

1 **Q. Exhibit BVP-1, p. 8 of 9. Provide detailed calculations of line 10 – Interest Charged**
2 **to Construction. Reconcile this to the actual/budgeted Capital program for each of**
3 **those years.**

4
5 A. Newfoundland Power calculates Interest During Construction (IDC) on a monthly basis
6 on individual capital projects in accordance with Order No. P.U. 37 (1981) (the “Order”).

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8 The interest rate is calculated monthly in accordance with the Order, which provides as
9 follows:

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11 “For the purpose of calculating the rate to be used in determining Interest During
12 Construction NLP will use the mid point of the rate of return on rate base on the
13 percentage of funds used for net capital expenditures generated from operations and
14 the prime bank rate on the balance of the funds used. This calculation is to be
15 determined monthly.”

16
17 IDC is charged on individual work orders that have a construction period in excess of 3
18 months and expenditures in excess of \$50,000 for distribution projects, and in excess of
19 \$10,000 for other capital projects. IDC on distribution projects less than \$50,000 is based
20 on an estimated monthly average of total distribution work in progress.

21
22 IDC for individual capital projects is calculated by applying the interest rate determined
23 monthly in accordance with the Order to: (1) the expenditures to date as at the end of the
24 previous month and (2) one-half the expenditures incurred in the current month. Table 1,
25 on page 2, provides the detailed calculation of IDC for June 2002 for the Seal Cove
26 Hydroelectric Plant Penstock Replacement project.

27
28 Attachment A shows the IDC charged monthly to individual Newfoundland Power
29 capital projects for the years 1998 to 2001, and for the first six months of 2002. The
30 totals of these annual monthly charges for 1998 through 2001 appear on line 10 of
31 Exhibit BVP-1, page 8 of 9.

32
33 The forecast of IDC for 2002 contained in Exhibit BVP-1 is based on actual IDC to June,
34 supplemented by an estimate of capital project work scheduled to year-end.

35
36 The estimate of IDC for 2003 is based on a review of budgeted projects for that year.
37 Larger projects with longer anticipated construction periods are identified and their
38 budgeted costs are used to estimate IDC based on a historical allocation factor of 1%. In
39 addition, a budgeted allowance of \$100,000 is included for smaller distribution related
40 projects.

41
42 The forecast of IDC for 2004 is based on a percentage of the forecast 2004 capital
43 expenditure. The allocation factor derived from the 2003 analysis is used to estimate IDC
44 as a percentage of capital expenditure in 2004.
45

Attachment A provides a reconciliation of IDC, on an individual project basis, to Newfoundland Power's actual capital program for the years 1998 to 2001. The IDC for smaller distribution projects (less than \$50,000), to which the aforementioned budget allowance relates, is recorded monthly under project #70994.

Table 1 Detailed Calculation of IDC Seal Cove Hydroelectric Plant Penstock Replacement (Project # 79426) June 2002		
Capital Expenditures to May 31, 2002	\$44,583.85	
Full month's IDC calculated on charges from previous month	$(\$44,583.85 \times .091/12)$	\$338.09
Capital Expenditures for June 2002	\$16,332.24	
Half month's IDC calculated on charges in current month	$(\$16,332.24 \times .091/24)$	\$ 61.93
Total IDC for June		\$400.02