**Q. Over the past three-year period the following capital budget amounts were approved by the Board:**

| | | |
|---|---|---|
| **2009 Capital Budget Application** | **$61,571,000** | **Order No. P.U. 27(2008)** |
| **2010 Capital Budget Application** | **64,679,000** | **Order No. P.U. 41(2009)** |
| **2011 Capital Budget Application** | **72,969,000** | **Order No. P.U. 28(2010)** |

**The upcoming five years are forecast to be:**

| **2012** | **2013** | **2014** | **2015** | **2016** |
|---|---|---|---|---|
| **$77,293,000** | **$79,611,000** | **$88,086,000** | **$86,397,000** | **$85,176,000** |

**Using the rate of return on rate base and the operating expenses for the 2010 test year, and setting out any other reasonable assumptions, please calculate the impact on the revenue requirement for each of the upcoming five years that can be attributed directly to the forecast capital expenditures for that period.**

A. Table 1 provides *pro forma* estimates of the annual revenue requirement impacts associated with Newfoundland Power's capital investment of approximately $417 million over the 5-year period from 2012 through 2016.

**Table 1**
***Pro Forma* Revenue Requirement**
**2012-2016**
**($000's)**

| **Year** | **Revenue Requirement** |
|---|---|
| 2012 | 1,786 |
| 2013 | 8,398 |
| 2014 | 15,101 |
| 2015 | 20,920 |
| 2016 | 26,726 |

The *pro forma* impacts of the Company's forecast capital expenditure include increases in the cost of capital, depreciation and income taxes in each year.

These *pro forma* revenue requirement impacts are not equivalent to customer rate impacts.

While the impacts of Newfoundland Power's annual capital expenditures tend put upward pressure on revenue requirements, depreciation related to existing assets tends to have an offsetting effect. For example, over this 5-year period, the Company will incur depreciation expense of approximately $40 million annually related to existing assets.

This will tend to decrease future revenue requirement, but is not reflected in the *pro forma* revenue requirement impacts related to forecast capital expenditures, as shown in Table 1.

In any given year the Company's total revenue requirement also reflects cost dynamics other than those related to capital investment. In addition, changes in sales volumes will affect the relationship between costs and customer rates. The impacts of capital investment on customer rates for the period 2012 to 2016 will be established at general rate proceedings through this period.