Q. At p. 3 of the 2009 Capital Plan it states, "The Company plans to invest $344 million in plant and equipment during the 2009 through 2013 period. On an annual basis, capital expenditures are expected to average approximately $68.7 million and range from a low of $61.6 million in 2009 to a high of $72.2 million in 2011." Can NP provide *pro forma* estimates of revenue requirement impacts of these proposed expenditures over the next 10 years.

A. Table 1 provides the annual *pro forma* estimates of revenue requirement associated with the investment of $344 million over the 10-year period from 2009 through 2018. The estimates capture the impact of capital expenditure on the Company's cost of capital (return on rate base), depreciation and income tax cost in each year.

Table 1
***Pro Forma* Revenue Requirement Estimates**
2009-2018
($000s)

Year	Revenue Requirement
2009	3,046
2010	8,371
2011	13,650
2012	19,123
2013	25,570
2014	29,120
2015	28,382
2016	27,643
2017	26,904
2018	26,166

Table 1 only includes the *pro forma* estimates of capital expenditures on return on rate base, depreciation and income taxes. While these impacts tend to put upward pressure on rates, they do not capture the total effects of capital expenditures on revenue requirements.

For example, over the 10-year period, Newfoundland Power will incur depreciation expense of approximately $40 million per year on existing assets. This is not reflected in the *pro forma* revenue requirement estimates associated with proposed investment.

Failure of Newfoundland Power to appropriately address asset depletion, which is captured in accounting terms in depreciation expense, would impact both service levels and operating costs negatively. Conversely, appropriate refurbishment of deteriorated assets would tend to ensure that service levels are maintained and operating costs are less than they otherwise might be. These types of effects are not reflected in the *pro forma* estimates set out in Table 1.

Accordingly, *pro forma* estimates of revenue requirement should not be taken to reflect rate impacts. The total revenue requirement includes costs other than those associated with capital investment. In addition, changes in sales volume affect the relationship between costs and rates. Consequently, the increase in *pro forma* revenue requirements impacts shown in Table 1 is not necessarily indicative of any particular change in retail rates. The annual impact on rates of the proposed capital expenditures for the years 2009 through 2018 will be determined in Newfoundland Power's general rate proceedings which establish rates through this period.

The Company's capital expenditures from 2004 through 2008 are expected to be approximately $295 million. If the impact of increases in purchase power costs is excluded, the net impact on rates of the changes in Newfoundland Power's revenue requirement over the same period has been approximately 1.5 per cent.