

1 **Q. Please confirm that in approving the revenue recognition and deferred recovery for**
2 **2006 in Order No. P.U. 40(2005), the Board did not fully test Newfoundland Power's**
3 **forecast costs for 2006. If confirmed, please explain why this approach was**
4 **appropriate.**

5 A. It is confirmed.

6 ***Recognition of 2005 Unbilled Revenue***

7 The approval of Newfoundland Power's proposal to recognize for regulatory purposes
8 \$3,086,000 of the 2005 Unbilled Revenue in 2006 to offset income tax effects resulting
9 from the CRA tax settlement was appropriate for a number of reasons, including:

10 1. the CRA tax settlement which was thoroughly examined in evidence was a material
11 development which occurred after Newfoundland Power's last test year (i.e., 2004);
12 2. the CRA tax settlement was found by the Board on the basis of the evidence to
13 benefit consumers (see Order No. P.U. 40 (2005), page 20, lines 26, *et. seq.*);
14 3. the witnesses who testified before the Board for the Consumer Advocate (Mr. Todd)
15 and the Board's financial consultants, Grant Thornton LLP (Mr. Brushett) indicated
16 recognition of sufficient revenue to offset the tax effects attributable to the tax
17 settlement was appropriate (see Order No. P.U. 40 (2005), page 14, lines 12-18); and
18 4. the Board was satisfied from the contested evidence before it that the proposed
19 recognition of revenue was the least cost means of addressing the tax impacts
20 associated with the tax settlement.

21 ***Deferred Recovery of Depreciation True-Up***

22 The approval of deferred recovery of the \$5,793,000 increase in 2006 depreciation costs
23 attributable to the conclusion of a previously approved depreciation true-up was
24 appropriate because the amount was "...identified and tested in [Newfoundland Power's]
25 2003 general rate hearing and accepted by the Board in Order No. P.U. 19 (2003)." (See
26 Order No. P.U. 40 (2005), page 11, line 30 to page 12, line 1).

27 Put another way, the Board was dealing with a cost (the depreciation true-up) which it
28 had thoroughly reviewed, or tested, in the Company's previous rate case.