

1 **Reference:** Evidence of GT on 2006 Accounting Policy Application, p. 16

2
3 **Preamble:** GT states: “We believe the appropriateness of Newfoundland Power’s
4 proposals must be assessed based on whether they provide the opportunity to
5 earn a just and reasonable return in 2006.

6
7 However, the Board has not had the opportunity to review all elements of the
8 revenue requirement for 2006. While such a review may confirm that the
9 forecast financial results and rate of return on rate base are reasonable, the
10 Board has been asked to make its determination in the absence of such
11 evidence. If the Board had the benefit of a full review of the revenue
12 requirement it would gain a greater comfort level that the request be the
13 Company is justified and necessary to provide the opportunity to earn a just
14 and reasonable return in 2006.”

15
16 **Q.** What are GT’s recommendations for dealing with the conundrum? Please comment
17 on the options of requiring NP to file a 2006 GRA in order for 2005 Unbilled
18 Revenue to be recognized as an offset to forecast 2006 costs and implementing a
19 mechanism that effectively defers the issue of the possible 2006 return on rate base
20 shortfall until a subsequent year when NP is able to file 2006 financial information
21 as part of a GRA for 2007 or later.

22
23
24 **A.** In our report we indicate that, as an alternative to denying the Company’s proposals the
25 Board may consider allowing the Company to defer some of the costs which are the
26 subject of its proposals (pg. 19, lines 7-8). These deferred costs could then be addressed
27 as part of the next GRA.

28
29 The option described in the question suggests that the 2006 return on rate base shortfall
30 be addressed after the 2006 financial information is available (i.e. sometime in 2007).
31 We believe this would result in significant uncertainty for the Company. This approach
32 may be considered to be retroactive rate setting which is not normally appropriate in
33 regulatory circumstances.

34
35 The option also suggests implementation of a mechanism that effectively defers this
36 issue. A mechanism which would provide for the balancing of the interests of customers
37 and the Company may have merit in this situation; however we would need to see details
38 of any such mechanism to be able to comment on its appropriateness.