

**IN THE MATTER OF** the *Public Utilities Act*, (the “*Act*”); and

**IN THE MATTER OF** the accounting policy of Newfoundland Power Inc. concerning revenue recognition and matters related thereto; and

**IN THE MATTER OF** an application by Newfoundland Power Inc. for an order pursuant to Sections 67, 69, 78 and 80 of the *Act*;

- (a) approving changes in accounting policy concerning revenue recognition to be effective for 2006 and subsequent years;
- (b) approving the recognition of \$9,579,000 in 2005 Unbilled Revenue as revenue for regulatory purposes for 2006;
- (c) approving disposition of the balance of the Unbilled Revenue Increase Reserve; and
- (d) approving revised values for rate base and invested capital for use in the automatic adjustment formula for the calculation of return on rate base for 2006 pursuant to Order No. P.U. 19(2003).

## **INFORMATION REQUESTS**

### **PUB 1.0 NP**

Newfoundland Power Inc. (NP) applied, in the General Rate Application filed October 11, 2002, for approval “to amortize over a 3 year period an accumulated reserve variance of \$17.2 million identified in the Depreciation Study filed with the Application” while also requesting that 2003 and 2004 be treated as test years and that the Automatic Adjustment Formula be applied to years 2005 to 2007. Based on the above, NP must have been considering options available to deal with the shortfall in revenue requirement in the 2006 and 2007 years. Please outline what options were considered at the time.

### **PUB 2.0 NP**

In the financial statements filed in Exhibits NP-14 and NP-15, NP has provided forecast figures for 2005 and 2006 as a means of evaluating the effect that its proposed changes would have on the financial performance of the Company. Since these forecast figures differ from the 2004 test year, what argument does NP put before the Board in support of using these forecast figures, in the absence of a full review of the revenue requirement, to make a determination on this Application?

**PUB 3.0 NP**

Should the review of this accounting policy application lead to a public hearing, what would be the impact, over the short term, on the normal functioning of the Automatic Adjustment Formula? Consider the impact of a delayed decision on rate of return on rate base and any consequential changes in customer rates in 2006.

**PUB 4.0 NP**

In the evidence supporting the Company's Application (page 20 of 34), NP has proposed that unbilled revenue in the amount of \$6,950,000 be recognized in 2006 to satisfy the increase in forecast depreciation expense. This increase includes \$1,157,000 related to the increased plant investment. Please indicate why you believe it is appropriate to include this amount which would be expected to be recovered in the normal course between test years by increased revenues?

**PUB 5.0 NP**

In Order No. P.U. 19(2003), paragraph 18 of the Order, the Board approved "NP's proposal to amortize over a three-year period, beginning in 2003, regulatory costs of \$1,200,000 ." Why has the expiration of this amortization, over the same period as the depreciation true-up, not been considered in the current Application?

**PUB 6.0 NP**

If the Board were to determine that the change in the revenue recognition policy of NP could not be dealt with without a GRA, what effect, giving detailed reasons, would this decision have on the financial and operational plans of NP?

**PUB 7.0 NP**

If the Board were to determine that the accrued revenue as a result of a change in the revenue recognition policy should be recognized on the same basis as that found in the Tax Settlement Agreement, with no other considerations other than tax implications, what effect, giving detailed reasons, would this decision have on the financial and operational plans of NP?

**PUB 8.0 NP**

If the Board were to determine that the accrued revenue as a result of a change in the revenue recognition policy should be fully recognized in 2006, with no other considerations other than tax implications, what effect, giving detailed reasons, would this decision have on the financial and operational plans of NP?

**PUB 9.0 NP**

If the Board were to determine that the accrued revenue as a result of a change in the revenue recognition policy should be recognized over the two-year period 2006 – 2007, with half being recognized in each year and no other considerations other than tax implications, what effect, giving detailed reasons, would this decision have on the financial and operational plans of NP?

**PUB 10.0 NP**

In Order No. P.U 19 (2003), page 87, the Board stated that “The Board will deal with any issues arising from the final decision of the tax case, including any potential liabilities or benefits to ratepayers, once the case has been resolved.” 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. Did the Company consider addressing this unexpected revenue related to the tax settlement in conjunction with the unbilled revenue and the related tax impacts?

**PUB 11.0 NP**

What is the impact on the 2005 financial results of this unexpected additional interest revenue arising from the tax settlement?

**PUB 12.0 NP**

In what way do customers benefit from the additional interest revenue arising from the tax settlement?

**PUB 13.0 NP**

In Exhibit NP-4, the Company has provided a calculation of the forecast 2005 Unbilled Revenue. In the footnote it is indicated that the calculation is based on the Company’s customer and energy sales forecast dated March 31, 2005, excluding energy sales to Memorial University. Please indicate the change in the Company’s relationship with this customer.

**PUB 14.0 NP**

Please provide the change in the 2006 forecast income tax impact, if any, under the scenario where no portion of the unbilled revenue was recognized to offset the increased 2006 depreciation expense and instead the Company was permitted to defer an amount of depreciation expense equivalent to the “true up adjustment”?

**DATED** at St. John’s, Newfoundland this 25<sup>th</sup> day of October 2005.

**BOARD OF COMMISSIONERS OF PUBLIC UTILITIES**

*Per* Original signed by  
G. Cheryl Blundon  
Board Secretary