

1 **Q. RATE BASE**2  
3 **PUB 35.0 (RE: Rate Base – Volume I, Schedule D)**4  
5 **PUB 35.1**6 **Provide an explanation of the “Deferred Income taxes” as shown in Schedule D, and**  
7 **reconcile the same to the “Deferred Income Taxes” as shown in Table 6 of the**  
8 **“Report on Deferred Charges and Rate Base”.**  
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- 10 A. Generally, the Newfoundland Power records income taxes on a tax payable (cash) basis -
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- 11 sometimes referred to as the flow through basis. However, Order No. P.U. 21 (1980) does
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- 12 provide for the difference between
- depreciation**
- (the amortization of fixed assets for
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- 13 accounting purposes) and
- Capital Cost Allowance (CCA)**
- (the amortization of fixed
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- 14 assets for income tax purposes) to be recorded as on an accrual basis. From time to time,
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- 15 this results in Newfoundland Power recording deferred income taxes. Deferred taxes
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- 16 result when the calculation of CCA exceeds the calculation of depreciation expense.
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18 In Order No. 19 (2003) the Board approved the Company’s proposal to amortize the  
19 depreciation reserve variance, determined from the 2002 depreciation study, over a three-  
20 year period, 2003–2005. This resulted in a depreciation expense reduction of  
21 approximately \$5.8 million in each of these years. As a result, CCA exceeded depreciation  
22 expense in 2003 by approximately \$2.7 million. The taxes related to this are the \$988,000  
23 recorded in Schedule D.  
2425 Deferred income taxes are deducted from the calculation of rate base in Schedule D as they  
26 represent taxes recorded but not paid in the current year and as such did not require financing.  
2728 The Deferred Income Taxes shown in Table 6 of the *Report on Deferred Charges and*  
29 *Rate Base* provides the *average* deferred income taxes for the year. Schedule D on the  
30 other hand uses the *year end* balance of deferred income tax.  
3132 A reconciliation of Schedule D to Table 6 in the *Report on Deferred Charges and Rate*  
33 *Base* is provided in the Table below. The average deferred income taxes are the simple  
34 average of the current year end balance plus the previous year end balance. For example,  
35 the average deferred income taxes for 2003 is  $(\$988,000 + \$0) / 2 = \$494,000$ .  
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Newfoundland Power Inc. Deferred Income Taxes (\$000s)				
	2002	2003	2004	2005
Year-end Balance	-	988	1,425	1,208
Average	-	494	1,207	1,317