

**IN THE MATTER of the Public Utilities Act,  
(the "Act"); and**

**IN THE MATTER of an application by  
Newfoundland Power Inc. for an order  
pursuant to Sections 58, 78 and 80 of the Act:**

- (a) approving a certain amortization and the deferred recovery of certain costs for 2007; and**
- (b) approving forecast values for rate base and invested capital for use in the automatic adjustment formula for the calculation of the rate of return on rate base for 2007 pursuant to Order No. P.U. 19 (2003).**

**Requests for Information of the Consumer Advocate  
November 8<sup>th</sup>, 2006**

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

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

**2007 Income Tax**

**Preamble:**

P.U. 40(2005) indicates that the 2005 Unbilled Revenue figure is \$24.3 million and the tax effect in 2006 and 2007 of the recognition of the 2005 Unbilled Revenue is \$2.921 million.

NP's adoption of the Accrual Method of revenue recognition for regulatory purposes will result in an accounting accrual of approximately \$24.3 million at the end of 2005, as set out in Exhibit NP-4 (the "2005 Unbilled Revenue"). (P.U. 40(2005), 8:9-11)

...

Under the terms of the tax settlement NP will recognize for tax purposes 1/3 of the 2005 Unbilled Revenue in each of 2006, 2007 and 2008. This will result in additional income taxes of \$3,086,000 in 2006, and a similar amount in each of the following years. (Exhibit NP-2). The final 2006 income tax effects include i) \$2.921 million related to the recognition of the 2005 Unbilled Revenue for income tax purposes equally over 2006-2008, and ii) \$165,000 related to the adoption of the Accrual Method of revenue recognition for income tax purposes in 2006. (P.U. 40(2005), 13:25-31)

The Newfoundland Power – 2007 Amortization and Cost Deferrals Application (“NP 2007 Application”) states that the 2005 Unbilled Revenue is \$23.6 million and the tax effect in 2007 of the recognition of the 2005 Unbilled Revenue is \$2.714 million.

The January 1, 2006 adoption of the accrual method of revenue recognition for regulatory purposes gave rise to an accounting accrual for 2005 unbilled revenue of approximately \$23.6 million (the “2005 Unbilled Revenue”). (NP Evidence, 2:19-21)

The \$23.6 million figure also appears in footnote 7 at page 6 of the Application.

The Grant Thornton Report dated 24 October 2006 (“GT Report”) states that the 2005 Unbilled Revenue is \$22.5 million.

According to the Company, the 2005 Unbilled Revenue was calculated to be \$22,539,020.<sup>1</sup> (GT Report, page 2)

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<sup>1</sup> In what appears to be a typographical error, the figure \$22,529,020 appears later in the same paragraph.

CA 1.0 NP Please confirm that the basis of the Board's acceptance of "NP's proposal to recognize \$3,086,000 of the 2005 Unbilled Revenue in 2006 to offset the income tax effects associated with the tax settlement" (P.U. 40 (2005), 14:25-26) was that "The final 2006 income tax effects include i) \$2.921 million related to the recognition of the 2005 Unbilled Revenue for income tax purposes equally over 2006-2008, and ii) \$165,000 related to the adoption of the Accrual Method of revenue recognition for income tax purposes in 2006." (P.U. 40 (2005), 13:28-31).

CA 2.0 NP Please confirm that NP's proposal to "amortize \$2,714,000 of the 2005 Unbilled Revenue as revenue for regulatory purposes in 2007" (NP 2007 Application, 6:4-5) is based on the updated 2005 Unbilled Revenue figure of \$22,539,020 identified in the GT Report. If not, please provide a calculation showing how the \$2,714,000 was derived.

CA 3.0 NP Please explain the source and relevance of the 2005 Unbilled Revenue figure of "approximately \$23.6 million (the '2005 Unbilled Revenue')" that appears in the NP 2007 Application at page 2, line 21.

CA 4.0 NP Please provide the most current calculation for the 2005 Unbilled Revenue in a schedule that corresponds to Exhibit NP-4 in last year's application. In the schedule, identify any values that are not yet final and therefore might be revised in future applications.

CA 5.0 NP Please confirm that based on a 2005 Unbilled Revenue figure of \$22,539,020 the actual tax expense incurred in 2006 due to the tax settlement was \$2,714,000, which is \$207,000 less than "the \$2.921 million related to the

recognition of the 2005 Unbilled Revenue for income tax purposes equally over 2006-2008." (P.U. 40(2005), p. 13).

CA 6.0 NP Does NP agree that the amount of the 2005 Unbilled Revenue that was recognized for regulatory purposes in 2006 exceeded the actual income tax effect of the tax settlement by \$207,000? If NP does not agree, please explain the company's position.

CA 7.0 NP Does NP consider it appropriate to adjust the Unamortized 2005 Unbilled Revenue figure of \$17,536,000 as calculated in footnote 7 at page 6 of the NP 2007 Application so that customers recover the excess amortization that occurred in 2006 due to the variance in NP's Forecast 2005 Unbilled Revenue contained in its 2006 Application. If not, please explain the company's position.

### **2007 Depreciation True-up Deferral**

#### **Preamble:**

NP states in footnote 9 at page 7 of the NP 2007 Application:

Newfoundland Power's 2006 depreciation study, which is based on plant in service at December 31, 2005, indicates an accumulated depreciation reserve variance of \$694,920 (amount greater than the 5% tolerance threshold). It is expected that the 2006 depreciation study will be considered at the Company's next GRA.

CA 8.0 NP Please confirm that at the time of NP's 2006 Application, NP expected that it would be filing a full revenue requirement application for 2007 rates and that a 2007 Depreciation True-up Deferral would not be required.

- CA 9.0 NP Please confirm that if NP's proposed 2007 depreciation true-up deferral is approved, the accumulated depreciation true-up deferral (i.e., 2006 and 2007) will be in excess of \$11,586,000.
- CA 10.0 NP Please provide NP's current estimate of the total accumulated value of the depreciation true-up deferrals for 2006 and 2007 that will have to be recovered from customers in 2008 and subsequent years.
- CA 11.0 NP Please provide NP's best estimate of rate impact of disposing of the accumulated depreciation true-up deferral commencing in 2008 over a period of (i) one year, (ii) two years and (iii) three years.
- CA 12.0 NP Is the 2006 depreciation study "accumulated depreciation reserve variance of \$694,920" mentioned in footnote 9 a positive or negative variance and will it therefore result in (i) an increase or decrease in NP's depreciation expense and (ii) an increase or offset to the accumulated depreciation true-up deferral account?
- CA 13.0 NP Does NP intend to propose in its 2008 rates application that the over- or under-recovery of depreciation in 2007 based on the 2006 depreciation study be taken into account in determining the value of the accumulated depreciation true-up deferrals to be recovered from customers?

### **2007 Replacement Energy Cost Deferral**

#### **Preamble:**

GT Report states at page 3 that:

Based on our discussions with the Company, there are no cost savings expected during the construction phase in 2007 to offset the forecast replacement energy costs that will have to be incurred.

CA 14.0 NP Please provide a current update to NP's estimate of the cost of replacement energy and explain the cause of any difference from the estimate contained in the NP 2007 Application. In the cost estimate please show:

- (a) the impact on the cost estimate of the Project being ahead of schedule so the production of water power can be accelerated resulting in the need for less power purchases from NL Hydro, and
- (b) any change in the spill estimate as compared to the filing.

CA 15.0 NP Please provide a schedule detailing the maximum extent to which NP can utilize increased hydro production from its other hydraulic generation facilities to make up the spill from the Rattling Brook facility during the refurbishment project under normal rainfall and flow conditions to reduce the amount of replacement energy assumed in the NP 2007 Application.

CA 16.0 NP Is it the view of NP if there are any cost savings expected during the construction phase in 2007, those cost savings should offset the forecast replacement energy cost that is subject to the deferred recovery proposed by NP? If not, please explain the Company's position.

CA 17.0 NP Please provide a detailed breakdown of all costs allocated to the Rattling Brook hydroelectric plant under normal operating conditions based on the Cost of Service methodology recommended in the Mediation Report and accepted by the Board in P.U. 19 (2003), page 101.

CA 18.0 NP In the breakdown of allocated costs for the preceding question, please identify all costs allocated to the Rattling Brook hydroelectric plant that would not be incurred if the plant did not exist. For each category of costs, please explain how the corresponding resources are being deployed during the construction phase (e.g., if they are unutilized please explain why; if they are utilized at the Rattling Brook site for the refurbishment project please explain whether the cost is reflected in the cost estimate contained in the NP 2007 Capital Budget Plan; if they are being utilized elsewhere in the company please provide details of their use).

CA 19.0 NP Please provide a copy of NP's most recent Cost of Service study based on the methodology approved in P.U. 19 (2003).

CA 20.0 NP Please provide a detailed description of the methodology used by NP to capitalize overheads in its accounts for 2007.

CA 21.0 NP Please provide a detailed calculation of the application of NP capitalized overheads methodology to the Rattling Brook refurbishment project, showing the quantum of capitalized overhead contained in each line item making up the \$18,820,000 total costs for 2007 shown in Table 2 at page 11 of the Rattling Brook Hydro Plant Refurbishment of the NP 2007 Capital Budget Application.

### **Automatic Adjustment Formula**

CA 22.0 NP Please provide a schedule similar to Exhibit NP-13 filed in the 2006 Accounting Policy Application showing the 2007 Rate of Return on Rate Base.

CA 23.0 NP Please provide a schedule similar to Exhibit NP-3 in the NP 2007 Application

showing NP's current projection of its 2006 Financial Results.

**DATED AT** St. John's, in the Province of Newfoundland and Labrador, this \_\_\_\_ day of  
November, 2006.

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