

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)

Newfoundland Power Inc.

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

	Forecast		Pro forma		
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
1 Electricity Sales (GWh)	5,303	5,355	5,401	5,539	5,636
2					
3 Revenue From Rates	506,284	545,312	549,919	562,904	571,925
4 Amortization of 2005 Unbilled Revenue	4,618	4,618			
5 Transfers from (to) the RSA	3,030	-	5,017	9,432	12,449
6	513,932	549,930	554,936	572,336	584,374
7					
8 Purchased Power Expense	344,155	349,931	354,789	368,171	378,674
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				375	60
13	346,166	351,942	356,890	370,647	378,734
14					
15 Contribution	167,766	197,988	198,046	201,689	205,640
16					
17 Other Revenue	14,004	13,672	12,548	13,036	13,784
18					
19 Other Expenses:					
20 Operating Expenses ¹	49,328	53,903	54,656	56,404	58,224
21 Employee Future Benefit Costs	2,577	11,631	15,336	15,236	15,033
22 Deferred Cost Recoveries and Amortizations	3,863	3,861	-	-	-
23 Depreciation	41,852	43,341	45,044	46,862	48,359
24 Finance Charges	34,917	36,024	35,839	37,200	38,020
25	132,537	148,760	150,875	155,702	159,636
26					
27 Income Before Income Taxes	49,233	62,900	59,719	59,023	59,788
28 Income Taxes	16,170	20,618	18,899	17,690	17,980
29					
30 Net Income	33,063	42,282	40,820	41,333	41,808
31 Preferred Dividends	579	573	573	573	573
32					
33 Earnings Applicable to Common Shares	32,484	41,709	40,247	40,760	41,235
34					
35					
36 Rate of Return and Credit Metrics					
37 Rate of Return on Rate Base (percentage)	8.15%	9.15%	8.77%	8.81%	8.75%
38 Regulated Return on Book Equity (percentage)	8.88%	11.00%	10.33%	10.24%	10.06%
39 Return on Book Equity (percentage)	8.61%	10.70%	10.03%	9.94%	9.77%
40 Interest Coverage (times)	2.4	2.7	2.6	2.6	2.5
41 CFO Pre-W/C + Interest / Interest (times)	3.1	3.5	3.5	3.4	3.3
42 CFO Pre-W/C / Debt (percentage)	15.9%	18.9%	18.5%	18.1%	17.1%
43 Revenue Shortfall (@ 11.0% Regulated Return on Equity)	-	-	3,902	4,301	5,546

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

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	310,721	328,487	333,232	345,921
2 Net Income for the Period	<u>33,063</u>	<u>42,282</u>	<u>40,820</u>	<u>41,333</u>	<u>41,808</u>
3	<u>336,480</u>	<u>353,003</u>	<u>369,307</u>	<u>374,565</u>	<u>387,729</u>
4					
5 Dividends					
6 Preference Shares	579	573	573	573	573
7 Common Shares	<u>25,180</u>	<u>23,943</u>	<u>35,502</u>	<u>28,071</u>	<u>29,722</u>
8	<u>25,759</u>	<u>24,516</u>	<u>36,075</u>	<u>28,644</u>	<u>30,295</u>
9					
10 Balance - End of Period	<u>310,721</u>	<u>328,487</u>	<u>333,232</u>	<u>345,921</u>	<u>357,434</u>

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>
1	Assets					
2	Current assets					
3	Accounts Receivable	\$ 71,022	\$ 73,685	\$ 74,184	\$ 75,286	\$ 75,376
4	Materials and Supplies	5,586	5,586	5,679	5,790	5,900
5	Prepaid Expenses	1,336	1,336	1,362	1,388	1,415
6	Regulatory Assets	6,077	3,624	4,622	5,501	7,989
7		<u>84,021</u>	<u>84,231</u>	<u>85,847</u>	<u>87,965</u>	<u>90,680</u>
8						
9	Capital assets	826,340	826,626	858,562	888,709	925,776
10	Deferred charges	101,022	100,643	98,671	97,112	96,012
11	Regulatory assets	197,558	188,205	187,209	189,183	191,743
12	Customer Finance Plans	1,750	1,750	1,750	1,750	1,750
13		<u>\$ 1,210,691</u>	<u>\$ 1,201,455</u>	<u>\$ 1,232,039</u>	<u>\$ 1,264,719</u>	<u>\$ 1,305,961</u>
14						
15						
16						
17	Liabilities and Shareholders' Equity					
18	Current Liabilities					
19	Accounts payable and accrued charges	\$ 63,909	\$ 63,471	\$ 64,371	\$ 66,321	\$ 67,625
20	Current Installments of long-term debt	5,200	5,200	5,200	5,700	34,653
21	Future Income Taxes	974	974	974	974	974
22		<u>70,083</u>	<u>69,645</u>	<u>70,545</u>	<u>72,995</u>	<u>103,252</u>
23						
24	Regulatory liabilities	80,778	80,778	86,024	91,458	97,111
25	Other liabilities	56,113	56,113	62,178	68,262	74,261
26	Long-term debt	484,301	469,912	486,137	494,282	483,591
27						
28	Future Income Taxes	118,670	117,026	114,429	112,307	110,818
29						
30	Shareholders' Equity					
31	Common shares	70,321	70,321	70,321	70,321	70,321
32	Preference shares	9,173	9,173	9,173	9,173	9,173
33	Retained earnings	321,252	328,487	333,232	345,921	357,434
34		<u>400,746</u>	<u>407,981</u>	<u>412,726</u>	<u>425,415</u>	<u>436,928</u>
35		<u>\$ 1,210,691</u>	<u>\$ 1,201,455</u>	<u>\$ 1,232,039</u>	<u>\$ 1,264,719</u>	<u>\$ 1,305,961</u>

Newfoundland Power Inc.

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

	Forecast		Pro forma		
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
1 Cash From (Used In) Operating Activities					
2 Net Earnings	\$ 33,064	\$ 42,282	\$ 40,820	\$ 41,333	\$ 41,808
3					
4 Items not affecting cash:					
5 Amortization of capital assets	41,852	43,341	45,044	46,862	48,359
6 Amortization of deferred charges	271	225	187	193	197
7 Change in regulatory assets and liabilities	1,423	1,801	377	(2,474)	(4,669)
8 Future income taxes	1,866	(1,287)	(2,600)	(2,122)	(1,489)
9 Accrued employee future benefits	(4,417)	4,215	7,658	7,264	6,720
10 Change in non-cash working capital	(15,174)	(4,752)	286	711	1,078
11	<u>58,885</u>	<u>85,825</u>	<u>91,772</u>	<u>91,767</u>	<u>92,004</u>
12					
13 Investing Activities					
14 Capital expenditures (net of salvage)	(66,855)	(68,484)	(73,734)	(73,574)	(81,774)
15 Long-term portion of finance programs	26	-	-	-	-
16 Contributions from customers and security deposits	<u>1,858</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>
17	<u>(64,971)</u>	<u>(66,484)</u>	<u>(71,734)</u>	<u>(71,574)</u>	<u>(79,774)</u>
18					
19 Financing Activities					
20 Change in short-term borrowings	-	-	-	-	-
21 Proceeds from long-term debt	65,000	10,375	21,237	50,000	23,765
22 Repayment of long-term debt	(33,294)	(5,200)	(5,200)	(41,249)	(5,700)
23 Payment of debt financing costs	(300)	-	-	(300)	-
24 Redemption of preference shares	(179)	-	-	-	-
25 Dividends					
26 Preference Shares	(579)	(573)	(573)	(573)	(573)
27 Common Shares	<u>(25,181)</u>	<u>(23,943)</u>	<u>(35,502)</u>	<u>(28,071)</u>	<u>(29,722)</u>
28	<u>5,467</u>	<u>(19,341)</u>	<u>(20,038)</u>	<u>(20,193)</u>	<u>(12,230)</u>
29					
30 Change in Cash	(619)	-	-	-	-
31 Cash, Beginning of Year	<u>619</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
32 Cash, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Newfoundland Power Inc.

Financial Forecast
2009 - 2013Average 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	731,956	754,952	779,744	805,351	833,287
2					
3 Add:					
4 Deferred Charges	102,342	104,130	102,938	100,423	98,345
5 Weather Normalization Reserve	4,297	2,000	635	(731)	(1,414)
6 Deferred Energy Replacement Costs	575	192	-	-	-
7 Cost Recovery Deferrals	6,551	3,257	948	569	190
8 Customer Finance Programs	1,763	1,750	1,750	1,750	1,750
9	<u>115,528</u>	<u>111,329</u>	<u>106,271</u>	<u>102,011</u>	<u>98,871</u>
10					
11 Deduct:					
12 2005 Unbilled Revenue	6,927	2,309	-	-	-
13 Accrued Pension Liabilities	3,261	3,502	3,749	4,002	4,262
14 Accrued OPEBS Liability	-	2,837	8,582	14,403	20,185
15 Municipal Tax Liability	2,046	683	-	-	-
16 Future Income Taxes	2,117	2,406	464	(1,898)	(3,704)
17 Purchased Power Unit Cost Reserve	671	224	-	-	-
18 Demand Management Incentive Account	213	-	-	133	288
19 Customer Security Deposits	714	643	643	643	643
20	<u>15,949</u>	<u>12,604</u>	<u>13,438</u>	<u>17,283</u>	<u>21,674</u>
21					
22 Average Rate Base Before Allowances	831,535	853,677	872,577	890,079	910,484
23					
24 Cash Working Capital Allowance	9,875	9,266	9,445	9,714	9,953
25					
26 Materials and Supplies Allowance	4,432	4,453	4,527	4,615	4,703
27					
28 Average Rate Base At Year End	<u>845,842</u>	<u>867,396</u>	<u>886,549</u>	<u>904,408</u>	<u>925,140</u>

¹ All numbers shown are averages.

Newfoundland Power Inc.

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	453,950	472,429	483,225	495,660	509,113
3	Preference Shares	9,263	9,173	9,173	9,173	9,173
4	Common Equity	377,390	389,925	401,181	409,898	421,999
5		<u>840,603</u>	<u>871,527</u>	<u>893,579</u>	<u>914,731</u>	<u>940,285</u>
6	Average Capital Structure					
7	Debt	54.00%	54.21%	54.08%	54.19%	54.14%
8	Preference Shares	1.10%	1.05%	1.03%	1.00%	0.98%
9	Common Equity	44.90%	44.74%	44.90%	44.81%	44.88%
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	7.76%	7.69%	7.49%	7.58%	7.54%
15	Preference Shares	6.25%	6.25%	6.25%	6.25%	6.25%
16	Common Equity	8.88%	11.00%	10.33%	10.24%	10.06%
17						
18						
19	Weighted Average Cost of Capital					
20	Debt	4.19%	4.17%	4.05%	4.11%	4.08%
21	Preference Shares	0.06%	0.06%	0.06%	0.06%	0.06%
22	Common Equity	<u>3.99%</u>	<u>4.92%</u>	<u>4.64%</u>	<u>4.59%</u>	<u>4.51%</u>
23		<u>8.24%</u>	<u>9.15%</u>	<u>8.75%</u>	<u>8.76%</u>	<u>8.66%</u>

Newfoundland Power Inc.**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	33,527	42,874	41,429	41,967	42,442
2	Return on Preferred Equity	579	573	573	573	573
3		<u>34,106</u>	<u>43,447</u>	<u>42,002</u>	<u>42,540</u>	<u>43,015</u>
4						
5	Finance Charges					
6	Interest on Long-term Debt	34,604	35,849	35,444	36,993	37,914
7	Other Interest	369	305	576	391	300
8	Amortization of Bond Issue Expenses	234	187	187	193	197
9	AFUDC	(366)	(405)	(418)	(428)	(441)
10		<u>34,841</u>	<u>35,936</u>	<u>35,789</u>	<u>37,149</u>	<u>37,970</u>
11						
12	Return on Rate Base	<u>68,947</u>	<u>79,383</u>	<u>77,791</u>	<u>79,689</u>	<u>80,985</u>
13						
14	Average Rate Base	<u>845,842</u>	<u>867,396</u>	<u>886,549</u>	<u>904,408</u>	<u>925,140</u>
15						
16	Rate of Return on Rate Base	8.15%	9.15%	8.77%	8.81%	8.75%

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 Spring 2009, Economic Forecast, dated April 21, 2009.
3		
4	Revenue Forecast :	The revenue forecast is based on the Customer, Energy and Demand forecast dated May 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 Adjustmen
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 May, 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 the period 2009 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.

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 2010 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		February 12, 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.