

In The Matter of the Public Utilities Act,
R.S.N.L. 1990, c. 1990, c. P-42

And

In The Matter of an Accounting Application by
Newfoundland Power Inc. filed on September
29, 2005

INFORMATION REQUESTS

To: Newfoundland Power Inc.
55 Kenmount Road
P.O. Box 8910 St. John's, NL A1B 3P6

Attention: Mr. Peter Alteen/Ian Kelly, Q.C.

CA 1.0 NP

Reference: 2006 Accounting Policy Application, para. 15 (i)
Exhibit NP-6, *Pro Forma* Comparison of Recovery Alternatives

Preamble: NP proposes that: "the amount of \$9,579,000 be recognized in 2006 to satisfy the increased forecast 2006 depreciation expense described in paragraph 13 together with appropriate tax effects".

A *Please confirm that the "appropriate tax effects" referred to at paragraph 15(i) are not tax effects related to recognizing 2005 Unbilled Revenue, but are the taxes payable under the tax settlement (see Exhibit NP-6 under Unbilled Revenue).*

CA 2.0 NP

Reference: 2006 Accounting Policy Application, para. 15 (i)
Exhibit NP-15, NP Forecast 2006 Financial Results

Preamble: NP proposes that: "the amount of \$9,579,000 be recognized in 2006 to satisfy the increased forecast 2006 depreciation expense described in paragraph 13 together with appropriate tax effects".

- A ***Please confirm that if 2006 costs other than depreciation were forecast to decline (or if revenues were forecast to increase) by enough to fully offset the increase in forecast 2006 depreciation expense plus the 2006 tax effect of the tax settlement (e.g., operating costs decline by \$10,036,000), the financial results for “2006 Existing” in Exhibit NP-15 would show a rate of return on rate base of 8.56%.***

CA 3.0 NP

Reference: 2006 Accounting Policy Application, para. 15 (i)
Exhibit NP-15, NP Forecast 2006 Financial Results

Preamble: NP proposes that: “the amount of \$9,579,000 be recognized in 2006 to satisfy the increased forecast 2006 depreciation expense described in paragraph 13 together with appropriate tax effects”.

- A ***In the hypothetical situation described in CA 2.0 NP, would NP still consider it appropriate to recognize \$9,579,000 of the 2005 Unbilled Revenue to offset the increased forecast 2006 depreciation expense and the income tax expense resulting from the tax settlement? If so, please provide a revised version of NP-15 for the hypothesized scenario showing the rate of return on rate base both with and without the 2005 Unbilled Revenue and explain the company’s rationale for recognizing the 2005 Unbilled Revenue when it results in Excess Earnings.***

CA 4.0 NP

Reference: 2006 Accounting Policy Application, para. 15 (iii)

Preamble: NP proposes that “the disposition of the forecast remaining balance of \$14,388,400 be determined by the Board in a future order.”

- A ***Based on NP’s current financial projections, when does the Company anticipate that it shall seek the Board’s determination as to the disposition of some or all of the remaining balance of the forecast \$14,388,400.***

CA 5.0 NP

Reference: 2006 Accounting Policy Application, para. 15 (iii)

Preamble: NP proposes that “the disposition of the forecast remaining balance of \$14,388,400 be determined by the Board in a future order.”

- A ***Is it the view of NP that it would be in the interest of ratepayers to avoid a rate increase in 2007 and subsequent years by recognizing some or all of the forecast***

remaining balance of the 2005 Unbilled Revenue (\$14,388,400) thereby increasing NP's rate of return on rate base as required to ensure it is within the approved rate of return range each year until the 2005 Unbilled Revenue is fully depleted. Please explain the Company's position. If this is NP's view, please explain the circumstances, if any, under which NP would file a General Rate Application prior to the remaining 2005 Unbilled Revenue balance declining to zero?

CA 6.0 NP

Reference: 2006 Accounting Policy Application, para. 15 (iii)

Preamble: NP proposes that "the disposition of the forecast remaining balance of \$14,388,400 be determined by the Board in a future order."

A *Based on NP's current financial projections, when does the Company expect to file its next General Rate Application?*

CA 7.0 NP

Reference: 2006 Accounting Policy Application, para. 20

Preamble: NP is not requesting a PUB determination that either the forecast revenue requirement or the return on rate base is just and reasonable.

A *Is NP of the view that a pre-condition for recognizing 2005 Unbilled Revenue in any year is that the company's rate of return on rate base would be below the lower end of the approved range in the absence of the 2005 Unbilled Revenue Accrual? If not, please explain the company's rationale.*

CA 8.0 NP

Reference: 2006 Accounting Policy Application, para. 20

Preamble: NP is not requesting a PUB determination that either the forecast revenue requirement or the return on rate base is just and reasonable.

A *Is NP asking the PUB to make a determination that there is a revenue deficiency for 2006 based on its 2006 Accounting Policy Application?*

CA 9.0 NP

Reference: 2006 Accounting Policy Application, para. 20
2003 Rate Application, Revision 1, paragraphs 12(c) and 17(d)

Preamble: NP is not requesting a PUB determination that either the forecast revenue requirement or the return on rate base is just and reasonable.

A *Please confirm that in seeking an order “pursuant to Sections 70 and 80 of the Act, [for] rates, tolls and charges based upon a just and reasonable return on rate base as set out in paragraph 12 of the Application” (2003 Rate Application, Revision 1, para. 17(d)), the requested order was based on “a forecast revenue requirement to be recovered from electrical rates, following implementation of the proposals set out in paragraphs 9, 10 and 11 of the Application, of \$378,327,000 for 2003 and \$385,490,000 for 2004” (2003 Rate Application, Revision 1, para. 12(c)).*

CA 10.0 NP

Reference: 2006 Accounting Policy Application, para. 20

Preamble: NP is not requesting a PUB determination that either the forecast revenue requirement or the return on rate base is just and reasonable.

A *Is NP of the view that a Board order setting rates that are just and reasonable is premised on a determination as to the revenue requirement and return on rate base that is just and reasonable? If not, please explain the company’s position.*

CA 11.0 NP

Reference: 2006 Accounting Policy Application, para. 20

Preamble: NP is not requesting a PUB determination that either the forecast revenue requirement or the return on rate base is just and reasonable.

A *Is NP of the view that it would be contrary to the PUB’s accepted regulatory practice as described in Order P.U. 19 (2003) to approve a rate increase in the absence of a General Rate Application that allows the Board to make a determination that the company’s revenue requirement is just and reasonable? If not, please explain the company’s position.*

CA 12.0 NP

Reference: 2006 Accounting Policy Application, para. 20

Preamble: NP is not requesting a PUB determination that either the forecast revenue requirement or the return on rate base is just and reasonable.

A *Is NP or its expert consultant, John Browne, aware of any regulatory decisions/ precedents in Canada or the United States which have approved the use of*

unrecognized unbilled revenue to offset a forecasted revenue shortfall in the absence of a full GRA or some other review of forecast costs that allows the regulator to make a determination that the utilities total costs underpinning the revenue deficiency being offset are just and reasonable? Please provide details.

CA 13.0 NP

Reference: Company Evidence, p. 28 (section 3.3.1 Asset Rate Base Method ("ARBM"))

Preamble: NP states: "The working capital included in rate base is an allowance based upon a study that examines timing differences between receipt of revenue and payment of expenses [footnote: Commonly referred to as a lead/lag study]."

A *Please confirm that NP's cash working capital is not based on a lead/lag study.*

CA 14.0 NP

Reference: Company Evidence, p. 28 (section 3.3.1 Asset Rate Base Method ("ARBM"))

Preamble: NP states: "The working capital included in rate base is an allowance based upon a study that examines timing differences between receipt of revenue and payment of expenses [footnote: Commonly referred to as a lead/lag study]."

A *Does NP intend to undertake a lead/lag study as the basis for determining the cash working capital requirement in the future? If so, does NP intend to complete a lead/lag study prior to the next rate case?*

CA 15.0 NP

Reference: Exhibit NP-1 (Tax Settlement between Newfoundland Power Inc. and the Minister of National Revenue dated June 1, 2005)

A *When were the terms of the Tax Settlement reached as opposed to when they were formalized by the written agreement dated June 1, 2005?*

CA 16.0 NP

Reference: Exhibit NP-1 (Tax Settlement between Newfoundland Power Inc. and the Minister of National Revenue dated June 1, 2005)

A *Please provide details as to all costs incurred by Newfoundland Power, specified by period, in connection with its appeals referred in the Out of Court Settlement.*

CA 17.0 NP

Reference: Exhibit NP-1 (Tax Settlement between Newfoundland Power Inc. and the Minister of National Revenue dated June 1, 2005), paragraph 9.

A *Was a date scheduled for the hearing of Newfoundland Power's tax appeals (i.e. in causes 2003-39 (IT) G and 2003 -42 (IT) G) to the Tax Court of Canada, and if so, what was the scheduled date and when was Newfoundland Power advised of the same?*

CA 18.0 NP

Reference: Exhibit NP-1 (Tax Settlement between Newfoundland Power Inc. and the Minister of National Revenue dated June 1, 2005), paragraph 9.

Preamble: The Tax Settlement states that NP “has also represented and agreed” that it will include a third of the unbilled revenue outstanding as at Dec. 31, 2005 in the computation of its taxable income for each of its 2005, 2006 and 2007.

A *As part of the Out of Court Settlement, did NP propose this time frame for inclusion of this unbilled revenue in income? If so, why?*

CA 19.0 NP

Reference: Exhibit NP-1 (Tax Settlement between Newfoundland Power Inc. and the Minister of National Revenue dated June 1, 2005), paragraph 9.

Preamble: The Tax Settlement states that NP “has also represented and agreed” that it will include a third of the unbilled revenue outstanding as at Dec. 31, 2005 in the computation of its taxable income for each of its 2005, 2006 and 2007.

A *What other time frames were also acceptable to the Minister and why were these alternatives not pursued?*

CA 20.0 NP

Reference: Exhibit NP-3, p. 9
Evidence of JT Browne, p. 16

Preamble: NP states: “Cash flow and related metrics are crucial measures used by investors and credit analysts to assess the financial health of Newfoundland Power. Therefore, Newfoundland Power’s recognition of Unbilled Revenue is limited by the resulting cash impacts and their effect on the Company’s financial integrity.”

- A ***Please provide an analysis showing (i) the impact of full recognition in one year on all relevant “cash flow and related metrics [that] are used by investors and credit analysts to assess the financial health of Newfoundland Power”, (ii) evidence that the resulting metrics would compromise the financial integrity of the company, and (iii) evidence that the resulting metrics would result in a reduction in NP’s credit rating or would otherwise increase the company’s cost of capital or access to capital.***

CA 21.0 NP

Reference: Exhibit NP-9, Table 1 (Reconciliation of Average Invested Capital and Average Rate Base, 2004 Test Year) and Table 4 (*Pro Forma* Reconciliation of Average Invested Capital and Average Rate Base, 2006-2009)

PUB 10.0 NP

Preamble: NP-9 Table 1 shows “Corporate Income Tax Deposit” in the amount of \$6,674,000 as one of the reconciling items. Table 4 shows that the deposit is reduced to zero.

Question PUB 10.0 states: “It was noted in NP’s Quarterly Report issued for the period ended June 30, 2005 Tab 1, page 7, that the increase in revenue is partially due to the \$2.1 million of interest revenue arising from the tax settlement.”

- A ***Please provide a table showing (i) the accrued amount of the corporate income tax deposit from the first year that it arose until 2005 and (ii) the disposition of the full amount of the 2004 corporate income tax deposit of \$6,674,000.***

CA 22.0 NP

Reference: Exhibit NP-9, Table 1 (Reconciliation of Average Invested Capital and Average Rate Base, 2004 Test Year) and Table 4 (*Pro Forma* Reconciliation of Average Invested Capital and Average Rate Base, 2006-2009)

PUB 10.0 NP

Preamble: NP-9 Table 1 shows “Corporate Income Tax Deposit” in the amount of \$6,674,000 as one of the reconciling items. Table 4 shows that the deposit is reduced to zero.

Question PUB 10.0 states: "It was noted in NP's Quarterly Report issued for the period ended June 30, 2005 Tab 1, page 7, that the increase in revenue is partially due to the \$2.1 million of interest revenue arising from the tax settlement."

- A ***Please provide a table showing, for each year in which the corporate income tax deposit was non-zero, the deposit amount that was reflected in (i) average invested capital and (ii) average rate base. Also show in the table the rate of return earned in each year and the effective amount included in NP's revenue requirement in each year. Please include details of any loans that were incurred specifically to finance the corporate income tax deposit, showing the interest incurred in each year, and explain the method by which the interest incurred on these loans was recovered by NP.***

CA 23.0 NP

Reference: Exhibit NP-9, Table 1 (Reconciliation of Average Invested Capital and Average Rate Base, 2004 Test Year) and Table 4 (*Pro Forma* Reconciliation of Average Invested Capital and Average Rate Base, 2006-2009)

PUB 10.0 NP

Preamble: NP-9 Table 1 shows "Corporate Income Tax Deposit" in the amount of \$6,674,000 as one of the reconciling items. Table 4 shows that the deposit is reduced to zero.

Question PUB 10.0 states: "It was noted in NP's Quarterly Report issued for the period ended June 30, 2005 Tab 1, page 7, that the increase in revenue is partially due to the \$2.1 million of interest revenue arising from the tax settlement."

- A ***Does NP consider it to be appropriate to credit the \$2.1 million interest revenue in a manner that corresponds to the incidence of the capital costs associated with the corporate income tax deposit? If not, please explain the rationale for NP's position.***

CA 24.0 NP

Reference: NP-14, Forecast Financial Statements, page 5.

Preamble: NP's Forecast Financial Statements notes that "The revenue forecast is based on the Customer and Energy Sales Forecast dated March 31, 2005."

- A ***Has NP prepared an update to its March 31, 2005 sales forecast and resulting revenue forecast for 2006? If so, please provide the updated forecasts.***

CA 25.0 NP

Reference: NP-14, Forecast Financial Statements, page 5

Preamble: NP's Forecast Financial Statements notes that "Average Short-term interest rates are assumed to be 3.25% in 2005 and 4.00% in 2006."

A *Please provide a current forecast for short-term interest rates for 2006 and explain the definition used for the 2006 average short-term interest rate and the method used to derive NP's current forecast.*

CA 26.0 NP

Reference: NP-14, Forecast Financial Statements
NP-15, Forecast 2006 Financial Results

Preamble: NP's Forecast Financial Statements notes that "The revenue forecast is based on the Customer and Energy Sales Forecast dated March 31, 2005."

NP's Forecast Financial Statements notes that "Average Short-term interest rates are assumed to be 3.25% in 2005 and 4.00% in 2006."

A *Please provide an update to the Forecast 2006 Financial Results (NP-15) based on the latest updates for all major inputs and assumption identified at Exhibit NP-14, page 5 and identify the impact on the forecast 2006 financial results of each input/assumption that has changed.*

CA 27.0 NP

Reference: Evidence of JT Browne, page 14 and 20.

Preamble: Mr. Browne states at page 14 that "NP has asked me whether its proposed treatment of the UUR in 2006 is consistent with established regulatory principles".

Mr Browne concludes at page 20 that "NP's proposal to use \$9.6 million of the UUR to reduce its revenue requirement in 2006 is consistent with the principle of intergenerational equity, is not expected to result in any material rate instability and is not expected to materially jeopardize its financial integrity."

A *Is it the opinion of JT Browne that no treatment of UUR, other than the recognition of \$9.6 million in 2006 proposed by NP, would be "consistent with established regulatory principles"?*

CA 28.0 NP

Reference: Evidence of JT Browne, page 14 and 20.

Preamble: Mr. Browne states at page 14 that "NP has asked me whether its proposed treatment of the UUR in 2006 is consistent with established regulatory principles".

At page 20 Mr. Browne concludes that "NP's proposal to use \$9.6 million of the UUR to reduce its revenue requirement in 2006 is consistent with the principle of intergenerational equity, is not expected to result in any material rate instability and is not expected to materially jeopardize its financial integrity."

- A ***Would it be reasonable to characterize any treatment of the UUR that "is consistent with the principle of intergenerational equity, is not expected to result in any material rate instability and is not expected to materially jeopardize its financial integrity" would be "consistent with established regulatory principles"?***

CA 29.0 NP

Reference: Evidence of JT Browne, page 15.

Preamble: Mr Browne states "If NP were to seek the \$9.6 million through an increase in rates, it would require an additional \$15 million in revenues. The difference between the \$9.6 million and the \$15 million (\$5.4 million) would represent the increase in taxes associated with the revenues necessary to provide \$9.6 million. However, since the \$9.6 million will be covered by recognizing a portion of the UUR, there will be no additional taxes. NP must pay the tax on the UUR at December 31, 2005 over three years, whether or not it recognizes any of the UUR for rate setting purposes."

- A ***Please confirm that this difference arises because NP uses the flow through method for recognizing corporate income taxes for rate-setting purposes.***

CA 30.0 NP

Reference: Evidence of JT Browne, page 15.

Preamble: Mr Browne states "If NP were to seek the \$9.6 million through an increase in rates, it would require an additional \$15 million in revenues. The difference between the \$9.6 million and the \$15 million (\$5.4 million) would represent the increase in taxes associated with the revenues necessary to provide \$9.6 million. However, since the \$9.6 million will be covered by recognizing a portion of the UUR, there will be no additional taxes. NP must pay the tax on the UUR at December 31, 2005 over three years, whether or not it recognizes any of the UUR for rate setting purposes."

- A ***Please confirm that if the \$9.6 million in 2005 Unbilled Revenue is not utilized in 2006, the full \$24,262,400 of 2005 Unbilled Revenue will be available to be recognized in future years in lieu of rate increases and that the tax gross-up on the avoided rate increases will be avoided whenever the 2005 Unbilled Revenue is recognized in lieu of rate increases.***

CA 31.0 NP

Reference: PUB 1.0 NP

Preamble: NP states: "While cost management was indicated to be a key part of the Company's overall strategy of rate stability, no specific options were identified to deal with the anticipated 2006 shortfall at that time."

- A ***What specific cost management measures, if any, have been identified and considered since the General Rate Application filed October 11, 2002 to deal with the shortfall in revenue requirement in the 2006 and 2007 years? If no specific cost management measures have been considered, why is this the case?***

CA 32.0 NP

Reference: PUB 1.0 NP

Exhibit NP-14, page 1, Statement of Earnings, 2005 and 2006
2003 Rate Application, CA-200. Attachment A (1st Revision)

Preamble: NP states: "While cost management was indicated to be a key part of the Company's overall strategy of rate stability, no specific options were identified to deal with the anticipated 2006 shortfall at that time."

- A ***Please provide a reconciliation between the forecast Income Statement for 2006 contained in NP's 2003 Rate Application, CA-200. Attachment A (1st Revision) and the forecast Statement of Earnings for 2006 that appears at Exhibit NP-14, page 1 of the current Application. Please highlight the cost drivers that have resulted in a lower rate of return on rate base in the current forecast although contribution is almost \$4 million higher and earnings applicable to common shares are more than \$3.2 million higher.***

CA 33.0 NP

Reference: PUB 3.0 NP.

Preamble: NP states: "By the end of November 2005, the Company expects to file an application concerning operation of the Formula for 2006."

- A ***Could the anticipated application include a request for an increase in rates for 2006 if the request for recognition of \$9.6 million in 2005 Unbilled Revenue in the current application is (i) approved or (ii) denied.***

CA 34.0 NP

Reference: PUB 8.0 NP, Attachment A
P.U. 37 (2000-2001)

Preamble: NP's response states that under the Full Recognition Scenario "the entire forecast 2005 accrued revenue of \$24,262,000 would be recognized for regulatory purposes in 2006." Of this amount \$12,447,000 is treated as additional revenue for regulatory purposes (2005 Unbilled Revenue Accrual on line 5) which would increase the rate of return on rate base and the regulated return on book equity (lines 31 and 32) to the maximum allowed. The remaining \$11,815,000 appears as Excess Earnings (line 27).

A *Under the Full Recognition Scenario would NP consider it appropriate to dispose of the excess earnings through a customer rebate in 2006 as was done in the case of the balance in NP's Excess Revenue Account as at December 31, 2000 (P.U. 37 (2000-2001)? If NP would not consider a customer rebate to be appropriate under this scenario please explain the Company's view.*

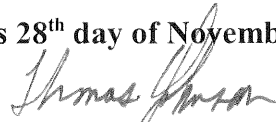
CA 35.0 NP

Reference: PUB 8.0 NP, Attachment A

Preamble: NP's response states that under the Full Recognition Scenario "the entire forecast 2005 accrued revenue of \$24,262,000 would be recognized for regulatory purposes in 2006." Of this amount \$12,447,000 is treated as additional revenue for regulatory purposes (2005 Unbilled Revenue Accrual on line 5) which would increase the rate of return on rate base and the regulated return on book equity (lines 31 and 32) to the maximum allowed. The remaining \$11,815,000 appears as Excess Earnings (line 27).

A *If under either scenario shown in this response (NP Proposal or the Full Recognition Scenario) NP's actual return in 2006 were to exceed the allowed maximum, would NP consider it appropriate for the excess earnings to be added to the Excess Revenue Account for future disposition at some point in time after the NP's actual return is known? If not, please explain.*

Dated at St. John's, Newfoundland and Labrador, this 28th day of November, 2005



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