

HAND DELIVERED

October 4, 2011

Board of Commissioners of Public Utilities
P.O. Box 21040
120 Torbay Road
St. John's, NF A1A 5B2

Attention: Cheryl Blundon
Board Secretary

Ladies & Gentlemen:

**Re: Grant Thornton's Report of the Review of Newfoundland Power Inc.'s
2012 Capital Budget Application**

Newfoundland Power acknowledges receipt of the above referenced report on September 30th, 2011.

At page 7 of its report, Grant Thornton references the Board's approval, in Order No. P.U. 43 (2009), of the amortization of Newfoundland Power's 2010 GRA hearing costs in the amount of \$750,000 over a three-year period beginning in 2010. Grant Thornton notes that the actual costs incurred in relation to the 2010 GRA were \$760,000, and that Newfoundland Power has deferred the full \$760,000 and is amortizing this over a three-year period commencing in 2010.

Based upon its review of Order No. P.U. 43 (2009), Grant Thornton concludes as follows:

"...only \$750,000 of the hearing costs are eligible for deferral. This amount is to be amortized over a three-year period ending 2012 at an amount of \$250,000 per year. The excess of \$10,000 is not eligible for deferral; however, we assess this amount as immaterial."

Newfoundland Power agrees that the excess of \$10,000 is an immaterial amount. However, Newfoundland Power's deferral and amortization of *actual* hearing costs, and its accounting for them in the calculation of rate base, is both appropriate and consistent with past practice.

The reflection of *actual* costs in rate base is consistent with the asset rate base method approved by the Board in Order No. P.U. 32 (2007) and the Board's specific directive in Order No. P.U. 19 (2003) that the Company include deferred charges in the calculation of rate base. Conceptually, the rate base represents the amount that the Company must finance to provide service to its customers. This includes costs, such as actual hearing costs, which have been paid but have not yet been fully recovered (through amortization) from customers.



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In Order No. P.U. 32 (2007), the Board approved deferred recovery of an estimated \$1.25 million in 2008 GRA hearing costs over 3 years. Actual hearing costs were \$603,000, which costs were deferred and amortized over 3 years in the amount of \$201,000 per year. Similarly, in Order No. P.U. 19 (2003), the Board approved deferred recovery of an estimated \$1.2 million in hearing costs over 3 years. In that instance, actual hearing costs for the 2003 GRA were \$1.04 million, which were deferred and amortized over 3 years for an annual amortization of \$347,000.

The Company's deferred recovery and amortization of the actual hearing costs of the 2010 GRA, and the resulting impact on the calculation of rate base, is both appropriate and consistent with past practice.

If you have questions regarding the foregoing, please contact the undersigned.

Yours very truly,



Gerard M. Hayes
Senior Counsel

- c. Thomas Johnson, Consumer Advocate
Geoffrey Young, Newfoundland and Labrador Hydro
Steve Power, Grant Thornton



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