	<u>\$ 637,960</u>
					<u>\$ 653,464</u>



Newfoundland Power Inc.

Five Year Financial Forecast - For the Years 2002 - 2006  
(Based on Proposed Rate Increase of 1.39% Effective May 1, 2003)  
Rate of Return on Rate Base  
(000s)

		Forecast				
		<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
1						
2	Return on Regulated Common Equity	\$ 28,557	\$ 31,694	\$ 33,292	\$ 31,672	\$ 26,156
3	Return on Preferred Equity	613	613	613	613	613
4		<u>29,170</u>	<u>32,307</u>	<u>33,905</u>	<u>32,285</u>	<u>26,769</u>
5						
6	<u>Finance Charges</u>					
7	Interest on Long-Term Debt	26,010	29,999	29,668	29,337	30,413
8	Other Interest	1,920	1,262	2,252	3,053	2,889
9	Interest Earned	(925)	(1,000)	(1,000)	(1,000)	(1,000)
10	Interest Charged to Construction	(300)	(216)	(191)	(199)	(194)
11	Amortization of Debt Issue Expenses	164	194	194	193	227
12	Amortization of Share Issue Expenses	<u>71</u>	<u>66</u>	<u>66</u>	<u>64</u>	<u>62</u>
13	Finance Charges	<u>26,940</u>	<u>30,305</u>	<u>30,989</u>	<u>31,448</u>	<u>32,397</u>
14						
15						
16	Return on Rate Base	<u>\$ 56,110</u>	<u>\$ 62,612</u>	<u>\$ 64,894</u>	<u>\$ 63,733</u>	<u>\$ 59,166</u>
17						
18						
19	Average Rate Base	<u>\$ 573,094</u>	<u>\$ 597,232</u>	<u>\$ 619,125</u>	<u>\$ 637,960</u>	<u>\$ 653,464</u>
20						
21						
22	Rate of Return on Rate Base	<u>9.79%</u>	<u>10.48%</u>	<u>10.48%</u>	<u>9.99%</u>	<u>9.05%</u>

Newfoundland Power Inc.

Five Year Financial Forecast

For the years 2002-2006

(Based on Proposed Rate Increase of 1.39% Effective May 1, 2003)

**Forecasts for 2002 -**  
**2006**

Specific assumptions include:

**Energy Forecasts :** Energy forecasts are based on economic indicators taken from the Conference Board of Canada forecast dated July 22, 2002. The elasticity impacts of estimated electricity rate increases resulting from the flow-through of increased purchased power costs from Hydro have been reflected in forecast energy sales.

**Revenue Forecast :** The revenue forecast is based on the Customer and Energy Sales Forecast found in Exhibit BVP-27 and rates approved by the Board as per Order P.U. 29 (2001-02), P.U. 9 (2002-03) and P.U. 22 (2002-03). Revenue for May 2003 onward is based on the proposed average rate increase of 1.39% effective May 1, 2003.

**Purchased Power :** Rates charged by Newfoundland and Labrador Hydro, in effect at January 1 2002, are used to forecast purchased power expense for January through August 2002.

Rates charged by Newfoundland and Labrador Hydro, in effect at September 1 2002, that resulted from Order P.U. 21 (2002-03), are used to forecast purchased power expense from September 2002 onward.

Beginning January 1, 2003, \$5.6 million of the 2001 balance in the Hydro Equalization Reserve is being amortized over a five year period.

**Operating Costs:** Regulatory expenses of \$1.2 million are being amortized over a three year period beginning January 1, 2003.

**Pensions :** Pension expense forecast for 2002 is based on fair market value of pension fund assets as at August 31, 2002 projected to year end. Pension expense for 2003 to 2006 is forecast using a market-related value of pension fund assets.

Pension funding is based on the latest pension valuation and is in accordance with P.U.B. approved payment schedules. Assumes special funding continues through 2006.

**Depreciation Rates :** Depreciation rates used in 2002 are those established by Order P.U. 7 (1996-97).

Depreciation rates used for 2003-2006 are based on the 2002 Depreciation Study Update dated September 5, 2002, filed with the Company's 2003 General Rate Application.

**Short-Term Interest Rates :** Average Short-term interest rates are assumed to be 2.82 per cent in 2002, 4.63 per cent in 2003 and 5.13% in 2004. Short term interest rates for 2005-2006 are the same as at December 31, 2004. No changes are assumed.

Newfoundland Power Inc.

Five Year Financial Forecast

For the years 2002-2006

(Based on Proposed Rate Increase of 1.39% Effective May 1, 2003)

**Forecasts for 2002 - 2006 (continued)**

**Long-Term Debt :** A \$75.0 million long-term debt issue is being undertaken on October 31, 2002. The debt is being issued for 30 years at an estimated coupon rate of 6.85 per cent. Debt repayments will be in accordance with the normal sinking fund provisions for current outstanding debt.

A \$75.0 million long-term debt issue is being undertaken on October 31, 2006. The debt is forecast to be issued for 30 years at an estimated coupon rate of 7.5 per cent. Debt repayments will be in accordance with the normal sinking fund provisions for current outstanding debt.

**Dividends :** Regular dividends on common and preference shares are estimated based on shares outstanding at the time of preparing this forecast.

Common dividends have been reduced by 50% in 2002 and 50% in Quarter 1 and Quarter 2 of 2003. There are no reductions in dividends forecast for the period 2004-2006.

**Income Tax :** The corporate statutory income tax rate is assumed to be 39% in 2002, 37% in 2003 and 35% thereafter.

**Accounts Receivable :** Accounts receivable are based on a percentage of sales. The allocation factor is determined based on historical averages.

**Accounts Payable :** Accounts payable is based on a percentage of operating and capital expenditures. The allocation factor is based on historical averages.

**Income Taxes Payable:** Taxes payable for 2002-2004 is derived from the forecast tax expense and tax installments. Year end taxes payable for the years 2005-2006 is forecast to be zero.

**Capital Expenditure :** Capital Expenditure for 2002-2003 is as filed in the 2003 Capital Budget Application, plus an additional \$425,000 in capital expenditures for the Company's proposed load research program. Capital Expenditure for 2004 is based on an estimate of 2004 projects. Capital Expenditure for 2005-2006 is derived from the 2004 forecast less an adjustment in 2006 for conclusion of the Aliant pole purchase.