

**Q. 2013-2014 General Rate Application, Amortization of Deferrals**

In Section 3.5.1 of the Application NP outlines its proposition to amortize over the three-year period: (i) cost recovery deferrals approved in 2010 for 2011, \$2,400,000, in 2011 for 2012, \$2,400,000, and in 2012 for 2012, \$2,500,000; (ii) third party hearing costs associated with this Application, \$1,250,000; (iii) the year end 2011 balance in the Weather Normalization Reserve, (\$7,005,0000); and (iv) a 2013 revenue shortfall resulting from a forecast March 1, 2013 implementation of revised customer rates, netting to \$0 over the three-year period. The period of amortization is 2013, 2014 and 2015, and the total amount to be recovered is \$1,545,000.

Please provide, in table format, a history over the ten-year period from 2003 to 2012, inclusive, of the deferrals requested by NP, indicating the following:

- i) The amount requested;
- ii) The composition of the amount requested;
- iii) The Board Order dealing with the application;
- iv) The length of the amortization period approved by the Board;
- v) A comparison of the actual total collected for each approved deferral with the amount approved to be recovered, noted as to whether there was total collection of the approved deferral, over-collection or under-collection;
- vi) A short description of how each deferral account has been terminated, or carried forward to a subsequent period.

**A. Attachment**

Attachment A provides the details requested in items i), ii), iii) and iv).<sup>1</sup> In addition, Attachment A provides the amount of the deferrals amortized including any difference between the amount amortized and the amount approved for deferral.

**B. Cost Recovery**

Attachment A indicates the deferral amounts that were approved to be amortized by the Board, the amount actually amortized, and the differences between these two amounts. The only differences indicate *lower* than authorized amounts which were actually amortized by the Company.

<sup>1</sup> Attachment A does not include deferrals recovered through the (i) Rate Stabilization Adjustment, (ii) Depreciation Reserve Variance Amortizations (See Order Nos P.U. 19(2003) and P.U. 32(2007)) or (iii) Employee Future Benefit Cost amortizations of periods in excess of 5 years. The latter deferrals include regulatory cost deferrals associated with the 2005 Early Retirement Program pension costs (Order No. P.U. 49(2004)), regulatory assets and liabilities associated with the introduction of accrual accounting for other post-employment benefits (Order No. P.U. 31(2010)) and U.S. GAAP (Order No. P.U. 27(2011)).

1 Please refer to the response to Request for Information PUB-NP-112 for  
2 Newfoundland Power's view of the concept that amortizations can be "over-  
3 collected" or "under-collected".  
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5 **C. Accrual Termination**  
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7 Each deferral account is effectively terminated when the deferred amount is fully  
8 amortized over the term approved by the Board.  
9

10 The Company has applied to the Board on four occasions to deal with the effect of  
11 expiring amortizations.<sup>2</sup> These applications sought approval of certain cost recovery  
12 deferrals required to provide Newfoundland Power with a reasonable opportunity to  
13 achieve its return as determined by the Board in the preceding general rate  
14 application.  
15

16 In these four applications, the Board considered, amongst other things, the  
17 Company's most recent financial forecast. This evidence provided assurance to the  
18 Board that approval would permit the Company a reasonable opportunity to earn its  
19 return in the ensuing year. The corollary of this is that the forecast evidence also  
20 provided assurance to the Board that its approval would not result in a windfall to  
21 the Company. This approach is, in the Company's view, a reasonable exercise of the  
22 Board's continuing regulatory supervision over Newfoundland Power's customer  
23 rates and costs.  
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25 The deferred cost recoveries approved by the Board as a result of these four  
26 applications resulted in the creation of new deferral accounts. As such, they are not  
27 considered by the Company to be "carried forward" to a subsequent period.

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<sup>2</sup> See Order Nos. P.U. 40(2005), P.U. 39 (2006), P.U. 30 (2010) and P.U. 22(2011).

**Regulatory Deferrals and Amortizations**  
**2003-2012**

**Table 1**  
**Regulatory Deferrals and Amortizations**  
**2003-2012**

| Deferral Item   | Board Order(s) | Amortization Period (Yrs) | (\$000s)                       |                  |            |
|---|----------------|---------------------------|--------------------------------|------------------|------------|
|   |                |                           | Amount Authorized <sup>1</sup> | Amount Amortized | Difference |
| 2003 GRA Hearing Costs <sup>2</sup>                     | P.U.19(2003)   | 3                         | 1,200                          | 1,040            | (160)      |
| Weather Normalization Reserve <sup>3</sup>              | P.U.19(2003)   | 5                         | 8,660                          | 8,660            | -          |
| 2005 Early Retirement Allowances <sup>4</sup>           | P.U.49(2004)   | 2                         | 1,683                          | 1,683            | -          |
| 2005 Unbilled Revenue <sup>5</sup>                      | P.U. 40(2005)  | 1                         | (22,541)                       | (3,381)          | -          |
|   | P.U. 39(2006)  | 1                         |                                | (2,714)          |            |
|   | P.U. 32(2007)  | 3                         |                                | (16,446)         |            |
| Purchased Power Unit Cost Variance Reserve <sup>6</sup> | P.U. 44(2004)  |                           |                                |                  | -          |
|   | P.U. 35(2005)  |                           |                                |                  |            |
|   | P.U. 32(2007)  | 3                         | (1,342)                        | 1,342            |            |
| Deferred Recovery Depreciation Costs <sup>7</sup>       | P.U. 40(2005)  |                           | 5,793                          |                  | -          |
|   | P.U. 39(2006)  |                           | 5,793                          |                  |            |
|   | P.U. 32(2007)  | 3                         |                                | 11,586           |            |
| Energy Replacement Costs <sup>8</sup>                   | P.U. 39(2006)  | 3                         | 1,147                          |                  | -          |
|   | P.U. 32(2007)  |                           |                                | 1,147            |            |
| 2008 GRA Hearing Costs <sup>9</sup>                     | P.U. 32(2007)  | 3                         | 1,250                          | 603              | (647)      |
| Weather Normalization Reserve <sup>10</sup>             | P.U. 32(2007)  | 5                         | 10,505                         | 10,505           | -          |
| Municipal Taxes <sup>11</sup>                           | P.U. 32(2007)  | 3                         | (4,087)                        | (4,087)          | -          |
| 2009 Conservation Costs <sup>12</sup>                   | P.U. 13(2009)  |                           | 1,356                          |                  | -          |
|   | P.U. 43(2009)  | 4                         |                                | 1,356            |            |
| 2010 GRA Hearing Costs <sup>13</sup>                    | P.U. 43(2009)  | 3                         | 750                            |                  | -          |
|   | P.U. 26(2011)  |                           |                                | 750              |            |
| 2011 and 2012 Deferred Cost Recoveries <sup>14</sup>    | P.U. 30(2010)  | 3                         | 2,363                          | Proposed         | n/a        |
|   | P.U. 22(2011)  |                           | 2,363                          | Proposed         | n/a        |
| 2012 Cost of Capital Deferral <sup>15</sup>             | P.U. 17 (2012) | 3                         | 2,487                          | Proposed         | n/a        |

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- <sup>1</sup> Bracketed amounts indicate regulatory liabilities that, when amortized, reduced cost to customers.
  - <sup>2</sup> In Order No. P.U. 19 (2003), the Board approved a 3-year amortization, from 2003 through 2005, of the 2003 GRA Hearing Costs. The actual 2003 GRA Hearing Costs, were \$1,040,000.
  - <sup>3</sup> In Order No. P.U. 19 (2003), the Board approved a 5-year amortization, from 2003 through 2007, of a non-reversing balance in the Hydro Production Equalization Reserve component of the Weather Normalization Reserve of \$5,600,000 (or \$8,660,000) on a pre-tax basis.)
  - <sup>4</sup> In Order No. P.U. 49 (2004), the Board approved a 24 month amortization, from 2005 through 2007, of \$1,683,000 in retirement allowance costs resulting from the 2005 Early Retirement Program.
  - <sup>5</sup> In Order No. P.U. 40 (2005), the Board approved the recognition of \$3,381,000 of the 2005 Unbilled Revenue (\$3,086,000 - 2005 Unbilled Revenue and \$295,000 - 2005 Unbilled Revenue Increase Reserve) to offset tax effects resulting from the 2005 Tax Settlement and to dispose of a balance in the Unbilled Revenue Increase Reserve. In Order No. P.U. 39 (2006), the Board approved the recognition of \$2,714,000 in 2007 of the 2005 Unbilled Revenue to offset income tax effects resulting from the 2005 Tax Settlement. In Order No. P.U. 32 (2007), the Board approved a 3 year amortization, from 2007 through 2009, of 16,446,000 (\$13,854,000 equally over 3 years and \$2,592,000 in 2007.).
  - <sup>6</sup> In Order No. P.U. 44 (2004), the Board approved the creation of a Purchased Power Unit Cost Variance Reserve. In Order No. P.U. 35 (2005), the Board approved the definition of the Purchased Power Unit Cost Variance Reserve. In Order No. P.U. 32 (2007), the Board approved a 3-year amortization, from 2008 through 2010, of a \$1,342,000 remaining balance in the purchased power unit cost variance reserve.
  - <sup>7</sup> In Order No. P.U. 40 (2005), the Board approved the deferred recovery of \$5,793,000 in 2006 depreciation costs resulting from the 2005 conclusion of a depreciation true-up amortization approved by the Board in Order No. P.U. 19 (2003). In Order No. P.U. 39 (2006), the Board approved the deferred recovery of \$5,793,000 in 2007 depreciation costs resulting from the 2005 conclusion of the depreciation true-up amortization. In Order No. P.U. 32 (2007), the Board approved a 3-year amortization, from 2008 through 2010, of \$11,586,000 in deferred depreciation costs.
  - <sup>8</sup> In Order No. P.U. 39 (2006), the Board approved the deferred recovery of \$1,147,000 (or \$1,795,000 on a pre-tax basis) of 2007 energy replacement costs resulting from the refurbishment of the Rattling Brook Hydro Plant. In Order No. P.U. 32 (2007), the Board approved a 3-year amortization, from 2008 through 2010, of \$1,147,000 in deferred 2007 energy replacement costs.
  - <sup>9</sup> In Order No. P.U. 32 (2007), the Board approved a 3-year amortization, from 2008 through 2010, of \$1,250,000 in 2008 GRA Hearing costs. The actual 2008 GRA Hearing Costs were \$603,000. The actual costs were significantly less than forecast due to a number of issues, including cost of capital, being agreed in the Settlement Agreement.
  - <sup>10</sup> In Order No. P.U. 32 (2007), the Board approved a 5-year amortization, from 2008 through 2012, of a non-reversing balance in the Degree Day Reserve component of the Weather Normalization Reserve of \$6,800,000 (or \$10,505,000 on a pre-tax basis).
  - <sup>11</sup> In Order No. P.U. 32 (2007), the Board approved a 3-year amortization, from 2008 through 2010, of a \$4,087,000 regulatory liability resulting from a timing difference in receipt and recognition of municipal taxes.
  - <sup>12</sup> In Order No. P.U. 13 (2009), the Board approved the deferred recovery in 2009 of \$1,356,000 (\$948,000 on an after-tax basis) of energy conservation costs related to the Conservation Plan. In Order No. P.U. 43 (2009), the Board approved a 4-year amortization, from 2009 through 2012, of \$948,000 in deferred 2009 energy conservation costs.
  - <sup>13</sup> In Order No. P.U. 43 (2009), the Board approved a 3-year amortization, from 2010 through 2012, of \$750,000 in 2010 GRA Hearing costs. Actual 2010 hearing costs were \$759,000. In Order No. P.U. 26 (2011), the Board ordered Newfoundland Power to adjust its 2011 average rate base to reflect the recovery of the \$750,000 in forecast hearing costs approved by the Board in Order No. P.U. 43 (2009).
  - <sup>14</sup> In Order Nos. P.U. 30 (2010) and P.U. 22 (2011), the Board approved the deferred recovery of \$2,363,000 of costs in ease of 2011 and 2012 costs related to the conclusion in 2010 of a number of regulatory amortizations. In the 2013/2014 GRA, Newfoundland Power is proposing to recover these costs evenly over a 3-year period from 2013 through 2015. This proposal has been agreed in the 2013 Settlement Agreement.
  - <sup>15</sup> In Order No. P.U. 17 (2012), the Board approved the deferred recovery of the full amount of the difference in revenue between an 8.38% return on common equity reflected in customer rates and the approved 2012 return on common equity of 8.80%, based on the 2010 test year. In the 2013/2014 GRA, Newfoundland Power is proposing to recover this cost evenly over a 3-year period from 2013 through 2015. This proposal has been agreed to in the 2013 Settlement Agreement.