

Q. In what way do customers benefit from the additional interest revenue arising from the tax settlement?

A. The 2005 refund interest is not forecast to result in excess revenue that would be rebated to customers. Therefore, customers are not forecast to benefit directly from this installment of refund interest.

Customers have received other tangible benefits as a result of the 2005 tax settlement. The tax settlement does not result in any additional income tax or interest being payable by the Company and eliminates a material contingent liability. This contingent liability presented a risk to Newfoundland Power's customer rates.¹ The elimination of this risk clearly benefits both Newfoundland Power and Newfoundland Power's customers.

Interest revenue arising from settlement of the original tax reassessments² was paid in three instalments as key issues were resolved. The proportional net benefit to customers and to Newfoundland Power of the interest received as a result of the overall tax settlements is provided in Table 1.

Table 1
Net Benefits of Tax Settlements
2000 to 2005

	(000s)			
	<u>2000</u>	<u>2001</u>	<u>2005</u>	<u>Total</u>
Newfoundland Power				
Revenue	\$ 276	\$ 777	\$ 2,113	\$ -
Income Tax ³	<u>(116)</u>	<u>(319)</u>	<u>(763)</u>	
Net Benefit	<u>160</u>	<u>458</u>	<u>1,350</u>	<u>1,968</u>
Customers				
Rebate of Excess Revenue	6,569 ⁴	944 ³	-	
Tax Rebates ⁵	<u>1,161</u>	<u>170</u>	<u>-</u>	
Net Benefit	<u>7,730</u>	<u>1,114</u>	<u>-</u>	<u>8,844</u>
Total Net Benefits	\$ <u>7,890</u>	\$ <u>1,572</u>	\$ <u>1,350</u>	\$ <u>10,812</u>

Between 2000 and 2005, \$8.8 million, or approximately 82%⁶ of the total net benefit of refund interest associated with the settlement of the original tax reassessments, was received by Newfoundland Power's customers.

¹ In March 2005, the Nova Scotia Utility and Review Board ordered that approximately \$150 million in additional tax and interest payable by Nova Scotia Power related to a tax dispute be recovered from its customers over an eight year period commencing in 2007. (Decision NSUARB-NSPI-P-881, 2005 NSUARB 27).

² As referred to in Newfoundland Power's Evidence, Page 9 of 34, line 23 to Page 10 of 34, line 19.

³ Reflects income tax rates of 42% in 2000, 41% in 2001 and 36.12% in 2005.

⁴ See Return 10A to Newfoundland Power's 2000 and 2001 Annual Report to the Board.

⁵ Composed of municipal tax and HST.

⁶ \$8,844,000/\$10,812,000.