

1 **Volume 1, Section 3 – Finance**

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

6
7 A. Attachment A provides Newfoundland Power’s *pro forma* five year financial forecast for
8 the period 2007 to 2011.

9
10 This five-year forecast is based on the assumptions provided on pages 8 and 9 of
11 Attachment A. The forecast includes the proposed average rate increase of 5.3 percent,
12 effective January 1, 2008. There are no other rate changes assumed over the forecast
13 period.

14
15 This forecast is subject to change and variation as actual results for each of the forecast
16 years become known, and as assumptions and circumstances change.

Newfoundland Power Inc.

Financial Results and Forecasts
2007 - 2011
Statements of Income
(\$000s)

| | Forecast ¹ | | Pro forma | | |
|---|-----------------------|---------|-----------|---------|---------|
| | 2007 | 2008 | 2009 | 2010 | 2011 |
| 1 Revenue From Rates | 472,155 | 502,486 | 506,977 | 513,317 | 520,725 |
| 2 Amortization of Revenue Deferrals | 2,714 | 6,180 | 3,588 | 3,588 | 3,588 |
| 3 | 474,869 | 508,666 | 510,565 | 516,905 | 524,313 |
| 4 | | | | | |
| 5 Purchased Power Expense | 322,688 | 325,687 | 330,375 | 337,774 | 345,628 |
| 6 Deferred Recovery of Replacement Energy Costs | (1,795) | - | - | - | - |
| 7 Energy Supply Cost Recovery | - | - | (1,545) | (4,095) | (6,759) |
| 8 Amortization of Reserves and Replacement Energy Costs | 1,732 | 2,022 | 2,022 | 2,022 | 2,022 |
| 9 | 322,625 | 327,709 | 330,852 | 335,701 | 340,891 |
| 10 | | | | | |
| 11 Contribution | 152,244 | 180,957 | 179,713 | 181,204 | 183,422 |
| 12 | | | | | |
| 13 Other Revenue | 10,426 | 12,011 | 12,260 | 12,557 | 12,933 |
| 14 | | | | | |
| 15 Other Expenses: | | | | | |
| 16 Operating Expenses | 46,999 | 47,890 | 49,117 | 50,345 | 51,182 |
| 17 Employee Future Benefit Costs | 5,513 | 9,718 | 8,439 | 7,885 | 7,322 |
| 18 Depreciation True-up Deferral | (5,793) | - | - | - | - |
| 19 Amortization of Deferred Cost Recoveries | - | 2,317 | 2,317 | 2,317 | 2,317 |
| 20 Depreciation | 40,127 | 40,207 | 40,901 | 42,085 | 43,275 |
| 21 Finance Charges | 33,790 | 33,535 | 33,708 | 34,650 | 34,808 |
| 22 | 120,636 | 133,667 | 134,482 | 137,282 | 138,904 |
| 23 | | | | | |
| 24 Income Before Income Taxes | 42,034 | 59,301 | 57,491 | 56,479 | 57,451 |
| 25 Income Taxes | 12,646 | 22,357 | 19,758 | 18,842 | 19,177 |
| 26 | | | | | |
| 27 Net Income | 29,388 | 36,944 | 37,733 | 37,637 | 38,274 |
| 28 Preferred Dividends | 586 | 586 | 586 | 586 | 586 |
| 29 | | | | | |
| 30 Earnings Applicable to Common Shares | 28,802 | 36,358 | 37,147 | 37,051 | 37,688 |
| 31 | | | | | |
| 32 | | | | | |
| 33 Rate of Return and Credit Metrics | | | | | |
| 34 Rate of Return on Rate Base (percentage) | 8.12% | 8.82% | 8.79% | 8.76% | 8.75% |
| 35 Regulated Return on Book Equity (percentage) | 8.61% | 10.25% | 10.25% | 10.06% | 10.09% |
| 36 Interest Coverage (times) | 2.2 | 2.8 | 2.7 | 2.6 | 2.6 |
| 37 CFO Pre-W/C + Interest / Interest (times) | 2.7 | 3.3 | 3.4 | 3.4 | 3.4 |
| 38 CFO Pre-W/C / Debt (percentage) | 13.5% | 17.1% | 17.5% | 17.7% | 17.3% |

¹ Forecast results for 2008 to 2011 are after incorporating the proposals in the application.

Newfoundland Power Inc.

Financial Results and Forecasts
2007 - 2011
Statements of Retained Earnings
(\$000s)

| | Forecast | | Pro forma | | |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|
| | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> |
| 1 Balance - Beginning | 265,566 | 285,286 | 302,655 | 300,998 | 314,932 |
| 2 Net Income for the Period | 29,388 | 36,944 | 37,733 | 37,637 | 38,274 |
| 3 | <u>294,954</u> | <u>322,230</u> | <u>340,388</u> | <u>338,635</u> | <u>353,206</u> |
| 4 | | | | | |
| 5 Dividends | | | | | |
| 6 Preference Shares | 586 | 586 | 586 | 586 | 586 |
| 7 Common Shares | 9,082 | 18,989 | 38,804 | 23,117 | 41,280 |
| 8 | <u>9,668</u> | <u>19,575</u> | <u>39,390</u> | <u>23,703</u> | <u>41,866</u> |
| 9 | | | | | |
| 10 Balance - End of Period | <u>285,286</u> | <u>302,655</u> | <u>300,998</u> | <u>314,932</u> | <u>311,340</u> |

Newfoundland Power Inc.

Financial Results and Forecasts
2007 - 2011
Balance Sheets
(\$000s)

| | Forecast | | Pro forma | | |
|--|----------------|----------------|----------------|----------------|------------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 |
| 1 Assets | | | | | |
| 2 | | | | | |
| 3 Fixed Assets | | | | | |
| 4 Property, plant & equipment | 1,233,718 | 1,270,878 | 1,308,765 | 1,344,611 | 1,382,237 |
| 5 Less: accumulated amortization | 516,933 | 540,434 | 561,589 | 585,118 | 611,114 |
| 6 Less: Contributions in aid of Construction | 23,350 | 23,464 | 23,401 | 23,474 | 23,521 |
| 7 | <u>693,435</u> | <u>706,980</u> | <u>723,775</u> | <u>736,019</u> | <u>747,602</u> |
| 8 | | | | | |
| 9 Current Assets | | | | | |
| 10 Accounts receivable | 73,025 | 73,981 | 74,270 | 74,949 | 76,045 |
| 11 Materials and supplies | 5,400 | 5,500 | 5,550 | 5,600 | 5,650 |
| 12 Prepaid Expenses | 1,222 | 1,222 | 1,243 | 1,263 | 1,283 |
| 13 Rate stabilization account | 12,711 | 12,711 | 13,731 | 16,115 | 18,953 |
| 14 | <u>92,358</u> | <u>93,414</u> | <u>94,794</u> | <u>97,927</u> | <u>101,931</u> |
| 15 | | | | | |
| 16 Deferred and other charges | 102,012 | 104,812 | 108,473 | 112,585 | 117,770 |
| 17 | | | | | |
| 18 Regulatory Assets | 23,416 | 20,337 | 15,996 | 11,630 | 7,682 |
| 19 | | | | | |
| 20 OPEB asset | 34,102 | 34,102 | 34,102 | 34,102 | 34,102 |
| 21 | | | | | |
| 22 | <u>945,323</u> | <u>959,645</u> | <u>977,140</u> | <u>992,263</u> | <u>1,009,087</u> |
| 23 | | | | | |
| 24 | | | | | |
| 25 Shareholder's Equity and Liabilities | | | | | |
| 26 Shareholder's Equity | | | | | |
| 27 Common shares | 70,321 | 70,321 | 70,321 | 70,321 | 70,321 |
| 28 Retained earnings | 285,286 | 302,655 | 300,998 | 314,932 | 311,340 |
| 29 Common shareholder's equity | <u>355,607</u> | <u>372,976</u> | <u>371,319</u> | <u>385,253</u> | <u>381,661</u> |
| 30 Preference shares | 9,353 | 9,353 | 9,353 | 9,353 | 9,353 |
| 31 | <u>364,960</u> | <u>382,329</u> | <u>380,672</u> | <u>394,606</u> | <u>391,014</u> |
| 32 | | | | | |
| 33 Current Liabilities | | | | | |
| 34 Accounts payable and accrued charges | 69,415 | 70,978 | 70,055 | 71,717 | 75,744 |
| 35 Current portion of long-term debt | 4,450 | 4,450 | 4,950 | 4,950 | 4,950 |
| 36 Municipal tax liability | 11,328 | 10,511 | 9,694 | 8,876 | 8,059 |
| 37 | <u>85,193</u> | <u>85,939</u> | <u>84,699</u> | <u>85,543</u> | <u>88,753</u> |
| 38 | | | | | |
| 39 Future income taxes | - | (869) | (1,640) | (2,410) | (2,973) |
| 40 | | | | | |
| 41 Short-term borrowings | 40,359 | 41,035 | 13,768 | 16,346 | 35,412 |
| 42 | | | | | |
| 43 Long-term debt | 399,288 | 394,838 | 439,888 | 434,938 | 429,988 |
| 44 | | | | | |
| 45 Other Liabilities | 3,633 | 3,845 | 4,062 | 4,284 | 4,511 |
| 46 | | | | | |
| 47 Regulatory Liabilities | 17,788 | 12,154 | 9,111 | 6,063 | 3,015 |
| 48 | | | | | |
| 49 OPEB Liability | 34,102 | 40,374 | 46,580 | 52,893 | 59,367 |
| 50 | <u>945,323</u> | <u>959,645</u> | <u>977,140</u> | <u>992,263</u> | <u>1,009,087</u> |
| 51 | | | | | |

Newfoundland Power Inc.

Financial Results and Forecasts
2007 - 2011Statement of Cash Flows
(\$000s)

| | Forecast | | Pro forma | | |
|---|----------|----------|-----------|----------|----------|
| | 2007 | 2008 | 2009 | 2010 | 2011 |
| 1 Cash From (Used In) Operating Activities | | | | | |
| 2 Net Income | 29,388 | 36,944 | 37,733 | 37,637 | 38,274 |
| 3 | | | | | |
| 4 Amortization of capital assets | 40,127 | 40,207 | 40,901 | 42,085 | 43,275 |
| 5 Amortization of deferred charges | 324 | 308 | 227 | 242 | 205 |
| 6 Amortization of regulatory assets and liabilities | (1,455) | (4,003) | (1,401) | (1,380) | (1,380) |
| 7 Regulatory deferrals | (6,940) | 1,449 | 2,699 | 2,697 | 2,281 |
| 8 Future income taxes | - | (869) | (771) | (769) | (563) |
| 9 Accrued employee future benefits | (6,327) | 3,376 | 3,035 | 2,181 | 1,312 |
| 10 Change in non-cash working capital | (9,714) | (311) | (3,119) | (2,288) | (798) |
| 11 | 45,403 | 77,101 | 79,304 | 80,405 | 82,606 |
| 12 | | | | | |
| 13 Cash From (Used In) Financing Activities | | | | | |
| 14 Net Proceeds from long-term debt | 59,400 | - | 49,500 | - | - |
| 15 Repayment of long-term debt | (36,320) | (4,450) | (4,450) | (4,950) | (4,950) |
| 16 Short-term borrowings | 5,608 | 675 | (27,267) | 2,578 | 19,067 |
| 17 Contributions from customers and security deposits | 1,500 | 1,500 | 1,500 | 1,500 | 1,500 |
| 18 Dividends | | | | | |
| 19 Preference Shares | (586) | (586) | (586) | (586) | (586) |
| 20 Common Shares | (9,082) | (18,989) | (38,804) | (23,117) | (41,280) |
| 21 | 20,520 | (21,850) | (20,107) | (24,575) | (26,249) |
| 22 | | | | | |
| 23 | | | | | |
| 24 Cash From (Used In) Investing Activities | | | | | |
| 25 Capital expenditures (net of salvage) | (65,523) | (55,251) | (59,197) | (55,830) | (56,357) |
| 26 Other deferred charges | - | - | - | - | - |
| 27 Long-term portion of finance programs | - | - | - | - | - |
| 28 | (65,523) | (55,251) | (59,197) | (55,830) | (56,357) |
| 29 | | | | | |
| 30 Increase (Decrease) in Cash | 400 | - | - | - | - |
| 31 (Bank Indebtedness) Cash, Beginning of Period | (400) | - | - | - | - |
| 32 (Bank Indebtedness) Cash, End of Period | - | - | - | - | - |

Newfoundland Power Inc.

Financial Results and Forecasts

2007 - 2011

Average Rate Base¹
(\$000s)

| | Forecast | | Pro forma | | |
|---|-----------|-----------|-----------|-----------|-----------|
| | 2007 | 2008 | 2009 | 2010 | 2011 |
| 1 Plant Investment | 1,210,625 | 1,252,298 | 1,289,822 | 1,326,688 | 1,363,424 |
| 2 | | | | | |
| 3 Add: | | | | | |
| 4 Deferred Charges | 96,945 | 98,733 | 102,139 | 105,556 | 110,200 |
| 5 Weather Normalization Reserve | 11,246 | 10,003 | 8,638 | 7,258 | 5,867 |
| 6 Deferred Energy Replacement Costs | 574 | 1,030 | 793 | 555 | 314 |
| 7 Cost Recovery Deferral - Depreciation | 8,690 | 10,428 | 8,111 | 5,793 | 3,476 |
| 8 Future Income Taxes | - | 435 | 1,255 | 2,027 | 2,692 |
| 9 Customer Finance Programs | 901 | 2,528 | 2,528 | 2,528 | 2,528 |
| 10 | 118,356 | 123,157 | 123,464 | 123,717 | 125,077 |
| 11 | | | | | |
| 12 Deduct: | | | | | |
| 13 Accumulated Depreciation | 505,892 | 528,684 | 551,012 | 573,353 | 598,116 |
| 14 Work In Progress | 1,716 | 2,314 | 2,185 | 2,193 | 2,143 |
| 15 Contributions In Aid of Construction | 23,246 | 23,407 | 23,433 | 23,438 | 23,498 |
| 16 2005 Unbilled Revenue | 17,803 | 13,765 | 9,698 | 6,927 | 4,156 |
| 17 Accrued Pension Liabilities | - | 3,003 | 3,218 | 3,437 | 3,662 |
| 18 Accrued OPEBS Liability | - | 3,136 | 9,375 | 15,635 | 22,028 |
| 19 Municipal Tax Liability | - | 3,679 | 2,861 | 2,044 | 1,227 |
| 20 Unit Cost Reserve | 1,342 | 1,207 | 935 | 661 | 384 |
| 21 Customer Security Deposits | - | 736 | 736 | 736 | 736 |
| 22 | 549,999 | 579,931 | 603,453 | 628,424 | 655,950 |
| 23 | | | | | |
| 24 Average Rate Base Before Allowances | 778,982 | 795,524 | 809,833 | 821,981 | 832,551 |
| 25 | | | | | |
| 26 Cash Working Capital Allowance | 6,576 | 9,340 | 9,424 | 9,574 | 9,748 |
| 27 | | | | | |
| 28 Materials and Supplies Allowance | 4,217 | 4,427 | 4,470 | 4,511 | 4,551 |
| 29 | | | | | |
| 30 Average Rate Base At Year End | 789,775 | 809,291 | 823,727 | 836,066 | 846,850 |
| 31 | | | | | |

Notes:¹ All numbers shown are averages.

Newfoundland Power Inc.**Financial Results and Forecasts
2007 - 2011****Average Invested Capital
(\$000s)**

| | Forecast | | Pro forma | | |
|---|----------------|----------------|----------------|----------------|----------------|
| | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> |
| 1 Regulated Average Capital Structure | | | | | |
| 2 Debt | 429,653 | 438,842 | 446,065 | 453,967 | 460,043 |
| 3 Preference Shares | 9,353 | 9,353 | 9,353 | 9,353 | 9,353 |
| 4 Common Equity | 345,748 | 364,293 | 372,150 | 378,290 | 383,462 |
| 5 | <u>784,754</u> | <u>812,488</u> | <u>827,568</u> | <u>841,610</u> | <u>852,858</u> |
| 6 | | | | | |
| 7 Debt | 54.75% | 54.01% | 53.90% | 53.94% | 53.94% |
| 8 Preference Shares | 1.19% | 1.15% | 1.13% | 1.11% | 1.10% |
| 9 Common Equity | 44.06% | 44.84% | 44.97% | 44.95% | 44.96% |
| 10 | <u>100.00%</u> | <u>100.00%</u> | <u>100.00%</u> | <u>100.00%</u> | <u>100.00%</u> |
| 11 | | | | | |
| 12 | | | | | |
| 13 Regulated Rate of Return on Invested Capital | | | | | |
| 14 Debt | 7.94% | 7.69% | 7.61% | 7.68% | 7.62% |
| 15 Preference Shares | 6.27% | 6.27% | 6.27% | 6.27% | 6.27% |
| 16 Common Equity | 8.61% | 10.25% | 10.25% | 10.06% | 10.09% |
| 17 | | | | | |
| 18 | | | | | |
| 19 Weighted Average Rate of Return on Invested Capital | | | | | |
| 20 Debt | 4.35% | 4.15% | 4.10% | 4.14% | 4.11% |
| 21 Preference Shares | 0.07% | 0.07% | 0.07% | 0.07% | 0.07% |
| 22 Common Equity | 3.79% | 4.60% | 4.61% | 4.52% | 4.54% |
| 23 | <u>8.21%</u> | <u>8.82%</u> | <u>8.78%</u> | <u>8.73%</u> | <u>8.72%</u> |

Newfoundland Power Inc.

Financial Results and Forecasts
2007 - 2011
Rate of Return on Rate Base
(\$000s)

| | Forecast | | Pro forma | | |
|---|----------------|----------------|----------------|----------------|----------------|
| | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> |
| 1 Regulated Return on Equity | 29,777 | 37,341 | 38,137 | 38,057 | 38,693 |
| 2 Return on Preferred Equity | 586 | 586 | 586 | 586 | 586 |
| 3 | <u>30,363</u> | <u>37,927</u> | <u>38,723</u> | <u>38,643</u> | <u>39,279</u> |
| 4 | | | | | |
| 5 Finance Charges | | | | | |
| 6 Interest on Long-term Debt | 33,564 | 31,513 | 31,430 | 34,047 | 33,661 |
| 7 Other Interest | 1,582 | 2,039 | 2,309 | 619 | 1,199 |
| 8 Interest Earned | (1,200) | - | - | - | - |
| 9 Interest Charged to Construction | (420) | (298) | (288) | (289) | (286) |
| 10 Amortization of Bond Issue Expenses | 188 | 188 | 189 | 205 | 205 |
| 11 Amortization of Capital Stock Issue Expenses | 62 | - | - | - | - |
| 12 | <u>33,776</u> | <u>33,442</u> | <u>33,640</u> | <u>34,582</u> | <u>34,779</u> |
| 13 | | | | | |
| 14 Return on Rate Base | <u>64,139</u> | <u>71,369</u> | <u>72,363</u> | <u>73,225</u> | <u>74,058</u> |
| 15 | | | | | |
| 16 Average Rate Base | <u>789,775</u> | <u>809,291</u> | <u>823,727</u> | <u>836,066</u> | <u>846,850</u> |
| 17 | | | | | |
| 18 Rate of Return on Rate Base | 8.12% | 8.82% | 8.78% | 8.76% | 8.75% |

Newfoundland Power Inc.

Financial Performance

2007 - 2011

Major Inputs and Assumptions for 2007 to 2011 Forecasts

1 Forecast results for 2007 to 2011 are based on electricity rates effective January 1, 2008 approved by the Board in
2 Order No. P.U. 8 (2007) and after implementation of the proposals in this Application

3
4 Specific assumptions include:

5
6 **Energy Forecasts :** Energy forecasts are based on economic indicators taken from the Conference Board of
7 Canada forecast dated December 19, 2006.

8
9 **Revenue Forecast :** The revenue forecast is based on the Customer, Energy and Demand forecast filed in this
10 Application.

11
12 Revenue for 2007 includes the amortization of \$2.7 million of the 2005 unbilled revenue
13 as approved in Order No. P.U. 39 (2006).

14
15 Revenue for 2008 includes the proposed amortization of \$2.6 million of the 2005
16 unbilled revenue related to the 2005 Tax Settlement and \$0.8 million related to the
17 amortization of the MTA regulatory liability. Revenue for 2008 to 2011 also include
18 \$2.7 million related to the amortization of the remaining 2005 unbilled revenue balance
19 and \$0.8 million related to the amortization of the MTA regulatory liability

20
21 **Purchased Power Expense :** Rates charged by Newfoundland and Labrador Hydro approved by the Board in
22 Order No. P.U. 8 (2007).

23
24 Purchased Power Expense for 2007 includes a \$1.7 million amortization of the Hydro
25 Equalization Reserve as approved in Order No. P.U. 19 (2003).

26
27 Purchased Power Expense for 2007 has been reduced to reflect deferred replacemen
28 energy costs of \$1.8 million (\$1.1 million after tax) as approved in Order No. P.U. 39 (2006)

29
30 Purchased Power Expense for 2008 to 2011 includes a proposed \$0.4 million per year amortization
31 related to the Replacement Energy Costs and \$2.1 million per year related to the amortization
32 of the non-reversing balance in the Weather Normalization Reserve.

33
34 Purchased Power Expense for 2008 to 2011 also includes a proposed \$0.4 million per year
35 amortization of the Supply Cost Reserve

36
37 Purchased Power Expense for 2009 to 2011 has been reduced by the forecast proposed transfer to
38 the RSA for the Energy Supply Cost variances.

39
40 **Pensions and Early Retirement Costs :** Pension costs related to the 2005 Early Retirement Program are being amortized over
41 a 10-year period from 2005 to 2015 as approved in Order No. P.U. 49 (2004).

42
43 Pension funding is based on the actuarial valuation dated December 31, 2005 filed with
44 this Application and a Board approved schedule of funding payments

45
46 Pension expense discount rate is assumed to be 5.25% over the forecast period

47
48 **Other Employee Future Benefits:** Forecast costs for 2008 to 2011 include costs related to the adoption of the
49 accrual method for recognizing employee future benefits

50
51 **Cost Recovery Deferral:** In Order No. P.U. 39 (2006), the Board approved the deferred recovery of \$5.8 million in
52 2007 costs related to the conclusion of the Depreciation True-up in 2005.

53
54 2008 to 2011 costs include \$2.3 million per year related to the amortization over a five year
55 period of cost recovery deferrals related to depreciation

1 **Depreciation Rates :** Depreciation rates for 2007 are based on the 2002 depreciation study as approved
2 by the Board in Order No. P.U. 19 (2003).
3
4 Depreciation rates for 2008 to 2011 are based on the 2006 depreciation study
5 as filed in this Application.
6
7 **Short-Term Interest Rates :** Average short-term interest rates are assumed to be 4.91% in 2007 and 5.00% thereafter
8
9 **Long-Term Debt :** A \$60.0 million long-term debt issue is forecast to be completed on August 1, 2007.
10 The debt is forecast for 30 years at a coupon rate of 5.50 %. Debt repayments will be
11 in accordance with the normal sinking fund provisions for existing outstanding debt
12
13 A \$50.0 million long-term debt issue is forecast to be completed on December 1, 2009.
14 The debt is forecast for 30 years at a coupon rate of 6.50 %. Debt repayments will be
15 in accordance with the normal sinking fund provisions for existing outstanding debt
16
17 **Dividends :** Common dividend payouts are forecast based on maintaining a target common equity
18 component of 45%.
19
20 **Income Tax :** Income tax expense reflects a statutory income tax rate of 36.12 % in 2007
21 and 34.5% in 2008, 34.0 % in 2009, 33.0% in 2010 and 2011.
22
23 Income tax expense includes \$2.7 million in 2007 and \$2.6 million in 2008 related to
24 the 2005 tax settlement.
25
26 Income tax expense for 2008 to 2011 reflects the adoption of the accrual method of
27 accounting for employee future benefits