

Q. On page 84 of the Finance and Accounting Evidence by Barry Perry please explain the justification for not recovering any of the 1992-1993 excess earnings during the period of January 1, 2003 – April 30, 2003? What would the recovery amount be if all of 2003 were taken into account?

A. Newfoundland Power is proposing that the recovery of 1992-1993 excess earnings be allocated over both 2003 and 2004. The recovery amounts for each year were determined based on the proposed rate increase of 1.39% on May 1, 2003. The amount of 1992-93 excess earnings to be recovered in 2003 was calculated from May 1 to coincide with the proposed rate increase date.

The amount to be recovered in 2004 after applying the 1.39% increase for the full year will actually result in an estimated over recovery of 1992-93 excess earnings. At the beginning of 2003 the remaining amount to be recovered is \$238,882. Exhibit BVP-28, page 2 of 2, line 22 indicates recoveries will be \$111,000 in 2003 and \$227,000 in 2004. As a result, by the end of 2004 the Company is expected to have over refunded the 1992-1993 excess earnings by approximately \$100,000.

As Newfoundland Power is proposing a May 1st, 2003 increase, the refund of the outstanding amount of \$238,882 in 2003 cannot be achieved without reducing 2004 revenue from rates by \$735,000 as indicated in Exhibit BVP-28, page 1 of 2, line 2. To reduce the negative impact on revenue from rates in 2004, the Company has proposed recovery of the remaining \$238,882 be spread over 2003 and 2004. By spreading recovery over 2003 and 2004 in this proceeding, the consumer benefits by an additional refund on account of 1992-1993 excess earnings of approximately \$100,000.

If the recovery of 1992-93 excess earnings had been based on existing revenue and not proposed revenue, the recovery amount for 2003 based on a full year and a total required recovery of \$238,882 would be calculated as follows in Table 1:

Table 1 Recovery of 1992 and 1993 Excess Earnings in 2003			
	Equity Amount on which no Return Allowed¹	Rate of Return on Common Equity²	1992-93 Excess Earnings Recovered through Existing Rates
2003 Forecast	\$1,908,000	9.05%	\$172,674
Remaining Amount to be Recovered ³			\$66,208

¹ As established in P.U. 36(1998-99).

² Rate of return on common equity currently allowed in rates.

³ Represents \$238,882 - \$172,674. Disposition of outstanding amount to be reviewed by the P.U.B. before the end of year 2003 as ordered in P.U. 36(1998-99), page 98.