

**Q. 2013-2014 General Rate Application, Company Evidence**

**Pg. 3-12, Footnote 37 - Please provide an explanation for the significant increase in tax adjustments for 2012.**

A. The increase in tax adjustments for 2012 is due primarily to Part VI.1 tax adjustments required under U.S. GAAP for financial reporting purposes.

The primary difference under Canadian and U.S. GAAP in accounting for current and future income taxes relates to corporate income tax rates. Under Canadian GAAP, income tax expense is calculated using substantively enacted tax rates. Under U.S. GAAP, income tax expense is calculated based upon enacted tax rates only.

This difference in income taxes under U.S. GAAP currently only affects Newfoundland Power's calculation of Part VI.1 tax. For regulatory purposes, Part VI.1 tax is treated as an adjustment to non-regulated expense. Accordingly, there is no impact on Newfoundland Power's regulated earnings or returns as a result of this difference and there is no impact on customers from this change.

In 2012, for financial reporting purposes, Newfoundland Power is forecasting a Part VI.1 tax adjustment (reduction in income tax) of \$2.6 million. In comparison, the Part VI.1 tax adjustment for 2011 was (\$0.2) million and for 2010 \$0.3 million.