

Requests for Information

1
2 **Q. Please provide a copy and details of NP's five year financial forecast. To the extent**
3 **not addressed as part of the five year financial forecast, please forecast all changes**
4 **in the revenue requirement and required rate action for the next five years.**
5

6 A. Attachment A is a copy of Newfoundland Power's current five year financial forecast
7 (the "financial forecast"). The financial forecast assumes all proposals contained in the
8 2010 General Rate Application are approved. The financial forecast is subject to change
9 as actual results for each of the forecast years become known and as assumptions and
10 circumstances change.
11

12 In the years 2011 through 2013, revenue shortfalls are forecast for each year (see line 43,
13 p. 1 of 9). A *revenue shortfall* is simply the change in the forecast financial results
14 (expressed in terms of revenue) that would be required for the Company to recover all its
15 forecast costs, including its forecast cost of equity.
16

17 In addressing a forecast revenue shortfall, a number of matters require consideration.
18 Changes in sales, other costs or forecast assumptions may result in a forecast revenue
19 shortfall not materializing or materially increasing. A forecast revenue shortfall could be
20 addressed by regulatory actions such as deferred recovery of costs. Increasing customer
21 rates is another means of addressing a forecast revenue shortfall.
22

23 What action, if any, Newfoundland Power will be required to take to address the revenue
24 shortfalls indicated in the financial forecast is currently uncertain.

Newfoundland Power Inc.
Five Year Financial Forecast
(2009 – 2013)

Financial Forecast: 2009 to 2013

Newfoundland Power Inc.

**Financial Forecast
2009 - 2013
Statements of Income
(\$000s)**

	Forecast		Pro forma		
	2009	2010	2011	2012	2013
1 Electricity Sales (GWh)	5,266	5,328	5,369	5,507	5,598
2					
3 Revenue From Rates	502,925	545,917	550,130	563,196	572,071
4 Amortization of 2005 Unbilled Revenue	4,618	4,618	-	-	-
5 Transfers from (to) the RSA	1,746	-	4,115	7,764	10,519
6	509,289	550,535	554,245	570,960	582,590
7					
8 Purchased Power Expense	340,660	346,998	351,431	364,616	374,494
9 Deferred Replacement Energy Costs	598	598	-	-	-
10 Amortization of Weather Normalization Reserve	2,101	2,101	2,101	2,101	-
11 Amortization of Purchased Power Unit Cost Variance Reserve	(688)	(688)	-	-	-
12 Demand Incentive				227	-
13	342,671	349,009	353,532	366,944	374,494
14					
15 Contribution	166,618	201,526	200,713	204,016	208,096
16					
17 Other Revenue	13,645	13,692	12,252	12,612	13,192
18					
19 Other Expenses:					
20 Operating Expenses ¹	49,328	53,903	54,605	56,383	58,297
21 Employee Future Benefit Costs	2,703	15,037	17,953	17,026	16,693
22 Deferred Cost Recoveries and Amortizations	3,863	3,861	-	-	-
23 Depreciation	41,872	43,383	45,089	46,911	48,411
24 Finance Charges	34,841	35,940	35,673	36,999	38,080
25	132,607	152,124	153,320	157,319	161,481
26					
27 Income Before Income Taxes	47,656	63,094	59,645	59,309	59,807
28 Income Taxes	15,637	20,751	18,884	17,751	17,963
29					
30 Net Income	32,019	42,343	40,761	41,558	41,844
31 Preferred Dividends	574	568	568	568	568
32					
33 Earnings Applicable to Common Shares	31,445	41,775	40,193	40,990	41,276
34					
35					
36 Rate of Return and Credit Metrics					
37 Rate of Return on Rate Base (percentage)	8.00%	9.13%	8.75%	8.83%	8.79%
38 Regulated Return on Book Equity (percentage)	8.62%	11.00%	10.32%	10.35%	10.15%
39 Return on Book Equity (percentage)	8.34%	10.70%	10.02%	10.05%	9.86%
40 Interest Coverage (times)	2.3	2.7	2.6	2.6	2.5
41 CFO Pre-W/C + Interest / Interest (times)	3.1	3.6	3.6	3.5	3.4
42 CFO Pre-W/C / Debt (percentage)	15.4%	19.5%	19.2%	18.8%	17.7%
43 Revenue Shortfall (@ 11.0% Regulated Return on Equity)	-	-	3,881	3,843	5,066

¹ Operating expenses shown are before the adjustment for non-regulated expenses.

1st Revision Note: Updated for revised forecasts for 2009 through 2013.

Financial Forecast: 2009 to 2013

**Newfoundland Power Inc.
Financial Forecast
2009 - 2013
Statements of Retained Earnings
(\$000s)**

	Forecast		Pro forma		
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
1 Balance - Beginning	303,417	309,681	330,403	331,008	343,927
2 Net Income for the Period	<u>32,019</u>	<u>42,343</u>	<u>40,761</u>	<u>41,558</u>	<u>41,844</u>
3	<u>335,436</u>	<u>352,024</u>	<u>371,164</u>	<u>372,566</u>	<u>385,771</u>
4					
5 Dividends					
6 Preference Shares	574	568	568	568	568
7 Common Shares	<u>25,181</u>	<u>21,053</u>	<u>39,588</u>	<u>28,071</u>	<u>32,723</u>
8	<u>25,755</u>	<u>21,621</u>	<u>40,156</u>	<u>28,639</u>	<u>33,291</u>
9					
10 Balance - End of Period	<u>309,681</u>	<u>330,403</u>	<u>331,008</u>	<u>343,927</u>	<u>352,480</u>

1st Revision Note: Updated for revised forecasts for 2009 through 2013.

Newfoundland Power Inc.

Financial Forecast

2009 - 2013

Balance Sheets

(\$000s)

	Forecast		Pro forma		
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Assets					
Current assets					
Accounts Receivable	\$ 69,500	\$ 75,704	\$ 75,723	\$ 76,799	\$ 78,007
Materials and Supplies	5,500	5,597	5,694	5,810	5,946
Prepaid Expenses	1,269	1,293	1,316	1,342	1,374
Regulatory Assets	10,044	2,419	2,594	2,544	4,111
	<u>86,313</u>	<u>85,013</u>	<u>85,327</u>	<u>86,495</u>	<u>89,438</u>
Capital assets	799,134	827,403	859,423	889,654	926,810
Deferred charges	97,841	97,117	93,847	91,736	90,139
Regulatory assets	191,624	189,912	187,301	187,767	188,611
Customer Finance Plans	1,714	1,714	1,714	1,714	1,714
	<u>\$ 1,176,626</u>	<u>\$ 1,201,159</u>	<u>\$ 1,227,612</u>	<u>\$ 1,257,366</u>	<u>\$ 1,296,712</u>
Liabilities and Shareholders' Equity					
Current Liabilities					
Accounts payable and accrued charges	\$ 62,184	\$ 62,011	\$ 63,815	\$ 64,699	\$ 65,921
Current Installments of long-term debt	5,200	5,200	5,200	5,700	34,653
Future Income Taxes	134	974	974	974	974
	<u>67,518</u>	<u>68,185</u>	<u>69,989</u>	<u>71,373</u>	<u>101,548</u>
Regulatory liabilities	82,888	80,785	86,037	91,637	97,297
Other liabilities	50,156	57,113	64,142	71,098	77,898
Long-term debt	468,709	469,223	484,356	489,897	480,027
Future Income Taxes	118,240	116,016	112,646	110,000	108,028
Shareholders' Equity					
Common shares	70,321	70,321	70,321	70,321	70,321
Preference shares	9,113	9,113	9,113	9,113	9,113
Retained earnings	309,681	330,403	331,008	343,927	352,480
	<u>389,115</u>	<u>409,837</u>	<u>410,442</u>	<u>423,361</u>	<u>431,914</u>
	<u>\$ 1,176,626</u>	<u>\$ 1,201,159</u>	<u>\$ 1,227,612</u>	<u>\$ 1,257,366</u>	<u>\$ 1,296,712</u>

1st Revision Note: Updated for revised forecasts for 2009 through 2013.

Financial Forecast: 2009 to 2013

**Financial Forecast
2009 - 2013
Statements of Cash Flows
(\$000s)**

	Forecast		Pro forma		
	2009	2010	2011	2012	2013
1 Cash From (Used In) Operating Activities					
2 Net Earnings	\$ 32,019	\$ 42,343	\$ 40,761	\$ 41,558	\$ 41,844
3					
4 Items not affecting cash:					
5 Amortization of capital assets	41,872	43,383	45,089	46,911	48,411
6 Amortization of deferred charges	269	222	185	190	195
7 Change in regulatory assets and liabilities	962	2,892	2,436	(255)	(2,411)
8 Future income taxes	1,858	(2,292)	(3,370)	(2,646)	(1,972)
9 Accrued employee future benefits	(4,415)	7,643	10,299	9,067	8,397
10 Change in non-cash working capital	(17,072)	(6,298)	1,664	(332)	(154)
11	<u>55,493</u>	<u>87,893</u>	<u>97,064</u>	<u>94,493</u>	<u>94,310</u>
12					
13 Investing Activities					
14 Capital expenditures (net of salvage)	(68,290)	(68,600)	(73,856)	(73,704)	(81,907)
15 Long-term portion of finance programs	62	-	-	-	-
16 Contributions from customers and security deposits	2,538	2,000	2,000	2,000	2,000
17	<u>(65,690)</u>	<u>(66,600)</u>	<u>(71,856)</u>	<u>(71,704)</u>	<u>(79,907)</u>
18					
19 Financing Activities					
20 Change in short-term borrowings	-	-	-	-	-
21 Proceeds from long-term debt	65,000	5,528	20,148	50,000	24,588
22 Repayment of long-term debt	(29,201)	(5,200)	(5,200)	(43,850)	(5,700)
23 Payment of debt financing costs	(227)	-	-	(300)	-
24 Redemption of preference shares	(239)	-	-	-	-
25 Dividends					
26 Preference Shares	(574)	(568)	(568)	(568)	(568)
27 Common Shares	(25,181)	(21,053)	(39,588)	(28,071)	(32,723)
28	<u>9,578</u>	<u>(21,293)</u>	<u>(25,208)</u>	<u>(22,789)</u>	<u>(14,403)</u>
29					
30 Change in Cash	(619)	-	-	-	-
31 Cash, Beginning of Year	619	-	-	-	-
32 Cash, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

1st Revision Note: Updated for revised forecasts for 2009 through 2013.

Financial Forecast: 2009 to 2013

**Financial Forecast
2009 - 2013
Average Rate Base¹
(\$000s)**

	Forecast		Pro forma		
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
1 Net Plant Investment	732,271	755,649	780,549	806,235	834,251
2					
3 Add:					
4 Deferred Charges	102,342	102,935	99,710	95,892	92,910
5 Weather Normalization Reserve	5,485	4,377	3,012	1,646	963
6 Deferred Energy Replacement Costs	575	192	-	-	-
7 Cost Recovery Deferrals	6,551	3,257	947	568	189
8 Customer Finance Programs	1,745	1,714	1,714	1,714	1,714
9	<u>116,698</u>	<u>112,475</u>	<u>105,383</u>	<u>99,820</u>	<u>95,776</u>
10					
11 Deduct:					
12 2005 Unbilled Revenue	6,927	2,309	-	-	-
13 Accrued Pension Liabilities	3,261	3,511	3,771	4,031	4,293
14 Accrued OPEBS Liability	-	3,350	10,083	16,815	23,431
15 Municipal Tax Liability	2,046	683	-	-	-
16 Future Income Taxes	2,113	1,895	(935)	(3,944)	(6,253)
17 Purchased Power Unit Cost Reserve	671	224	-	-	-
18 Demand Management Incentive Account	213	-	-	81	161
19 Customer Security Deposits	694	602	602	602	602
20	<u>15,925</u>	<u>12,574</u>	<u>13,521</u>	<u>17,585</u>	<u>22,234</u>
21					
22 Average Rate Base Before Allowances	833,044	855,550	872,411	888,470	907,793
23					
24 Cash Working Capital Allowance	9,786	9,230	9,378	9,625	9,849
25					
26 Materials and Supplies Allowance	4,430	4,461	4,539	4,630	4,737
27					
28 Average Rate Base At Year End	<u>847,260</u>	<u>869,241</u>	<u>886,328</u>	<u>902,725</u>	<u>922,379</u>

¹ All numbers shown are averages.

1st Revision Note: Updated for revised forecasts for 2009 through 2013.

Financial Forecast: 2009 to 2013

Financial Forecast
2009 - 2013
Weighted Average Cost of Capital
(\$000s)

	Forecast		Pro forma		
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
1 Average Capitalization					
2 Debt	456,032	474,166	481,990	492,577	505,139
3 Preference Shares	9,233	9,113	9,113	9,113	9,113
4 Common Equity	<u>376,870</u>	<u>390,362</u>	<u>401,027</u>	<u>407,789</u>	<u>418,525</u>
5	<u>842,135</u>	<u>873,641</u>	<u>892,130</u>	<u>909,479</u>	<u>932,777</u>
6 Average Capital Structure					
7 Debt	54.15%	54.28%	54.03%	54.16%	54.15%
8 Preference Shares	1.10%	1.04%	1.02%	1.00%	0.98%
9 Common Equity	<u>44.75%</u>	<u>44.68%</u>	<u>44.95%</u>	<u>44.84%</u>	<u>44.87%</u>
10	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
11					
12					
13 Cost of Capital					
14 Debt	7.70%	7.65%	7.48%	7.59%	7.62%
15 Preference Shares	6.22%	6.23%	6.23%	6.23%	6.23%
16 Common Equity	<u>8.62%</u>	<u>11.00%</u>	<u>10.32%</u>	<u>10.35%</u>	<u>10.15%</u>
17					
18					
19 Weighted Average Cost of Capital					
20 Debt	4.17%	4.15%	4.04%	4.11%	4.13%
21 Preference Shares	0.07%	0.06%	0.06%	0.06%	0.06%
22 Common Equity	<u>3.86%</u>	<u>4.92%</u>	<u>4.64%</u>	<u>4.64%</u>	<u>4.55%</u>
23	<u>8.10%</u>	<u>9.13%</u>	<u>8.74%</u>	<u>8.81%</u>	<u>8.74%</u>

1st Revision Note: Updated for revised forecasts for 2009 through 2013.

Financial Forecast: 2009 to 2013

**Financial Forecast
2009 - 2013
Rate of Return on Rate Base
(\$000s)**

		Forecast		Pro forma		
		<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
1	Regulated Return on Equity	32,485	42,941	41,375	42,197	42,482
2	Return on Preferred Equity	574	568	568	568	568
3		<u>33,059</u>	<u>43,509</u>	<u>41,943</u>	<u>42,765</u>	<u>43,050</u>
4						
5	Finance Charges					
6	Interest on Long-term Debt	34,548	35,849	35,444	36,993	38,213
7	Other Interest	341	226	412	193	62
8	Amortization of Bond Issue Expenses	232	185	185	191	195
9	AFUDC	<u>(369)</u>	<u>(408)</u>	<u>(417)</u>	<u>(427)</u>	<u>(441)</u>
10		<u>34,752</u>	<u>35,852</u>	<u>35,624</u>	<u>36,950</u>	<u>38,029</u>
11						
12	Return on Rate Base	<u>67,811</u>	<u>79,361</u>	<u>77,567</u>	<u>79,715</u>	<u>81,079</u>
13						
14	Average Rate Base	<u>847,260</u>	<u>869,241</u>	<u>886,328</u>	<u>902,725</u>	<u>922,379</u>
15						
16	Rate of Return on Rate Base	8.00%	9.13%	8.75%	8.83%	8.79%

1st Revision Note: Updated for revised forecasts for 2009 through 2013.

Newfoundland Power Inc.

2009 to 2013 Financial Forecasts

Inputs and Assumptions

1	Energy Forecasts :	Energy forecasts are based on economic indicators taken from the Conference Board of
2		Canada forecast, Provincial Outlook Summer 2009, Economic Forecast, dated July 16, 2009.
3		
4	Revenue Forecast :	The revenue forecast is based on the Customer, Energy and Demand forecast dated September 2009.
5		
6		Forecast revenues reflect the (i) amortization of the 2005 Unbilled Revenue, (ii) amortization of the municipal
7		tax liability, (iii) recovery through the RSA of amounts associated with the Supply Cost Variance Adjustment
8		Clause for 2011 to 2013, and, (iv) recovery through revenue of amounts associated with pension cost recovery
9		for 2011 to 2013.
10		
11		Supply cost variances for 2010 Proposed are reflected in the 2010 Test Year Revenue Requirement.
12		
13	Purchased Power Expense :	Purchased Power expense reflects Hydro's Board approved rates and the Customer, Energy and
14		Demand Forecast dated September, 2009.
15		
16		Purchased Power Expense for 2009 and 2010 includes a Board approved \$0.6 million per year
17		amortization related to the replacement energy costs associated with the Rattling Brook project
18		and (\$0.7) million per year amortization related to the disposition of the Purchased Power Unit
19		Cost Variance Reserve.
20		
21		Purchased Power Expense for 2009 to 2012 also includes a Board approved \$2.1 million per year
22		amortization of the non-reversing balance in the Weather Normalization Reserve.
23		
24	Employee Future Benefit	Pension costs related to the 2005 Early Retirement Program are being amortized over
25	Costs :	a 10-year period from 2005 to 2015 as approved in Order No. P.U. 49 (2004).
26		
27		Pension funding is based on the actuarial valuation dated December 31, 2008 filed with
28		this Application.
29		
30		Pension expense discount rate is assumed to be 7.50% for 2009 and 6.50% for the period 2010 to 2013.
31		
32		Expected return on pension assets is assumed to be 7.0% for the period 2009 to 2013.
33		
34		The 2010 to 2013 forecast assumes that the accounting for OPEBs is on the Accrual Basis.
35		
36		Pension funding is forecast based on the latest actuarial information and assumes special
37		funding payments of \$1.5 million per year for the period 2009 to 2013.
38		
39	Cost Recovery Deferral:	In Order No. P.U. 39 (2006), the Board approved the deferred recovery of \$5.8 million in
40		2007 costs related to the conclusion of the depreciation true up in 2005.
41		
42		2010 costs include \$3.9 million per year related to the amortization over a three-year
43		period of cost recovery deferrals related to depreciation.
44		
45		2011 to 2013 costs include deferred recovery of pension cost variances as proposed in the
46		2010 Test Year.

1st Revision Note: Updated for revised forecasts for 2009 through 2013.

Newfoundland Power Inc.

2009 to 2013 Financial Forecasts

Inputs and Assumptions

1	Depreciation Rates :	Depreciation rates for 2009 to 2013 are based on the 2006 depreciation study.
2		
3		Depreciation costs for 2009 and 2011 reflect a Board approved \$0.2 million per year amortization
4		of a \$0.7 million depreciation true up resulting from the 2006 depreciation study.
5		
6	Operating Costs :	Operating forecasts for 2010 reflect the evidence filed in the Amended Application.
7		
8		Deferred CDM costs of \$1.5 million are being amortized on a straight-line basis over a
9		4-year period beginning in 2010.
10		
11		Operating costs in 2010 also include \$750,000 in external regulatory costs related
12		to the 2010 general rate application.
13		
14		Operating costs for 2011 to 2013 assumes a 4.0% salary escalation for labour
15		costs. Non-labour costs for the 2011 to 2013 period include inflation adjustments
16		based on GDP data (Conference Board of Canada, Provincial Long-term Forecast,
17		July 16, 2009).
18		
19	Capital Expenditure :	Capital Expenditures for 2011 to 2013 reflect the 5-year plan filed in the 2010 Capital
20		Budget Application.
21		
22	Short-Term Interest Rates :	Average short-term interest rates are assumed to be 2.0% for 2010 to 2013.
23		
24	Long-Term Debt :	A \$65.0 million 30 year, 6.606% long-term debt issue was completed on May 25, 2009.
25		Debt repayments will be in accordance with the normal sinking fund provisions for existing
26		outstanding debt.
27		
28		A \$50.0 million long-term debt issue is forecast in June 15, 2012.
29		The debt is forecast for 30 years at a coupon rate of 7.25%. Debt repayments will be
30		in accordance with the normal sinking fund provisions for existing outstanding debt.
31		
32	Dividends :	Common dividend payouts are forecast based on maintaining a target common equity
33		component of 45%.
34		
35	Income Tax :	Income tax expense reflects a statutory income tax rate of 32% in 2010, 30.5% in 2011 and
36		29.0% thereafter.
37		
38		Income tax expense for 2009 to 2013 reflects the tax effecting of pension costs as approved
39		by the Board in Order No. P.U. 32 (2007) and the tax effecting of OPEB costs.

1st Revision Note: Updated for revised forecasts for 2009 through 2013.