

1 **Q. Please provide NP's best estimate of rate impact of disposing of the accumulated**  
2 **depreciation true-up deferral commencing in 2008 over a period of (i) one year, (ii)**  
3 **two years and (iii) three years.**

4  
5 A. The rate impact of disposing of the accumulated depreciation true-up deferral will be  
6 determined in Newfoundland Power's next general rate proceeding. Therefore, the rate  
7 impact requested cannot be determined at this time. While the actual future rate  
8 impacts cannot be determined, *pro forma* estimates of revenue requirement impacts have  
9 been provided.

10  
11 Tables 1 to 3 below provides the *pro forma* revenue requirement impacts of disposing of  
12 the depreciation true-up deferral commencing in 2008 over a period of one, two and three  
13 years under two different scenarios:

- 14  
15 1. Using 2005 Unbilled Revenue to apply against the depreciation true-up  
16 deferral; and  
17 2. Recovery of the depreciation true-up deferral through an increase in revenue  
18 requirement.

19  
20 For the purpose of the *pro forma* estimates under scenario 1, Newfoundland Power has  
21 effectively treated the application of the 2005 Unbilled Revenue against the depreciation  
22 true-up deferral as a revenue requirement impact. To the extent Newfoundland Power  
23 uses the 2005 Unbilled Revenue for regulatory purposes in 2008, it effectively displaces  
24 cash revenue from its customers upon which additional income tax would be payable.<sup>1</sup>  
25 The *pro forma* estimates under scenario 2 are higher because they include these  
26 additional income tax effects.

27  
28  
**Table 1**

***Pro Forma Revenue Requirement Impacts***  
**1-Year Recovery**  
**(\$000s)**

<b>Basis of Recovery</b>	<b>2008</b>
1. Amortization of 2005 Unbilled Revenue	11,586
2. Increase in Revenue Requirement <sup>2</sup>	17,689

<sup>1</sup> These income tax effects are described in detail on page 13, lines 1 to 11 of the *2006 Accounting Policy Application*.

<sup>2</sup> Includes *pro forma* income taxes of \$6,103,000 based on an income tax rate of 34.50% in 2008.

Table 2

**Pro Forma Revenue Requirement Impacts  
2-Year Recovery  
(\$000s)**

<b>Basis of Recovery</b>	<b>2008</b>	<b>2009</b>
1. Amortization of 2005 Unbilled Revenue <sup>3</sup>	5,793	5,793
2. Increase in Revenue Requirement <sup>4</sup>	8,844	8,777

Table 3

**Pro Forma Revenue Requirement Impacts  
3-Year Recovery  
(\$000s)**

<b>Basis of Recovery</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
1. Amortization of 2005 Unbilled Revenue <sup>5</sup>	3,862	3,862	3,862
2. Increase in Revenue Requirement <sup>6</sup>	5,896	5,851	5,764

The *pro forma* impacts indicated in Tables 1, 2 and 3 are illustrative only and do not necessarily reflect changes in retail rates. Retail rates are designed to recover the Company's total revenue requirement. The total revenue requirement includes costs other than those associated with depreciation. In addition, changes in sales volumes affect the relationship between costs and retail rates. Consequently, the *pro forma* revenue requirement impacts are not necessarily indicative of an equivalent, or any, increase in retail rates.

Recovery of the 2006 depreciation true-up deferral, as approved in Order No. P.U. 40 (2005), and the proposed 2007 depreciation true-up deferral will be determined by the Board in a future Board Order.

<sup>3</sup> Calculated as  $\$11,586,000/2 = \$5,793,000$ .

<sup>4</sup> Includes *pro forma* income taxes of \$3,051,000 based on an income tax rate of 34.5% in 2008 and income taxes of \$2,984,000 based on an income tax rate of 34.0% in 2009.

<sup>5</sup> Calculated as  $\$11,586,000/3 = \$3,862,000$ .

<sup>6</sup> Includes *pro forma* income taxes of \$2,034,000 based on an income tax rate of 34.5% in 2008, income taxes of \$1,989,000 based on an income tax rate of 34.0% in 2009 and income taxes of \$1,902,000 in 2010 based on an income tax rate of 33% in 2010.