Q. In its Application of October 11, 2002, paragraph 12 (c), Newfoundland Power states a revenue requirement for 2003 and 2004 and in its Amended Application of February 10, 2003, that revenue requirement has been revised upward in paragraph 12(c). Please explain this discrepancy and the reasons for the same.

A. The Company states in its February 10, 2003 application that the revisions are based on current estimates of energy sales, revenues, purchased power, operating expenses, depreciation, income taxes and return on rate base.

Below is a table comparing the revenue requirement for 2003 and 2004 as per the October 11, 2002 application with the February 10, 2003 revised application:

(million's)	**2003**	**2003 revised**	**Diff.**	**2004**	**2004 revised**	**Diff.**
Return on equity	32.3	32.4	0.1	33.9	34.0	0.1
Finance charges	30.3	30.8	0.5	31.0	31.7	0.7
Depreciation	29.6	29.2	(0.4)	30.9	30.6	(0.3)
Purchased power	224.5	226.5	2.0	228.3	229.9	1.6
Operating expenses	53.1	51.8	(1.3)	54.1	52.4	(1.7)
Income taxes	16.7	16.7	0.0	17.0	17.0	0.0
	386.5	387.4	0.9	395.2	395.6	0.4
Deductions:						
Other revenue	(7.6)	(7.8)	(0.2)	(8.5)	(8.6)	(0.1)
2001 excess revenue	(0.5)	(0.5)	0.0	(0.5)	(0.5)	0.0
Non-regulated expenses (net of tax)	(0.8)	(0.7)	0.1	(0.8)	(0.7)	0.1
Revenue requirement from rates	377.6	378.4	0.8	385.4	385.8	0.4
Adjustment – 92 & 93 excess earnings	(0.2)	(0.1)	0.1	(0.4)	(0.3)	0.1
	377.4	378.3	0.9	385.0	385.5	0.5

It is our understanding of the refiled application and evidence that the significant variances can be explained as follows:

Finance charges – This increase is primarily due to the October 11, 2002 application estimating a 6.85% coupon rate on the $75 million bond financing that was scheduled to be issued in late October 2002. The February 10, 2002 application is revised to account for the actual coupon rate on these bonds of 7.52%.

Depreciation – This decrease appears to be a result of incorporating the Board's decision in Order No. P.U. 36 (2002-2003) with respect to the Company's 2003 Capital Budget, and using updated information as of the year ended December 31, 2002.

Purchased power –This category is increasing due to the increase in the sales forecast from the October 11, 2002 application to the application filed on February 10, 2003. The energy sales are forecast to increase by 33 GWhs and 25 GWhs in 2003 and 2004 respectively, as per the February 10, 2003 application in comparison to the original application. These revisions in GWh sales would result in a corresponding increase in purchased power.

Operating expenses – According to the Company, the actual 2002 operating expenses were less than the amounts forecast in the October 11, 2002 application, and the 2003 and 2004 forecast operating expenses have been reduced accordingly.

A number of the expense categories were revised in the February 10, 2003 application. The most significant decreases have occurred in the following categories:

(000's)	**2003**	**2004**
Salary costs	$125	$127
Tool and clothing allowance	118	119
Company fees	(20)	378
Vegetation mgmt	250	253
Pension costs	465	451

The information included in the Company's February 10, 2003 revised application does not specifically address the changes in the expenses noted above, other than the comments relating to the actual results from 2002 and that the salary impacts of Ms. Duke's replacement are incorporated in the revisions.