

1 **Q. CA 26.0 NP**

2
3 **Reference: NP-14, Forecast Financial Statements**
4 **NP-15, Forecast 2006 Financial Results**

5
6 **Preamble: NP's Forecast Financial Statements notes that "The revenue forecast**
7 **is based on the Customer and Energy Sales Forecast dated March 31,**
8 **2005."**

9
10 **NP's Forecast Financial Statements notes that "Average Short-term**
11 **interest rates are assumed to be 3.25% in 2005 and 4.00% in 2006."**

12
13 **Please provide an update to the Forecast 2006 Financial Results (NP-15) based on**
14 **the latest updates for all major inputs and assumption identified at Exhibit NP-14,**
15 **page 5 and identify the impact on the forecast 2006 financial results of each**
16 **input/assumption that has changed.**

17
18 **A.** Newfoundland Power has reviewed the list of assumptions and inputs provided in Exhibit
19 NP-14, page 5. Based on this review, the assumptions that formed the basis for the
20 Company's proposals, with the exception of the 2006 forecast short-term interest rate,
21 continue to reflect the Company's best estimates.

22
23 An updated 2006 forecast short-term interest rate, which reflects the latest interest rate
24 forecasts available, is shown in the response to CA 25.0 NP. The impacts of the updated
25 2006 forecast short-term interest rate on the 2006 forecast as filed in Exhibit NP-15 are
26 shown in Attachment A.

27
28 The impact on the 2006 forecast as a result of an increase in the 2006 forecast short-term
29 interest rate from 4.00%¹ to 4.34%² is not material. Under the "2006 Existing" scenario,
30 there is a reduction in earnings of approximately \$37,000, a decrease of 1 basis point in
31 the forecast equity returns, and an increase of 1 basis point in the rate of return on rate
32 base. Similarly, under the "2006 Proposed" scenario, there is a reduction in earnings of
33 approximately \$43,000, a decrease of 2 basis points in the forecast equity returns, and no
34 change in the forecast rate of return on rate base.

¹ As filed in Exhibit NP-14, page 5 of 5, 2006 Accounting Policy Application.

² See Response to CA 25.0 NP.

Newfoundland Power Inc.

Forecast 2006 Financial Results
(000s)

	2006 <u>Existing</u> ¹	2006 <u>Existing Revised</u> ²	<u>Difference</u>	2006 <u>Proposed</u> ³	2006 <u>Proposed Revised</u> ⁴	<u>Difference</u>
1						
2 Billed Revenue	\$ 417,069	\$ 417,069	\$ -	\$ 417,069	\$ 417,069	\$ -
3 2006 Unbilled Revenue Accrual	-	-	-	457	457	-
4 2005 Unbilled Revenue	-	-	-	9,579	9,579	-
5	417,069	417,069	-	427,105	427,105	-
6 Purchased Power Expense	265,498	265,498	-	265,498	265,498	-
7 Contribution	151,571	151,571	-	161,607	161,607	-
8						
9 Other Revenue	9,950	9,950	-	9,950	9,950	-
10						
11 Other Expenses:						
12 Operating Expenses	54,153	54,153	-	54,153	54,153	-
13 Depreciation	39,079	39,079	-	39,079	39,079	-
14 Finance Charges	32,535	32,592	57 ⁵	32,637	32,704	67 ⁵
15	125,767	125,824	57	125,869	125,936	67
16						
17 Income Before Income Taxes	35,754	35,697	(57)	45,688	45,621	(67)
18 Income Taxes	15,368	15,348	(20) ⁶	15,335	15,311	(24) ⁶
19						
20 Net Income	20,386	20,349	(37)	30,353	30,310	(43)
21 Preferred Dividends	591	591	-	591	591	-
22						
23 Earnings Applicable						
24 to Common Shares	\$ 19,795	\$ 19,758	\$ (37)	\$ 29,762	\$ 29,719	\$ (43)
25						
26						
27 Rate of Return Metrics						
28						
29 Regulated Return on Book Equity	6.25%	6.24%	-0.01%	9.24%	9.22%	-0.02%
30 Return on Book Equity	6.03%	6.02%	-0.01%	9.02%	9.00%	-0.02%
31 Rate of Return on Rate Base	7.02%	7.03%	0.01%	8.56%	8.56%	0.00%

Notes:

¹ Reflects the Billed Method of revenue recognition for financial reporting and regulatory purposes, and the income tax effects of the Tax Settlement.

² 2006 Existing forecast with average short-term interest rate of 4.34%.

³ Based on the proposals contained in section 3.4 of Company Evidence.

⁴ 2006 Proposed forecast with average short-term interest rate of 4.34%.

⁵ The change in finance charges due to an increase in the 2006 forecast average short-term interest rate from 4.00% to 4.34%.

⁶ Reduction in income taxes related to higher short-term interest costs.