

1 **Q. Reference: “2020 Capital Budget Application,” Newfoundland Power Inc., July 5,**  
2 **2019, Newfoundland Power’s response to NLH-NP-019, Attachment A**  
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4 **Please confirm that both the Full Cost and Incremental methods for calculating**  
5 **General Expenses Capitalized were acceptable under generally accepted accounting**  
6 **practices for use in determining Newfoundland Power’s annual financial statements.**  
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8 A. This is not confirmed.  
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10 In preparing its annual financial statements, the Company follows accounting principles  
11 generally accepted in the United States (“U.S. GAAP”). Under U.S. GAAP, a rate  
12 regulated entity may, with the approval of its regulator, capitalize costs that normally  
13 would be expensed, if those costs are allowable costs for rate-making purposes, and are  
14 expected to be recovered from customers in future rates.<sup>1</sup>  
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16 In Order No. P.U. 3 (1995-96), the Board approved a change in the basis of  
17 Newfoundland Power’s allocation of costs to General Expenses Capitalized (“GEC”)  
18 from the full cost method to the incremental cost method of allocation, and approved the  
19 guidelines used by the Company to determine GEC.<sup>2</sup>  
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21 In its allocation of costs to GEC, Newfoundland Power complies with Order No. P.U. 3  
22 (1995-96) and other relevant orders of the Board.<sup>3</sup>

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<sup>1</sup> See *ASC 980 Regulated Operations*. “Allowable costs” may be actual or estimated costs, and there must be reasonable assurance that the regulator will permit recovery of the costs in rates.

<sup>2</sup> For the Board’s views regarding the full cost method versus the incremental cost method in the context of its decision, see Order No. P.U. 3 (1995-96), pages 13-14.

<sup>3</sup> The Board approved a change in the Company’s accounting practices regarding capitalization of pension expense in Order No. P.U. 2 (2019).