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 0.96 per cent on August 1, 2003. The amount of 1992-93 excess earnings to be recovered in 2003 was calculated from August 1 to coincide with the proposed rate increase date.

The amount to be recovered in 2004 after applying the 0.96 per cent 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 $70,000 in 2003 and $219,000 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 $50,000.

As Newfoundland Power is proposing an August 1st, 2003 increase, the refund of the outstanding amount of $238,882 in 2003 cannot be achieved without reducing 2004 revenue from rates by $1,058,000 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 $50,000.

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 shown in Table 1 on page 2.

Table 1 Recovery of 1992 and 1993 Excess Earnings in 2003			
	Equity Amount on which no Return Allowed[1]	**Rate of Return on Common Equity[2]**	**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.