

1 **Q. Please provide a copy of Newfoundland Power's five year financial forecast. Please**
2 **forecast all changes in the revenue requirement and required rate action for the**
3 **next five years.**

4
5 A. Attachment A is a copy of Newfoundland Power's current five year financial forecast for
6 regulatory purposes (the "financial forecast"). The financial forecast is based on the
7 latest available forecasts and management's best estimates. The financial forecast is
8 subject to change as actual results for each of the forecast years become known and as
9 assumptions and circumstances change.

10
11 In the years 2013 through 2016, revenue shortfalls are forecast for each year (see line 39,
12 p. 1 of 9). A *revenue shortfall* is simply the change in the forecast financial results
13 (expressed in terms of revenue) that would be required for the Company to recover all its
14 forecast costs, including its forecast cost of equity.

15
16 In addressing a forecast revenue shortfall, a number of matters require consideration.
17 Changes in sales, other costs or forecast assumptions may result in a forecast revenue
18 shortfall not materializing or materially increasing. A forecast revenue shortfall could be
19 addressed by regulatory actions such as deferred recovery of costs. Increasing customer
20 rates is another means of addressing a forecast revenue shortfall.

21
22 By Order No. P.U. 43 (2009), Newfoundland Power was required to file its next general
23 rate application no later than May 31, 2012 unless otherwise ordered by the Board. In
24 Order No. P.U. 25 (2011), it was ordered that the process and timing to be followed with
25 respect to the filing of Newfoundland Power's next general rate application would be
26 established by a further direction of the Board. To date, no further direction has been
27 made on this matter.

28
29 The financial forecast indicates a revenue shortfall for Newfoundland Power for 2013 of
30 approximately \$3.5 million. Consideration of that shortfall, in the context of the
31 Company's overall costs, could be the subject matter of a general rate application filed in
32 2012. Alternatively, the forecast revenue shortfall for 2013 might be capable of being
33 addressed by way of cost deferrals. Newfoundland Power observes that in Order Nos.
34 P.U. 30 (2010) and P.U. 22 (2011), the Board approved deferred cost recovery in each of
35 2011 and 2012 to address forecast revenue shortfalls of \$3.4 million and \$3.5 million
36 respectively.

37
38 Given the foregoing, what action Newfoundland Power will take to address the revenue
39 shortfalls indicated in the financial forecast is currently uncertain.

**Newfoundland Power Inc.
Financial Forecasts
2012-2016**

Financial Forecasts: 2012 to 2016

2012 Cost of Capital Application

Financial Forecasts
2012-2016
Statements of Income
(\$000s)

	Forecast	Pro forma			
	2012	2013	2014	2015	2016
1 Energy Sales (Gwh)	5,686	5,775	5,865	5,934	5,993
2					
3 Revenue From Rates	565,524	573,370	581,759	588,606	594,734
4 Deferred Revenues - Seasonal/TOD Rates	80	99	111	120	127
5 Recovery of Employee Future Benefit Costs	4,351	2,586	2,009	239	(1,185)
6 Energy Supply Cost Variance Adjustments	11,285	14,161	17,067	19,501	21,291
7	581,240	590,216	600,946	608,466	614,967
8					
9 Purchased Power Expense	382,871	391,962	401,191	408,948	414,674
11 Amortiation of Weather Normalization Account	2,101	-	-	-	-
12 DMI Account Adjustments	1,301	364	90	-	-
13	386,273	392,326	401,281	408,948	414,674
14					
15 Contribution	194,967	197,890	199,665	199,518	200,293
16					
17 Other Revenue	6,362	5,759	5,849	6,351	6,375
18					
19 Other Expenses:					
20 Operating Expenses ¹	55,919	57,673	59,336	61,539	63,717
21 Employee Future Benefit Costs	21,973	20,034	19,434	17,494	15,950
22 Deferred Cost Recoveries	(2,363)	-	-	-	-
23 Depreciation	44,411	45,820	47,380	49,178	51,044
24 Finance Charges	35,868	35,746	37,663	38,083	39,312
25	155,808	159,273	163,813	166,294	170,023
26					
27 Income Before Income Taxes	45,521	44,376	41,701	39,575	36,645
28 Income Taxes	12,619	12,954	12,139	11,571	10,744
29 Net Income	32,902	31,422	29,562	28,004	25,901
30 Preferred Dividends	566	566	566	566	566
31					
32 Earnings on Common Shares	32,336	30,856	28,996	27,438	25,335
33					
34					
35 Forecast Returns					
36 Rate of Return on Rate Base (percentage)	7.87%	7.47%	7.18%	6.78%	6.45%
37 Regulated Return on Book Equity (percentage)	8.37%	7.80%	7.19%	6.65%	6.06%
38					
39 Revenue Shortfall (@8.38% Regulated Return on Equity)	-	3,513	7,514	11,674	16,450

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

Financial Forecasts: 2012 to 2016

2012 Cost of Capital Application

Financial Forecasts
2012 - 2016
Regulated Statements of Retained Earnings
(000's)

		Forecast	Pro forma			
		<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
1	Balance - Beginning of the Year	\$ 313,710	\$ 340,679	\$ 347,592	\$ 360,076	\$ 370,176
2	Net Earnings	32,902	31,422	29,562	28,004	25,901
3		<u>346,612</u>	<u>372,101</u>	<u>377,154</u>	<u>388,080</u>	<u>396,077</u>
4						
5	Dividends					
6	Preference Shares	566	566	566	566	566
7	Common Shares	<u>5,367</u>	<u>23,943</u>	<u>16,512</u>	<u>17,338</u>	<u>18,989</u>
8		<u>5,933</u>	<u>24,509</u>	<u>17,078</u>	<u>17,904</u>	<u>19,555</u>
9						
10	Balance - End of the Year	<u>\$ 340,679</u>	<u>\$ 347,592</u>	<u>\$ 360,076</u>	<u>\$ 370,176</u>	<u>\$ 376,522</u>

Financial Forecasts: 2012 to 2016

2012 Cost of Capital Application

Financial Forecasts
2012 - 2016
Regulated Balance Sheets
(000's)

	Forecast	Pro forma			
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
1 Assets					
2 Current assets					
3 Accounts Receivable	\$ 78,453	\$ 79,549	\$ 80,642	\$ 81,031	\$ 81,282
4 Materials and Supplies	1,000	1,146	1,283	1,421	1,556
5 Prepaid Expenses	1,107	1,131	1,154	1,177	1,200
6 Regulatory Assets	28,092	23,830	25,240	27,151	25,442
7	<u>108,652</u>	<u>105,656</u>	<u>108,319</u>	<u>110,780</u>	<u>109,480</u>
8					
9 Property, plant and equipment	848,238	884,258	927,346	967,174	1,004,128
10 Intangible assets	14,240	14,282	14,462	14,592	14,735
11 Regulatory assets	289,918	275,817	266,461	256,634	246,359
12 Other assets	4,206	3,886	3,985	3,807	3,936
13	<u>\$ 1,265,254</u>	<u>\$ 1,283,899</u>	<u>\$ 1,320,573</u>	<u>\$ 1,352,987</u>	<u>\$ 1,378,638</u>
14					
15					
16 Liabilities and Shareholders' Equity					
17 Current Liabilities					
18 Accounts payable and accrued charges	66,633	68,484	70,908	71,377	71,776
19 Interest payable	7,480	7,393	6,469	6,395	6,228
23 Regulatory liabilities	15,316	16,215	18,077	19,783	21,668
24 Current installments of long-term debt	5,200	5,200	34,503	5,550	36,300
25 Deferred income taxes	2,992	2,992	2,992	2,992	2,992
26	<u>97,621</u>	<u>100,284</u>	<u>132,949</u>	<u>106,097</u>	<u>138,964</u>
27					
28					
29 Regulatory liabilities	60,956	60,531	59,556	59,397	59,626
30 Defined benefit pension plans	(3,785)	(16,971)	(31,474)	(46,750)	(63,062)
31 Other post employment benefits	76,886	78,911	80,425	81,485	81,979
32 Other liabilities	759	759	759	759	759
33 Deferred income taxes	124,996	125,406	126,917	129,692	133,138
34 Long-term debt	487,740	507,985	511,963	572,729	571,310
35	<u>747,552</u>	<u>756,621</u>	<u>748,146</u>	<u>797,312</u>	<u>783,750</u>
36					
37					
38 Shareholders' Equity					
39 Common shares	70,321	70,321	70,321	70,321	70,321
40 Preference shares	9,081	9,081	9,081	9,081	9,081
41 Retained earnings	340,679	347,592	360,076	370,176	376,522
42	<u>420,081</u>	<u>426,994</u>	<u>439,478</u>	<u>449,578</u>	<u>455,924</u>
43	<u>\$ 1,265,254</u>	<u>\$ 1,283,899</u>	<u>\$ 1,320,573</u>	<u>\$ 1,352,987</u>	<u>\$ 1,378,638</u>

Financial Forecasts: 2012 to 2016

2012 Cost of Capital Application

Financial Forecasts
2012 - 2016
Regulated Statements of Cashflows
(000's)

	Forecast	Pro forma			
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
1 Cash From (Used In) Operating Activities					
2 Net Earnings	\$ 32,902	\$ 31,422	\$ 29,562	\$ 28,004	\$ 25,901
3					
4 Items not affecting cash					
5 Amortization of property, plant and equipment	41,662	43,285	44,943	46,717	48,569
6 Amortization of intangible assets and other	2,749	2,535	2,437	2,461	2,475
7 Change in long-term regulatory assets and liabilities	13,677	14,780	9,886	10,283	10,725
8 Change in other assets and liabilities	2,555	-	-	-	-
9 Future income taxes	(406)	410	1,511	2,775	3,446
10 Employee future benefits	(9,705)	(11,162)	(12,989)	(14,215)	(15,819)
11 Equity portion of AFUDC	(410)	(421)	(466)	(457)	(450)
12	<u>83,024</u>	<u>80,849</u>	<u>74,884</u>	<u>75,568</u>	<u>74,847</u>
13					
14 Change in non-cash working capital	<u>(13,122)</u>	<u>5,661</u>	<u>699</u>	<u>(362)</u>	<u>3,419</u>
15	<u>69,902</u>	<u>86,510</u>	<u>75,583</u>	<u>75,206</u>	<u>78,266</u>
16					
17 Cash From (Used In) Investing Activities					
18 Purchase Price/Adjustments - Bell Pole Sale	(889)	-	-	-	-
19 Capital expenditures	(79,277)	(83,489)	(92,570)	(90,202)	(88,794)
20 Intangible Asset Expenditures	(2,407)	(2,577)	(2,617)	(2,591)	(2,619)
21 Contributions from customers	3,500	3,500	3,500	3,500	3,500
22 Other	-	-	-	-	-
23	<u>(79,073)</u>	<u>(82,566)</u>	<u>(91,687)</u>	<u>(89,293)</u>	<u>(87,913)</u>
24					
25 Cash From (Used In) Financing Activities					
26 Net proceeds (repayment) of committed credit facility	19,652	25,445	(7,216)	37,363	(9,369)
27 Proceeds from long-term debt	-	-	75,000	-	75,000
28 Repayment of long-term debt	(5,200)	(5,200)	(34,503)	(5,550)	(36,300)
29 Payment of debt financing costs	321	320	(99)	178	(129)
30 Redemption of preference shares	-	-	-	-	-
31 Dividends					
32 Preference Shares	(565)	(566)	(566)	(566)	(566)
33 Common Shares	(5,367)	(23,943)	(16,512)	(17,338)	(18,989)
34	<u>8,841</u>	<u>(3,944)</u>	<u>16,104</u>	<u>14,087</u>	<u>9,647</u>
35					
36 Change in Cash	(330)	-	-	-	-
37 Cash, Beginning of Year	330	-	-	-	-
38 Cash, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Financial Forecasts: 2012 to 2016

2012 Cost of Capital Application

Financial Forecasts
2012 - 2016
Computation of Average Rate Base
(\$000s)

	Forecast	Pro forma			
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
1 Net Plant Investment					
2 Plant Investment	1,430,059	1,485,638	1,547,120	1,609,951	1,672,175
3 Accumulated Amortization	(596,492)	(613,685)	(629,616)	(650,661)	(674,456)
4 Contributions in Aid of Construction	<u>(30,857)</u>	<u>(32,610)</u>	<u>(34,281)</u>	<u>(35,866)</u>	<u>(37,368)</u>
5	802,710	839,343	883,223	923,424	960,351
6					
7 Additions to Rate Base					
8 Deferred Pension Costs	99,961	104,438	109,726	117,116	126,251
9 Credit Facility Costs	140	10	-	-	-
10 Cost Recovery Deferral - Seasonal/TOD Rates	133	150	106	113	119
11 Cost Recovery Deferral - Conservation	227	-	-	-	-
12 Cost Recovery Deferral - Regulatory Amortizations	3,319	3,319	3,319	3,319	3,319
13 Customer Finance Programs	<u>1,499</u>	<u>1,499</u>	<u>1,499</u>	<u>1,499</u>	<u>1,499</u>
14	105,279	109,416	114,650	122,047	131,188
15					
16 Deductions from Rate Base					
17 Weather Normalization Reserve	6,682	6,681	6,681	6,681	6,681
18 Other Post Employment Benefits	14,403	21,207	27,918	34,028	39,592
19 Customer Security Deposits	759	759	759	759	759
20 Accrued Pension Obligation	4,041	4,312	4,590	4,870	5,158
21 Future Income Taxes	110	519	2,029	4,804	8,250
22 Demand Management Incentive Account	<u>923</u>	<u>1,182</u>	<u>1,246</u>	<u>1,246</u>	<u>1,246</u>
23	26,918	34,660	43,223	52,388	61,686
24					
25 Year End Rate Base	881,071	914,099	954,650	993,083	1,029,853
26					
27 Average Rate Base Before Allowances	865,542	897,585	934,375	973,867	1,011,468
28					
29 Rate Base Allowances					
30 Materials and Supplies Allowance	9,930	10,110	10,286	10,412	10,511
31 Cash Working Capital Allowance	<u>5,214</u>	<u>5,296</u>	<u>5,406</u>	<u>5,516</u>	<u>5,624</u>
32					
33 Average Rate Base at Year End	<u>880,686</u>	<u>912,991</u>	<u>950,067</u>	<u>989,795</u>	<u>1,027,603</u>

Financial Forecasts: 2012 to 2016

2012 Cost of Capital Application

**Financial Forecasts
2012 - 2016
Weighted Average Cost of Capital
(\$000s)**

	Forecast 2012	Pro forma			
		2013	2014	2015	2016
1 Average Capitalization					
2 Debt	482,847	500,516	527,389	559,976	590,572
3 Preference Shares	9,081	9,081	9,081	9,081	9,081
4 Common Equity	397,515	414,456	424,155	435,448	443,671
5	<u>889,443</u>	<u>924,053</u>	<u>960,625</u>	<u>1,004,505</u>	<u>1,043,324</u>
6					
7 Average Capital Structure					
8 Debt	54.29%	54.17%	54.90%	55.75%	56.61%
9 Preference Shares	1.02%	0.98%	0.95%	0.90%	0.87%
10 Common Equity	44.69%	44.85%	44.15%	43.35%	42.52%
11	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
12					
13 Cost of Capital					
14 Debt	7.52%	7.23%	7.24%	6.89%	6.74%
15 Preference Shares	6.22%	6.23%	6.23%	6.23%	6.23%
16 Common Equity	8.37%	7.80%	7.19%	6.65%	6.06%
17					
18 Weighted Average Cost of Capital					
19 Debt	4.08%	3.92%	3.97%	3.84%	3.81%
20 Preference Shares	0.06%	0.06%	0.06%	0.06%	0.05%
21 Common Equity	3.74%	3.50%	3.17%	2.88%	2.58%
22	<u>7.88%</u>	<u>7.48%</u>	<u>7.20%</u>	<u>6.78%</u>	<u>6.44%</u>

Financial Forecasts: 2012 to 2016

2012 Cost of Capital Application

**Financial Forecasts
2012 - 2016
Return on Average Rate Base¹
(\$000s)**

	Forecast 2012	Pro forma			
		2013	2014	2015	2016
1 Net Earnings	32,902	31,422	29,562	28,004	25,901
2 Add: Non-regulated (net of income taxes)	954	1,467	1,492	1,516	1,542
3	33,856	32,889	31,054	29,520	27,443
4					
5 Finance Costs					
6 Interest on Long-term Debt	35,039	34,634	36,930	35,821	37,133
7 Other Interest	942	1,239	1,028	2,570	2,486
8 Amortization of Debt Issue Expenses	321	321	200	178	171
9 AFUDC	(856)	(880)	(974)	(955)	(941)
10	35,446	35,314	37,184	37,614	38,849
11					
12 Regulated Earnings	69,302	68,203	68,238	67,134	66,292
13					
14 Average Rate Base	880,686	912,991	950,067	989,795	1,027,603
15					
16 Rate of Return on Average Rate Base	7.87%	7.47%	7.18%	6.78%	6.45%

¹ The return on average rate base is calculated in accordance with the methodology approved in Order No. P.U 32 (2007).

**Financial Forecasts
2012 - 2016
Inputs and Assumptions**

1	Forecast results for 2012 to 2016 are based on electricity rates effective January 1, 2011 approved by the Board in
2	Order No. P.U. 36 (2010).
3	
4	Specific assumptions include:
5	
6	Energy Forecasts : Energy forecasts are based on economic indicators taken from the Conference Board of
7	Canada forecast dated February 2, 2012.
8	
9	Revenue Forecast : The revenue forecast is based on the Customer, Energy and Demand forecast dated March, 2012.
10	
11	Forecast revenues reflect, (i) recovery through the RSA of amounts associated with variances
12	in employee future benefit costs, and (ii) recovery through the RSA of amounts associated with the
13	Energy Supply Cost Variance Adjustment Clause for the period 2012 to 2016, all of which were
14	approved by the Board in Order Nos. P.U. 32 (2007), P.U. 43 (2009) and P.U. 31 (2010).
15	
16	The Supply Cost Variance Adjustment is approved by the Board for use up to and including 2013.
17	For forecast purposes, Supply Cost Variance Adjustments are assumed through to 2016.
18	
19	Purchased Power Expense : Purchased Power Expense for 2012 includes a Board approved \$2.1 million per year
20	amortization of the non-reversing balance in the Weather Normalization Reserve.
21	
22	Purchased Power expense for 2012 to 2016 also reflects the operation of the Demand Management
23	Incentive Account approved by the Board in Order No. P.U. 32 (2007). This mechanism provides
24	for recovery of demand costs in excess of 1% variance from costs included in the 2010 test year.
25	
26	Employee Future Benefit Pension costs related to the 2005 Early Retirement Program are being amortized over
27	Costs : a 10-year period from 2005 to 2015 as approved in Order No. P.U. 49 (2004).
28	
29	Discount rate for Pension is assumed to be 5.25% for 2012 to 2016 and reflects
30	management's best estimates based on the latest actuarial information.
31	
32	Discount rate for OPEBs is assumed to be 5.25% for 2012-2016 and reflects
33	management's best estimates based on the latest actuarial information.
34	
35	Expected return on pension assets is assumed to be 6.50% for 2012- 2016.
36	
37	Pension funding is based on the latest actuarial information and
38	assumes special funding payments of \$10.7 million per year for 2012 to 2016.
39	
40	Cost Recovery Deferral: 2012 includes the deferred recovery of \$2.4 million in costs related to the expiry of certain
41	regulatory amortizations.
42	
43	2012 and 2013 costs also include recoveries of \$0.3 million per year related to
44	conservation program costs and \$0.3 million related to recovery of 2010 hearing costs in 2012.
45	
46	Depreciation Rates : Depreciation rates for 2012 to 2016 are based on the 2006 Depreciation Study. The 2010
47	Depreciation Study indicates an accumulated amortization variance deficit of approximately \$17.7
48	million. Subject to PUB approval, this variance is expected to increase the amortization of
49	capital assets in future years and be recovered in future customer rates.
50	
51	Operating Costs : Operating costs for 2012 reflect management's best estimates.
52	
53	Operating costs for 2013 to 2016 primarily reflect projected increases of 4.0% per year for
54	labour and non-labour increases based on the GDP deflator.

1	Capital Expenditure :	Capital Expenditures for 2013 to 2016 are as filed in the 2012 Capital Budget.
2		
3	Financing Costs :	Average short-term interest rates are assumed to be 2.16% for 2012, 2.55% for 2013,
4		3.00% for 2014 and 3.50% for 2015 to 2016.
5		
6		A \$75.0 million long-term debt issue is forecast to be completed March 15, 2014.
7		The debt is forecast for 30 years at a coupon rate of 6.75%. Debt repayments will be
8		in accordance with the normal sinking fund provisions for existing outstanding debt.
9		
10		A \$75.0 million long-term debt issue is forecast to be completed March 15, 2016.
11		The debt is forecast for 30 years at a coupon rate of 7.0%. Debt repayments will be
12		in accordance with the normal sinking fund provisions for existing outstanding debt.
13		
14		Series AD is forecast to be redeemed on August, 2014 for approximately \$29.0 million.
15		
16		Series AE is forecast to be redeemed May, 2016 for approximately \$30.0 million.
17		
18	Common Dividends :	Common dividend payouts are forecast based on maintaining a target common equity
19		component of 45%.
20		
21	Income Tax :	The statutory income tax rate for 2012 to 2016 is 29%.
22		
23		Income tax expense for 2012 to 2016 reflects the tax effecting of employee future
24		benefit costs as approved in Order No. P.U. 32 (2007) and Order No. P.U. 31 (2010).