

Q. CA 22.0 NP

Reference: Exhibit NP-9, Table 1 (Reconciliation of Average Invested Capital and Average Rate Base, 2004 Test Year) and Table 4 (Pro Forma Reconciliation of Average Invested Capital and Average Rate Base, 2006-2009)
PUB 10.0 NP

Preamble: NP-9 Table 1 shows “Corporate Income Tax Deposit” in the amount of \$6,674,000 as one of the reconciling items. Table 4 shows that the deposit is reduced to zero.

Question PUB 10.0 states: “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.”

Please provide a table showing, for each year in which the corporate income tax deposit was non-zero, the deposit amount that was reflected in (i) average invested capital and (ii) average rate base. Also show in the table the rate of return earned in each year and the effective amount included in NP’s revenue requirement in each year. Please include details of any loans that were incurred specifically to finance the corporate income tax deposit, showing the interest incurred in each year, and explain the method by which the interest incurred on these loans was recovered by NP.

- A. The corporate income tax deposit has never been included in the Company’s rate base. The remaining requested information, as well as the weighted average cost of capital (“WACC”), is provided in the table below.

Year	Rate of Return Earned on Rate Base	Tax Deposit Included in Invested Capital ¹ (A) (000s)	Weighted Average Cost of Capital ² (B)	Revenue Requirement (A x B) (000s)
1995	10.94%	\$ NIL ³	-	\$ NIL ³
1996	10.63%	NIL ³	-	NIL ³
1997	10.71%	15,595	13.70%	2,137
1998	9.86%	15,595	12.34%	1,924
1999	10.04%	15,595	12.19%	1,901
2000	10.46%	15,595	12.45%	1,942
2001	10.46%	15,595	12.45%	1,942 ⁴
2002	9.94%	6,949	12.04%	837
2003	9.03%	6,949	11.64%	809
2004	8.82%	6,949	11.35%	789
2005	8.57% ⁵	\$ 6,949	11.01%	765
				<u>\$ 13,046</u>

- ¹ The amounts of the corporate income tax deposit included in the Board approved invested capital amounts used to set rates.
- ² The Board approved weighted average cost of capital used to set rates for that year, shown on a pre-tax, or revenue requirement, basis.
- ³ The corporate income tax deposit was made in 1995. The costs associated with the reassessments were not incorporated into customer rates until 1997. These financing costs, which totaled approximately \$2,233,000 (\$1,793,000 after tax), were borne by Newfoundland Power.
- ⁴ The revenue requirement did not change in 2001 because there was no change in customer rates in that year.
- ⁵ Forecast rate of return on rate base per Exhibit NP-14, page 1 of 5, line 30.

There were no loans incurred specifically to finance the corporate income tax deposit. As is the case generally, the Company's financing requirements, including funds required by the income tax deposit, are initially met by way of internally generated funds and operating lines of credit. Long-term financing is obtained, as and when required, by a combination of debt and equity, as determined within the context of the Company's Board approved capital structure. It is therefore the Company's weighted average cost of capital which ultimately determines the cost of financing the corporate income tax deposit.

For an analysis of the financing costs *and benefits* related to the income tax reassessments, please refer to Response to CA 23.0 NP.