

1 **Q. In Order No. P.U 19 (2003), page 87, the Board stated that “The Board will deal**  
2 **with any issues arising from the final decision of the tax case, including any**  
3 **potential liabilities or benefits to ratepayers, once the case has been resolved.” It**  
4 **was noted in NP’s Quarterly Report issued for the period ended June 30, 2005 Tab**  
5 **1, page 7, that the increase in revenue is partially due to the \$2.1 million of interest**  
6 **revenue arising from the tax settlement. Did the Company consider addressing this**  
7 **unexpected revenue related to the tax settlement in conjunction with the unbilled**  
8 **revenue and the related tax impacts?**  
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10 **A.** Newfoundland Power’s recording of the refund interest resulting from the June 2005 Tax  
11 Settlement was done in accordance with (i) the Company’s System of Accounts, (ii)  
12 Canadian Generally Accepted Accounting Principles (“GAAP”) and (iii) past practice  
13 with respect to similar interest revenue. This required that the refund interest be  
14 recognized by Newfoundland Power as revenue in 2005. Accordingly, the Company did  
15 not consider the 2005 refund interest in conjunction with the unbilled revenue and related  
16 income tax impacts beginning in 2006.

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18 Section 5.00(j) of Newfoundland Power’s Board approved System of Accounts requires  
19 that interest revenue derived from income tax refunds be recorded as miscellaneous non-  
20 consumer revenue. The refund interest resulting from the June 2005 Tax Settlement was  
21 recorded in this manner. The settlement of other issues in the tax dispute in 2000 and  
22 2001 also resulted in the receipt of refund interest by Newfoundland Power in those  
23 years. The 2000 and 2001 interest amounts were also recorded as miscellaneous non-  
24 consumer revenue in the year received.

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26 Recording of the refund interest resulting from the Tax Settlement as revenue in June  
27 2005 was also done in accordance with GAAP as set out in Section 3400 of the Canadian  
28 Institute of Chartered Accountant’s Handbook (the “CICA Handbook”). Section 3400 of  
29 the CICA Handbook states that interest revenue should be recognized when reasonable  
30 assurance exists regarding its measurement and collectability. Recording of the 2000 and  
31 2001 interest amounts was also done in accordance with Section 3400.

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33 Please refer to the Company’s response to Request for Information PUB 12.0 NP for a  
34 description of the benefits realized by customers as a result of refund interest received by  
35 Newfoundland Power due to tax settlements between it and the Canada Revenue Agency  
36 since 2000.