

1 **Q. In the evidence supporting the Company's Application (page 20 of 34), NP has**
2 **proposed that unbilled revenue in the amount of \$6,950,000 be recognized in 2006 to**
3 **satisfy the increase in forecast depreciation expense. This increase includes**
4 **\$1,157,000 related to the increased plant investment. Please indicate why you**
5 **believe it is appropriate to include this amount which would be expected to be**
6 **recovered in the normal course between test years by increased revenues?**

7
8 A. Depreciation expense is a fully recoverable cost of providing service to customers.
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10 The Board considers and approves the capital expenditures of the Company on an annual
11 basis. Since 2003, the Board has approved the capital budgets for 2004 and 2005 in
12 Order No. P.U. 35 (2003) and Order No. P.U. 43 (2004) respectively. The 2006 Capital
13 Budget Application is currently under consideration by the Board and a decision is
14 expected shortly.
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16 Forecast depreciation expense for 2006 is approximately \$8.5 million more than the 2004
17 test year depreciation expense that was used to set current rates. Depreciation expense is
18 calculated by applying the depreciation rates, as approved by the Board in Order No.
19 P.U. 19 (2003), to the plant in service. Therefore, the approximate \$8.5 million increase
20 in depreciation expense has, in effect, been approved by the Board.
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22 As indicated in the Company's evidence, an accrual of \$6,950,000 of the 2005 unbilled
23 revenue is equal to the increase in forecast depreciation expense from 2005 and 2006 and
24 will permit Newfoundland Power the opportunity to earn a just and reasonable return in
25 2006.