

1 **Q. Please provide a copy and details of NP's five year financial forecast. To the extent**  
2 **not addressed as part of the five year financial forecast, please forecast all changes**  
3 **in the revenue requirement and required rate action for the next five years.**  
4

5 A. Attachment A is a copy of Newfoundland Power's current five year financial forecast  
6 (the "financial forecast"). The financial forecast assumes all proposals contained in the  
7 2013/2014 General Rate Application are approved. The financial forecast is subject to  
8 change as actual results for each of the forecast years become known and as assumptions  
9 and circumstances change.

10  
11 The current financial forecast indicates revenue shortfalls in 2015 and 2016 of  
12 approximately \$4.4 million and \$7.6 million, respectively. A *revenue shortfall* is simply  
13 the change in the forecast financial results (expressed in terms of revenue) that would be  
14 required for the Company to recover all its forecast costs, including its forecast cost of  
15 equity.

16  
17 In addressing a forecast revenue shortfall, a number of matters require consideration.  
18 Changes in sales, costs or other 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**  
**(2012 – 2016)**

**Newfoundland Power Inc.**

**Financial Forecast  
2012 to 2016  
Statements of Income  
(\$000s)**

	<b>Forecast</b>			<b>Pro forma</b>	
	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>
1 Revenue from rates	564,349	601,551	618,846	626,795	634,205
2 Transfers from (to) the RSA	15,342	3,575	524	2,242	3,091
3	579,691	605,126	619,370	629,037	637,296
4					
5 Purchased power expense	381,446	390,257	397,857	406,985	412,799
6 Amortization of weather normalization reserve	2,101	(2,335)	(2,335)	(2,335)	-
7 Demand management incentive account adjustments	1,185	-	-	-	-
8	384,732	387,922	395,522	404,650	412,799
9					
10 Contribution	194,959	217,204	223,848	224,387	224,497
11					
12 Other revenue <sup>1</sup>	6,688	5,607	5,754	5,932	6,261
13					
14 Other expenses:					
15 Operating expenses <sup>2</sup>	56,748	55,649	57,501	60,192	62,453
16 Employee future benefit costs	22,169	22,650	22,058	20,260	18,692
17 Deferred cost recoveries and amortizations	(4,850)	1,712	2,750	2,750	-
18 Depreciation	44,441	46,647	48,291	50,175	52,173
19 Finance charges	35,887	35,877	36,821	36,304	36,836
20	154,395	162,535	167,421	169,681	170,154
21					
22 Income Before Income Taxes	47,252	60,276	62,181	60,638	60,604
23 Income taxes	10,691	17,778	18,132	17,941	18,143
24					
25 Net Income	36,561	42,498	44,049	42,697	42,461
26 Preferred Dividends	565	566	566	566	566
27					
28 Earnings Applicable to Common Shares	35,996	41,932	43,483	42,131	41,895
29					
30 <b>Rate of Return and Credit Metrics</b>					
31 Rate of Return on Rate Base (percentage)	8.02%	8.64%	8.58%	8.04%	7.76%
32 Regulated Return on Book Equity (percentage)	8.81%	10.40%	10.40%	9.73%	9.34%
33					
34 Revenue Shortfall (@10.40% Regulated Return on Equity)	-	-	-	4,419	7,626

<sup>1</sup> Includes the equity component of capitalized interest for 2012 through 2016.

<sup>2</sup> Operating expenses shown are before adjustment for non-regulated expenses.

**Newfoundland Power Inc.**

**Financial Forecast  
2012 to 2016  
Statements of Retained Earnings  
(\$000s)**

	<b>Forecast<sup>1</sup></b>			<b>Pro forma</b>	
	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>
1 Balance - Beginning	298,433	326,160	341,466	357,136	373,673
2 Net income for the period	<u>39,025</u>	<u>42,498</u>	<u>44,049</u>	<u>42,697</u>	<u>42,461</u>
3	<u>337,458</u>	<u>368,658</u>	<u>385,515</u>	<u>399,833</u>	<u>416,134</u>
4					
5 Dividends					
6 Preference shares	565	566	566	566	566
7 Common shares	<u>10,733</u>	<u>26,626</u>	<u>27,813</u>	<u>25,594</u>	<u>25,594</u>
8	<u>11,298</u>	<u>27,192</u>	<u>28,379</u>	<u>26,160</u>	<u>26,160</u>
9 Balance - End of Period	<u>326,160</u>	<u>341,466</u>	<u>357,136</u>	<u>373,673</u>	<u>389,974</u>

<sup>1</sup> The Statements of Retained Earnings for 2012 to 2016 reflects the 2012 adoption of U.S. GAAP for financial reporting purposes approved by the Board in Order No. P.U. 27 (2011). Net income reported for 2012 includes an adjustment of \$2,463,000 required for financial reporting purposes under U.S. GAAP related to enacted Part VI.1 tax rates.

## Newfoundland Power Inc.

**Financial Forecast**  
**2012 to 2016**  
**Balance Sheets**  
**(\$000s)**

	Forecast <sup>1</sup>			Pro forma	
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<b>Assets</b>					
<b>Current assets</b>					
Accounts receivable	\$ 77,084	\$ 85,012	\$ 91,181	\$ 91,304	\$ 91,370
Materials and supplies	1,000	1,146	1,283	1,421	1,556
Prepaid expenses	1,107	1,131	1,154	1,177	1,200
Regulatory assets	27,791	18,599	17,361	20,769	18,688
	<u>106,982</u>	<u>105,888</u>	<u>110,979</u>	<u>114,671</u>	<u>112,814</u>
<b>Property, plant and equipment</b>	850,141	887,470	925,713	970,293	1,008,730
<b>Intangible assets</b>	14,238	14,387	14,684	15,134	15,692
<b>Regulatory assets</b>	317,255	294,001	277,619	263,282	249,685
<b>Other assets</b>	4,277	6,151	9,016	11,419	13,628
	<u>\$ 1,292,893</u>	<u>\$ 1,307,897</u>	<u>\$ 1,338,011</u>	<u>\$ 1,374,799</u>	<u>\$ 1,400,549</u>
<b>Liabilities and Shareholders' Equity</b>					
<b>Current Liabilities</b>					
Accounts payable and accrued charges	69,018	68,483	68,911	73,854	74,184
Interest payable	7,480	7,393	6,377	6,304	6,075
Defined benefit pension plans	12,348	13,098	14,309	15,434	16,458
Other post employment benefits	3,035	3,306	3,905	4,620	4,788
Current installments of long-term debt	5,200	5,200	34,503	5,550	36,300
Future income taxes	622	622	622	622	622
	<u>97,703</u>	<u>98,102</u>	<u>128,627</u>	<u>106,384</u>	<u>138,427</u>
<b>Regulatory liabilities</b>	59,787	58,367	57,523	55,298	57,151
<b>Defined benefit pension plans</b>	11,671	(2,717)	(18,543)	(35,281)	(53,001)
<b>Other post employment benefits</b>	86,678	88,794	90,465	91,564	92,614
<b>Other liabilities</b>	13,644	13,644	13,644	13,644	13,644
<b>Future income taxes</b>	125,233	124,928	125,147	126,786	129,636
<b>Long-term debt</b>	492,615	505,911	504,610	563,329	552,702
<b>Shareholders' Equity</b>					
<b>Common shares</b>	70,321	70,321	70,321	70,321	70,321
<b>Preference shares</b>	9,081	9,081	9,081	9,081	9,081
<b>Retained earnings</b>	326,160	341,466	357,136	373,673	389,974
	<u>405,562</u>	<u>420,868</u>	<u>436,538</u>	<u>453,075</u>	<u>469,376</u>
	<u>\$ 1,292,893</u>	<u>\$ 1,307,897</u>	<u>\$ 1,338,011</u>	<u>\$ 1,374,799</u>	<u>\$ 1,400,549</u>

<sup>1</sup> The Balance Sheets for 2012 to 2016 reflect the 2012 adoption of U.S. GAAP for financial reporting purposes approved by the Board in Order No. P.U. 27 (2011).

## Newfoundland Power Inc.

**Financial Forecast**  
**2012 to 2016**  
**Statements of Cash Flows**  
**(\$000s)**

	<b>Forecast</b>			<b>Pro forma</b>	
	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>
1 <b>Cash From (Used In) Operating Activities</b>					
2 Net Earnings	\$ 36,561	\$ 42,498	\$ 44,049	\$ 42,697	\$ 42,461
3					
4 <b>Items not affecting cash:</b>					
5 Amortization of property, plant and equipment	41,692	44,107	45,836	47,671	49,612
6 Amortization of intangible assets and other	2,749	2,540	2,455	2,504	2,561
7 Change in long-term regulatory assets and liabilities	(14,209)	21,499	15,216	11,630	14,250
8 Change in other assets and liabilities	196	(2,176)	(2,814)	(2,624)	(2,104)
9 Future income taxes	(2,539)	(303)	219	1,640	2,850
10 Employee future benefits	15,543	(12,272)	(14,156)	(15,638)	(16,670)
11 Equity portion of AFUDC	(430)	(444)	(507)	(639)	(653)
12	<u>79,563</u>	<u>95,449</u>	<u>90,298</u>	<u>87,241</u>	<u>92,307</u>
13					
14 Change in non-cash working capital	(6,537)	1,494	(3,867)	3,008	3,151
15	<u>73,026</u>	<u>96,943</u>	<u>86,431</u>	<u>90,249</u>	<u>95,458</u>
16					
17 <b>Investing Activities</b>					
18 Bell Aliant pole sale	(889)	-	-	-	-
19 Capital expenditures	(81,809)	(84,157)	(86,753)	(94,624)	(89,698)
20 Intangible asset expenditures	(2,405)	(2,690)	(2,751)	(2,954)	(3,118)
21 Contributions from customers and security deposits	3,500	3,500	3,500	3,500	3,500
22 Other	-	-	-	-	-
23	<u>(81,603)</u>	<u>(83,347)</u>	<u>(86,004)</u>	<u>(94,078)</u>	<u>(89,316)</u>
24					
25 <b>Financing Activities</b>					
26 Net proceeds (repayment) of committed credit facility	24,528	18,494	(12,494)	35,318	(18,577)
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	217	302	(51)	221	(105)
30 Redemption of preference shares	-	-	-	-	-
31 Dividends					
32 Preference Shares	(565)	(566)	(566)	(566)	(566)
33 Common Shares	(10,733)	(26,626)	(27,813)	(25,594)	(25,594)
34	<u>8,247</u>	<u>(13,596)</u>	<u>(427)</u>	<u>3,829</u>	<u>(6,142)</u>
35					
36 <b>Change in Cash</b>	(330)	-	-	-	-
37 <b>Cash (Bank Indebtedness), Beginning of Year</b>	330	-	-	-	-
38 <b>Cash (Bank Indebtedness), End of Year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Newfoundland Power Inc.**

**Financial Forecast  
2012 to 2016  
Average Rate Base<sup>1</sup>  
(\$000s)**

		<b>Forecast</b>			<b>Pro forma</b>	
		<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>
1	Plant Investment	785,927	823,439	860,557	901,065	941,529
2						
3	Additions to Rate Base					
4	Deferred Charges	98,795	93,214	89,491	96,497	105,323
5	Regulatory Assets - Defined Benefit Pension Costs	-	8,344	15,633	13,522	11,410
6	Cost Recovery Deferral - Credit Facility Costs	257	122	-	-	-
7	Cost Recovery Deferral - Seasonal Rates	173	136	122	92	98
8	Cost Recovery Deferral - Hearing Costs	127	417	625	209	-
9	Cost Recovery Deferral - Regulatory Amortizations	3,364	4,487	2,920	976	-
10	Cost Recovery Deferral - Conservation	341	1,202	3,583	6,302	8,666
11	Customer Finance Programs	1,497	1,466	1,466	1,466	1,466
12		<u>104,554</u>	<u>109,388</u>	<u>113,840</u>	<u>119,064</u>	<u>126,963</u>
13						
14	Deductions from Rate Base					
15	Adjustment - 2010 Hearing Costs	3	-	-	-	-
16	Weather Normalization Reserve	5,698	4,861	2,510	837	-
17	Other Post Employee Benefits	10,801	18,257	26,006	33,405	40,047
18	Customer Security Deposits	763	830	830	830	830
19	Accrued Pension Obligation	3,912	4,189	4,479	4,775	5,076
20	Future Income Taxes	(431)	(1,877)	(1,920)	(992)	1,252
21	Demand Management Incentive Account	1,047	421	-	-	-
22		<u>21,793</u>	<u>26,681</u>	<u>31,905</u>	<u>38,855</u>	<u>47,205</u>
23						
24	Average Rate Base Before Allowances	868,688	906,146	942,492	981,274	1,021,287
25						
26	Cash Working Capital Allowance	10,057	6,605	6,384	6,534	6,621
27						
28	Materials and Supplies Allowance	<u>5,314</u>	<u>5,140</u>	<u>5,247</u>	<u>5,354</u>	<u>5,458</u>
29						
30	Average Rate Base At Year End	<u>884,059</u>	<u>917,891</u>	<u>954,123</u>	<u>993,162</u>	<u>1,033,366</u>

<sup>1</sup> All amounts shown are averages.

**Newfoundland Power Inc.**

**Financial Forecast  
2012 to 2016  
Weighted Average Cost of Capital  
(\$000s)**

	<b>Forecast</b>			<b>Pro forma</b>	
	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>
<b>1 Average Capitalization</b>					
2 Debt	485,232	501,804	522,578	551,546	576,549
3 Preference Shares	9,081	9,081	9,081	9,081	9,081
4 Common Equity	396,663	416,947	432,434	448,544	464,963
5	<u>890,976</u>	<u>927,832</u>	<u>964,093</u>	<u>1,009,171</u>	<u>1,050,593</u>
<b>6 Average Capital Structure</b>					
7 Debt	54.46%	54.08%	54.20%	54.65%	54.88%
8 Preference Shares	1.02%	0.98%	0.94%	0.90%	0.86%
9 Common Equity	44.52%	44.94%	44.86%	44.45%	44.26%
10	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
11					
12					
<b>13 Cost of Capital</b>					
14 Debt	7.48%	7.24%	7.12%	6.67%	6.48%
15 Preference Shares	6.22%	6.23%	6.23%	6.23%	6.23%
16 Common Equity	8.81%	10.40%	10.40%	9.73%	9.34%
17					
18					
<b>19 Weighted Average Cost of Capital</b>					
20 Debt	4.07%	3.91%	3.86%	3.65%	3.56%
21 Preference Shares	0.06%	0.06%	0.06%	0.06%	0.05%
22 Common Equity	3.92%	4.67%	4.66%	4.32%	4.13%
23	<u>8.05%</u>	<u>8.64%</u>	<u>8.58%</u>	<u>8.03%</u>	<u>7.74%</u>



**Newfoundland Power Inc.**

**Financial Forecast  
2012 to 2016  
Rate of Return on Rate Base  
(\$000s)**

		<b>Forecast</b>			<b>Pro forma</b>	
		<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>
1	Regulated Return on Equity	34,930	43,357	44,971	43,650	43,444
2	Return on Preferred Equity	<u>565</u>	<u>566</u>	<u>566</u>	<u>566</u>	<u>566</u>
3		<u>35,495</u>	<u>43,923</u>	<u>45,537</u>	<u>44,216</u>	<u>44,010</u>
4						
5	Finance Charges					
6	Interest on Long-term Debt	35,039	34,634	36,089	34,710	35,473
7	Other Interest	905	1,373	884	1,876	1,684
8	Amortization of Bond Issue Expenses	332	302	243	222	194
9	AFUDC	<u>(877)</u>	<u>(888)</u>	<u>(915)</u>	<u>(1,154)</u>	<u>(1,181)</u>
10		<u>35,399</u>	<u>35,421</u>	<u>36,301</u>	<u>35,654</u>	<u>36,170</u>
11						
12	Return on Rate Base	<u>70,894</u>	<u>79,344</u>	<u>81,838</u>	<u>79,870</u>	<u>80,180</u>
13						
14	Average Rate Base	<u>884,059</u>	<u>917,891</u>	<u>954,123</u>	<u>993,162</u>	<u>1,033,366</u>
15						
16	Rate of Return on Rate Base	8.02%	8.64%	8.58%	8.04%	7.76%

## Newfoundland Power Inc.

### Financial Forecast 2012 to 2016 Inputs and Assumptions

1	<b>Energy Forecasts :</b>	Energy forecasts are based on economic indicators taken from the Conference Board of
2		Canada, Provincial Outlook Winter 2012, Economic Forecast, dated February 2, 2012.
3		
4	<b>Revenue Forecast :</b>	The revenue forecast is based on the Customer, Energy and Demand forecast dated August 2012.
5		
6		Forecast revenues for 2012, 2015 and 2016 reflect, (i) recovery through the RSA of amounts associated
7		with the Energy Supply Cost Variance Adjustment Clause (ii) recovery through the RSA of amounts
8		associated with variances in employee future benefit costs, and (iii) recovery through the RSA of amounts
9		associated with the implementation of Seasonal/Time of Day rate project, all of which was approved by the
10		Board in Order Nos. P.U. 32 (2007), P.U. 43 (2009), P.U. 31 (2010) and P.U. 8 (2011).
11		
12		Forecast revenues for 2013 and 2014 reflect, (i) recovery through the RSA of amounts associated
13		with the implementation of Seasonal/Time of Day rate, (ii) recovery of Employee Future Benefit costs
14		through revenue requirements and (iii) recovery of supply costs beyond the March 1, 2013 rate change
15		implementation date through revenue requirements
16		
17		The 2014 to 2016 forecasts also assumes recovery through the RSA of costs associated with
18		the amortization of deferred conservation program costs as described in the Application.
19		
20		Supply cost variances for January and February, 2013 are assumed to be recovered through the RSA.
21		
22	<b>Purchased Power Expense :</b>	Purchased Power expense reflects Newfoundland & Labrador Hydro's rates approved by the P.U.B.
23		and the Customer, Energy and Demand Forecast dated August 2012.
24		
25		Purchased Power Expense for 2012 includes a Board approved \$2.1 million per year
26		amortization of the non-reversing balance in the Weather Normalization Reserve.
27		
28		Variances in demand costs for 2013 and 2014 are reflected in the 2013/2014 revenue requirements.
29		
30		Purchased Power Expense for 2013 to 2015 reflects a 3-year amortization of a \$7 million
31		balance (before-tax) in the Weather Normalization Reserve as reflected in the Application.
32		
33		Purchased Power Expense for the 2012, 2015 and 2016 also reflects the operation of the Demand
34		Management Incentive Account approved by the Board in Order No. P.U. 32 (2007). This
35		mechanism provides for recovery of demand costs that are in excess of unit cost demand costs
36		included in the most recent test year.
37		
38	<b>Employee Future Benefit</b>	Pension costs related to the 2005 Early Retirement Program are being amortized over
39	<b>Costs :</b>	a 10-year period from 2005 to 2015 as approved in Order No. P.U. 49 (2004).
40		
41		Pension funding is based on the actuarial valuation dated April, 2012.
42		
43		Pension expense discount rate is 5.25% for 2012 and 4.90% for 2013 to 2016.
44		
45		Forecast return on pension assets is assumed to be 6.50% for 2012 to 2016.
46		
47		Pension funding is forecast based on the latest actuarial information and assumes special
48		funding payments of \$10.7 million per year for 2012 to 2016.
49		
50		Forecast defined benefit pension costs for 2013 to 2016 are based on U.S. GAAP as
51		reflected in the Application.

# **Newfoundland Power Inc.**

## **Financial Forecast 2012 to 2016 Inputs and Assumptions**

<b>Cost Recovery Deferral:</b>	In Order No. P.U. 43 (2009), the Board approved the deferred recovery over a 3-year period of \$0.75 million in costs related to the 2010 general rate application.
	In Order No. P.U. 43 (2009), the Board approved the deferred recovery over a 4-year period of \$1.4 million in costs related to 2009 conservation programs.
	The 2013 to 2015 forecasts reflect a 3-year amortization of (i) \$1.3 million in hearing costs related to the 2013/2014 general rate application, (ii) \$2.5 million in costs related to the 2012 cost of capital approved by the Board in Order No. P.U. 17 (2012), and (iii) \$4.7 million in costs related to the 2011 and 2012 deferred costs approved by the Board in Order Nos. P.U. 30 (2010) and P.U. 22 (2011).
	The 2013 to 2015 forecasts include the deferred recovery of a 2013 revenue shortfall of \$1.0 million resulting from the March 1 <sup>st</sup> , 2013 rate implementation date. This revenue shortfall is proposed to be recovered evenly on a monthly basis from March 1, 2013 to December 31, 2015.
	The 2013 to 2016 forecasts also include the deferred recovery over a 7-year period of certain conservation program costs as reflected in the Application.
<b>Depreciation Rates :</b>	Depreciation rates for 2012 are based on the 2006 depreciation study.
	Depreciation rates for 2013 to 2016 are based on the 2010 depreciation study.
	Depreciation costs for 2013 to 2016 also include an \$89,000 reserve variance adjustment resulting from the 2010 depreciation study.
<b>Operating Costs :</b>	Operating forecasts for 2012 to 2014 reflect the evidence filed in the Application. Operating forecasts for 2015 and 2016 primarily reflect projected increases of 4% per year for labour, and non labour increases based upon the GDP deflator.
<b>Capital Expenditure :</b>	Capital Expenditures for 2012 are based on the 2012 capital budget and approved supplemental expenditures all approved in Order Nos. P.U. 26 (2011), P.U. 7 (2012), P.U. 8 (2012) and P.U. 28 (2012).
	Capital Expenditures for 2013 to 2016 are based on the 2013 capital budget approved in Order No. P.U. 31 (2012).
<b>Short-Term Interest Rates :</b>	Average short-term interest rates are assumed to be 2.13% for 2012, 2.48% for 2013 and 3.0% for 2014 to 2016.
<b>Long-Term Debt :</b>	A \$75.0 million long-term debt issue is forecast to be completed March 15, 2014. The debt is forecast for 30 years at a coupon rate of 5.25%. Debt repayments will be in accordance with the normal sinking fund provisions for existing outstanding debt.
	A \$75.0 million long-term debt issue is forecast to be completed March 1, 2016. The debt is forecast for 30 years at a coupon rate of 6.0%. Debt repayments will be in accordance with the normal sinking fund provisions for existing outstanding debt.
<b>Dividends :</b>	Common dividend payouts are forecast based on maintaining a target common equity component of 45%.
<b>Income Tax :</b>	Income tax expense reflects a statutory income tax rate of 29% for 2012 to 2016.
	Income tax expense for 2012 to 2016 reflects the tax effecting of employee future benefit costs as approved by the Board in Order Nos. P.U. 32 (2007) and P.U. 31 (2010).