

1 **Q. In the financial statements filed in Exhibits NP-14 and NP-15, NP has provided**
2 **forecast figures for 2005 and 2006 as a means of evaluating the effect that its**
3 **proposed changes would have on the financial performance of the Company. Since**
4 **these forecast figures differ from the 2004 test year, what argument does NP put**
5 **before the Board in support of using these forecast figures, in the absence of a full**
6 **review of the revenue requirement, to make a determination on this Application?**
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8 A. A review of revenue requirements is completed within the context of a general rate
9 hearing for the purpose of adjusting customer rates. In the 2006 Accounting Policy
10 Application, Newfoundland Power is not requesting a change in customer rates. A
11 review of revenue requirements is therefore not required to make a determination on the
12 2006 Accounting Policy Application.
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14 In the 2006 Accounting Policy Application, Newfoundland Power is proposing a change
15 in accounting policy that will make it consistent with other Canadian utilities. The
16 Company is also proposing that an accounting accrual be used to offset a forecast 2006
17 revenue shortfall resulting from increased depreciation expense and income tax effects in
18 that year. The Company has provided forecast financial results in Exhibits NP-14 and
19 NP-15 to demonstrate to the Board the overall effect, and reasonableness, of the
20 Company's proposals.
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22 The Board's reliance on forecasts to assist in determining reasonableness of proposals
23 before it is common.
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25 The Board has previously approved accounting policy changes for Newfoundland Power
26 without the complexity of a general rate hearing or a full review of forecast costs; most
27 notably, approval of the incremental method of determining General Expenses Capital
28 ("GEC") in Order No. P.U. 3 (1995-96). In making a determination on the GEC
29 application, the Board assessed the reasonableness of the Company's accounting policy
30 proposals based on financial forecasts as presented, and given that the Company
31 indicated a general rate proceeding was expected in 1996.
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33 The Board has also noted the benefits of having authority to approve changes in
34 forecasts, such as the forecast values of rate base and invested capital which are approved
35 outside the context of a full cost of capital hearing or general rate application. In Order
36 No. P.U. 36 (1998-99), the Board stated that if test year values for the Automatic
37 Adjustment Formula (the "Formula") became inappropriate, the Board will adjust them
38 after hearing evidence at a capital budget hearing, a hearing pursuant to section 91 of the
39 *Public Utilities Act*, or any other hearing where evidence can be taken as to the need for
40 adjustments to any of the dependent variables in the Formula.
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42 In summary, forecasts are routinely relied upon by the Board to assist in determining the
43 reasonableness of proposals before it. Exhibits NP-14 and NP-15 have been provided
44 with the 2006 Accounting Policy Application for this purpose.