

1 **Q. Exhibit BVP-22, page 6, Graph 2, indicates that it took over thirty (30) years to**
2 **accumulate the hydro equalization reserve balance owing from customers of \$5.6**
3 **million after tax at the end of 1996. What is the rationale in amortizing this balance**
4 **over five years instead of a longer period of time.**

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6 A. Newfoundland Power is proposing to amortize the non-reversing amount owed from
7 customers of \$5.6 million in the Hydro Production Equalization Reserve at the end of
8 2001 over a five-year period starting in 2003. After considering the impact on income
9 taxes, this will result in an increase in revenue requirements of \$1.7 million in each of
10 the five years, or less than 0.5% of total revenue requirements. In addition, this increase
11 will be partially offset by a lower rate base and cost of capital as the non-reversing
12 amount is amortized.

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14 The rationale for amortizing the \$5.6 million over five years instead of over a longer
15 period is based on fundamental regulatory principles of intergenerational equity, rate
16 stability and predictability.

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18 The appropriateness of Newfoundland Power's proposal of a five-year amortization
19 period is confirmed on page 15 (paragraph 3) of the report from J T Browne Consulting
20 entitled *Newfoundland Power – Accounting and Regulatory Issues Related to Future*
21 *Employee Benefits and the Hydro Production Equalization Reserve*. This report has been
22 filed as evidence in support of Newfoundland Power's 2003 General Rate Application.