

1 **IN THE MATTER OF** the *Electrical Power*  
2 *Control Act*, RSNL 1994, Chapter E-5.1 (the  
3 “*EPCA*”) and the *Public Utilities Act*, RSNL 1990,  
4 Chapter P-47 (the “*Act*”) as amended, and their  
5 subordinate regulations;

6  
7 **AND IN THE MATTER OF** a general rate  
8 application (the “*Application*”) by  
9 Newfoundland Power Inc. (“*NP*”) to establish  
10 customer electricity rates for 2008.

## 11 12 13 **INFORMATION REQUESTS**

### 14 15 **CICA EXPOSURE DRAFT FOR RATE REGULATED OPERATIONS**

#### 16 17 **Background**

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19 In March 2007 the Canadian Accounting Standards Board (AcSB) issued an Exposure Draft on  
20 Rate-Regulated Operations. The Exposure Draft proposes the following changes to various  
21 sections of the Canadian Institute of Chartered Accountants (CICA) Handbook:

- 22  
23 a) remove the temporary exemption in Section 1100 pertaining to the application of that  
24 section to the recognition and measurement of assets and liabilities arising from rate  
25 regulation; and  
26 b) withdraw from the Handbook all other recognition and measurement guidance  
27 relating specifically to rate-regulated operations. The particular sections impacted  
28 include the following:
- 29 1) Consolidated Financial Statements, Section 1600 – Under current GAAP,  
30 where a parent or subsidiary manufactures or constructs facilities for a  
31 regulated public utility in the consolidated group, any intercompany gain or  
32 loss is deemed to have been realized to the extent that the transfer price on  
33 such facilities is recognized for rate-making purposes. The Exposure Draft  
34 proposes to eliminate this exemption resulting in all unrealized intercompany  
35 gains or losses being eliminated as is currently the case with non-regulated  
36 entities.
  - 37 2) Property, Plant and Equipment, Section 3061 – under the Exposure Draft,  
38 rate-regulated entities will no longer be permitted to include in capitalized  
39 interest costs the directly attributable allowance for funds used during  
40 construction. Only carrying costs directly attributable to the acquisition,  
41 construction or development activity, such as interest costs, will be eligible for  
42 capitalization.

- 1                   3) Income Taxes, Section 3465 – section currently provides an exemption for  
2                   entities subject to rate regulation from recognizing future taxes to the extent  
3                   that they are expected to be included in regulator approved future rates and  
4                   recovered from customers. The Exposure Draft proposes to eliminate this  
5                   exemption.  
6                   4) Disposal of Long Lived Assets and Discontinued Operations – section  
7                   currently requires the immediate recognition of gains or losses on the sale of a  
8                   long-lived asset, except for rate-regulated entities, when the regulator requires  
9                   such gains or losses to be included in the determination of future rates and  
10                  there is reasonable assurance that the gain (or loss) will serve to reduce (or be  
11                  recovered through) future rates. The Exposure Draft proposes to eliminate  
12                  this exemption.  
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14 The Draft suggests that the proposals are expected to be finalized in the fourth quarter of 2007, to  
15 be applicable to interim and annual financial statements relating to fiscal years beginning on or  
16 after January 1, 2009.

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18 The AcSB has requested comments on this Exposure Draft by June 30, 2007.

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20 **PUB-NP-1**

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22 Has NP provided a response to the AcSB's request for comments or does it intend to do so? If  
23 so, please provide a copy?  
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25 **PUB-NP-2**

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27 Under the proposed standards NP will be required to issue GAAP financial statements which will  
28 exclude regulatory adjustments currently accepted and disclosed. How does NP propose to deal  
29 with the potential dual reporting requirement (ie: statements required under GAAP and  
30 statements required for purposes of rate setting and regulatory reporting)?  
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32 **PUB-NP-3**

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34 What material changes are anticipated in NP's financial statements as a result of the  
35 requirements that may result from the changes proposed in this Exposure Draft?  
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37 **PUB-NP-4**

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39 What additional costs does NP anticipate incurring as the result of the implementation of the  
40 requirements proposed in this Exposure Draft? How does NP propose to treat the recovery of  
41 these costs?

1 **PUB-NP-5**

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3 Does NP anticipate any difficulties in implementing the proposed changes, including meeting the  
4 proposed implementation date?

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6 **PUB-NP-6**

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8 How will these proposed changes impact cost recovery particularly as it relates to accrual  
9 accounts that have been and may be proposed to be used to maintain rate stability ie the Weather  
10 Normalization Account?

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12 **PUB-NP-7**

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14 How does NP intend to mitigate the impact of these proposed changes on its earnings?

**DATED** at St. John's, Newfoundland this 14<sup>th</sup> day of June 2007.

**BOARD OF COMMISSIONERS OF PUBLIC UTILITIES**

Per   
Cheryl Blundon  
Board Secretary