

Q. General Expenses Capitalized (2,800,000).

- (a) Please show GEC and Total Budgets for the years 2000 to 2010.
- (b) How are the increasing capital budgets influencing the Company's assessment of the amount of general expenses that are capitalized?
- (c) Why does the Company forecast General Expenses Capitalized to be a flat 2,800,000 over the period 2010 to 2014 (see 2010 Capital Plan - p. A-1).
- A. (a) Table 1 shows the Total Capital Expenditure and General Expenses Capitalized ("GEC") for 2000 through 2010.

Table 1
Capital Expenditure with GEC
2000 – 2010F
(\$000s)

Year	Capital Expenditure¹	GEC
2000	42,836	2,678
2001	66,305	3,211
2002	58,170	2,868
2003	64,314	2,648
2004	57,761	3,161
2005	52,980	3,125
2006	58,629	2,748
2007	68,485	2,850
2008	63,170	2,765
2009F	63,564	2,800
2010F	64,679	2,800

- (b) Variations in annual capital expenditure have not materially increased the amount of general expenses, or GEC, that is capitalized by Newfoundland Power.

Newfoundland Power charges all costs directly attributable to the development of *specific* capital assets to appropriate capital accounts. These costs are reflected in annual capital expenditure of the Company.

¹ Includes GEC.

1 From an accounting perspective, GEC are annual recurring *operating* costs of
2 Newfoundland Power. They are allocated to capital expenditure for regulatory
3 purposes to reflect the fact that the Company has an annual capital program
4 which does have an incremental impact on its operating costs. So conceptually,
5 GEC is a function of Newfoundland Power's annual operating costs as opposed
6 to its annual capital costs. Since 2000, Newfoundland Power's annual
7 operating costs have been relatively stable. This, in turn, has been reflected in
8 relatively stable annual GEC allocations.
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10 In Order No. P.U. 3 (1995-96), the Board approved the current methodology for
11 Newfoundland Power's calculation of GEC. The Company's annual allocations
12 to GEC are reviewed routinely by the Board's financial consultants.
13

- 14 (c) Newfoundland Power believes the forecast of \$2,800,000 in GEC for 2009 and
15 2010 to be a reasonable. It reflects the average of the previous three years
16 actual expenditure.
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18 GEC forecasts for 2011 through 2014 are provided a part of the 5-year capital
19 forecast. They reflect a current best estimate which will be subject to such
20 changes as circumstances indicate are appropriate.