

1 **Q. CA 12.0 NP**

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3 **Reference: 2006 Accounting Policy Application, para. 20**

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

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8 **Is NP or its expert consultant, John Browne, aware of any regulatory decisions/**  
9 **precedents in Canada or the United States which have approved the use of**  
10 **unrecognized unbilled revenue to offset a forecasted revenue shortfall in the absence**  
11 **of a full GRA or some other review of forecast costs that allows the regulator to**  
12 **make a determination that the utilities total costs underpinning the revenue**  
13 **deficiency being offset are just and reasonable? Please provide details.**

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15 **A.** Neither Newfoundland Power nor its expert is aware of a decision specifically dealing  
16 with using unbilled revenue to address forecast revenue shortfalls.

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18 However, the Board has, on at least 2 occasions, approved a change in a material utility  
19 accounting policy, and allowed for recovery of cost impacts in a way that did not  
20 immediately affect customers' rates, without a general rate application

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22 In Order No. P.U. 28 (1979), the Board approved Newfoundland Telephone Company  
23 Ltd.'s ("NTC's") proposal to fully normalize its income tax accounting. The forecast  
24 evidence before the Board indicated that NTC's rates which were set in 1977 would have  
25 generated excess revenue in each of the succeeding 5 years if the taxes payable method  
26 of income tax accounting were retained. The Board approved the change in tax  
27 accounting on the condition that no immediate increase in rates would result from the  
28 change.

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30 In Order No. P.U. 3 (1995-96), the Board approved changes to Newfoundland Power's  
31 accounting policy for allocating general expenses to capital. The Board approved a 5-  
32 year transition period from a full cost to an incremental cost approach to determining the  
33 amount of capitalized general expenses. This change effectively reduced capitalized  
34 general expenses from approximately \$10 million per year to \$3 million per year over the  
35 5-year transition period. In addition, the Board approved the Company's special funding  
36 of the unfunded liability of its defined benefit pension plan in an amount of \$12 million  
37 in 1995 to generate tax deductions to effectively recover (i) the cost consequences for the  
38 first year of the 5-year transition in 1995 and (ii) increased operating expenses incurred  
39 in 1995.

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41 In these Orders, the Board authorized changes in accounting policy and recovery of  
42 forecast increased expenses [tax expense in Order No. P.U. 28 (1979) and operating  
43 expense in Order No. P.U. 3 (1995-96)] in circumstances which did not immediately  
44 affect customers' rates. Each situation is broadly analogous to the 2006 Accounting  
45 Policy Application in which Newfoundland Power effectively seeks to (i) change an

1 accounting policy and (ii) provide for recovery of increased costs without immediately  
2 affecting customers' rates.

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4 The Board's jurisdiction over the Company under the *Public Utilities Act* is a broad one  
5 of general supervision. Both Order Nos. P.U. 28 (1979) and P.U. 3 (1995-96) arose out  
6 of circumstances which perhaps might not be characterized as typical. Each represents a  
7 practical and effective regulatory response to prevailing circumstances.

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9 For greater detail on why Newfoundland Power believes the prevailing circumstances  
10 justify the approach adopted in the 2006 Accounting Policy Application, please refer to  
11 the Response to PUB 6.0 NP.