

1 **Q. CA 33.0 NP**

2
3 **Reference: PUB 3.0 NP.**

4
5 **Preamble: NP states: “By the end of November 2005, the Company expects to file**
6 **an application concerning operation of the Formula for 2006.”**

7
8 **Could the anticipated application include a request for an increase in rates for 2006**
9 **if the request for recognition of \$9.6 million in 2005 Unbilled Revenue in the current**
10 **application is (i) approved or (ii) denied.**

11
12 **A. *The Formula Application***

13
14 By Order No. P.U. 19 (2003) the Company is required to file an application related to the
15 operation of the Formula (the “Formula Application”) in 2006 by November 30, 2005.

16
17 When the Formula Application is filed by the Company it will seek a continuation of
18 Newfoundland Power’s currently approved rates under Order No. P. U. 16 (2005) on an
19 interim basis from January 1, 2006 pending disposition of the 2006 Accounting Policy
20 Application.

21
22 The Formula was created to annually adjust the Company’s forecast return on rate base to
23 reflect changes in the forecast cost of common equity. Accordingly, the Formula
24 Application would not be, in the Company’s view, an appropriate means to deal with the
25 \$9.6 million revenue recognition proposal included in the 2006 Accounting Policy
26 Application.

27
28 *Impact of Approval or Denial of the 2006 Accounting Application*

29
30 If the recognition of \$9.6 million of the 2005 Unbilled Revenue is approved as requested
31 in the 2006 Accounting Policy Application, this will defer a rate increase for
32 Newfoundland Power’s customers in 2006. Currently, the Company expects its next
33 general rate application to be filed in the third quarter of 2006 for rates to be applicable in
34 2007.

35
36 If the recognition of \$9.6 million of the 2005 Unbilled Revenue is not approved as
37 requested in the 2006 Accounting Policy Application, the forecast increased depreciation
38 and tax expense will require the Company to consider the filing of a general rate
39 application to ensure reasonable cost recovery in 2006 and possibly in advance of receipt
40 of the next depreciation study. It would also require consideration of applying for interim
41 rate relief for 2006 in advance of a hearing of the general rate application.

42
43 It is not expected that either approval or denial of the request to recognize \$9.6 million of
44 the 2005 Unbilled Revenue as proposed in the 2006 Accounting Policy Application
45 would affect the Formula Application.