

1 **Q. Will the “extraordinary events” excluded in Table 4 (acquisition of Aliant support**
2 **structures and conclusion of the GEC tax matter) continue to have favorable**
3 **impacts in years 2002-2005? If so, why exclude them? Please provide a**
4 **recalculation of this table without the exclusions.**

5
6 **A. *Future Impacts of these Extraordinary Events***

7 The acquisition of Aliant support structures, and the successful conclusion of the GEC
8 tax matter, will continue to have favourable impacts for Newfoundland Power’s
9 customers for 2003-2005 and beyond. The additional revenue to Newfoundland Power
10 derived from the purchase of Aliant support structures, and reduced income tax expense
11 related to the successful conclusion of the GEC tax matter, will result in a decrease in
12 Newfoundland Power’s electrical revenue requirements by approximately \$2.0 million in
13 each of 2003 and 2004. This will in turn result in lower electrical rates charged to
14 customers. The favourable impact these two extraordinary events will have on electrical
15 rates in 2003 and 2004 is fully reflected in the Company’s revenue requirement analysis
16 provided in Exhibit BVP-26 and the forecast financial results provided in Exhibit BVP-1.

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18 ***Why Exclude these Extraordinary Events?***

19 The purpose of excluding these two extraordinary events from the pro-forma calculations
20 is to illustrate that had these events not occurred the rates of return allowed by the Board
21 for purposes of setting electrical rates for 2000 and 2001 were inadequate to maintain
22 appropriate interest coverage. The rates of return approved by the Board would not have
23 provided sufficient earnings in 2000 or 2001 to generate the minimum interest coverage
24 of 2.4 times which was recognized by the Board in Order No. P.U. 16 (1998-99) as being
25 necessary for Newfoundland Power to maintain an A bond rating.

26
27 These two extraordinary events were instrumental in preserving Newfoundland Power’s
28 financial integrity during the 2000 - 2002 period by increasing interest coverage toward
29 the midpoint of the range of 2.4 to 2.7 times approved by Order No. P.U. 16 (1998-99).
30 As shown in Table 4 on page 14 of the Finance and Accounting Evidence, rates of return
31 on both rate base and equity would also have been significantly lower had the treatment
32 of GEC for income tax purposes not been resolved, and the purchase of Aliant support
33 structures not occurred. In addition, these events provided excess revenues of \$6.6
34 million in 2000 and \$0.9 million in 2001 that benefited Newfoundland Power’s
35 customers.

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37 ***Comparable Data Without Exclusions***

38 Table 4 on page 14 of the *Finance and Accounting Evidence* summarizes the impact of
39 both the Aliant pole purchase and the resolution of the GEC tax matter on Newfoundland
40 Power’s financial results for 2000, 2001 and forecast 2002.

41
42 Actual results for 2000, 2001 and forecast 2002 are provided in Table 4 in comparison to
43 pro-forma results calculated based on the exclusion of these two extraordinary events.

44 The detailed analysis of the financial impacts of these two extraordinary events for these
45 years, which supports the results summarized in Table 4, can be found in Exhibit BVP-2.