

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 page 8 <> of Attachment
11 A. The forecast includes the proposed average rate increase of 2.8 percent, effective
12 January 1, 2008. There are no other rate changes assumed over the forecast period.

13

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

Newfoundland Power Inc.

Financial Results and Forecasts¹
2007 - 2011
Statements of Income
(\$000s)

	Forecast		Pro forma		
	2007	2008	2009	2010	2011
1 Revenue From Rates	479,168	498,226	504,106	511,308	518,457
2 Amortization of Revenue Deferrals	2,714	8,572	5,980	5,980	-
3	481,882	506,798	510,086	517,287	518,457
4					
5 Purchased Power Expense	328,653	335,173	342,201	350,498	359,196
6 Deferred Recovery of Replacement Energy Costs	(1,795)	-	-	-	-
7 Energy Supply Cost Recovery	-	-	(2,227)	(4,974)	(7,861)
8 Amortization of Reserves and Replacement Energy Costs	1,732	1,986	1,986	1,986	2,076
9	328,590	337,159	341,960	347,511	353,411
10					
11 Contribution	153,292	169,639	168,126	169,776	165,046
12					
13 Other Revenue	10,455	12,122	12,367	12,694	13,080
14					
15 Other Expenses:					
16 Operating Expenses	46,999	47,700	48,923	50,149	50,982
17 Employee Future Benefit Costs	5,513	3,348	2,078	1,421	713
18 Cost Recovery Deferral	(5,793)	-	-	-	-
19 Amortization of Deferred Cost Recoveries	-	3,862	3,862	3,862	-
20 Depreciation	40,127	40,208	40,906	42,095	43,289
21 Finance Charges	33,760	34,772	35,263	36,412	36,704
22	120,606	129,890	131,032	133,937	131,688
23					
24 Income Before Income Taxes	43,141	51,871	49,461	48,533	46,438
25 Income Taxes	13,066	19,568	16,815	16,104	15,463
26					
27 Net Income	30,075	32,303	32,646	32,429	30,975
28 Preferred Dividends	586	586	586	586	586
29					
30 Earnings Applicable to Common Shares	29,489	31,717	32,060	31,843	30,389
31					
32					
33 Rate of Return and Credit Metrics					
34 Rate of Return on Rate Base (percentage)	8.20	8.37	8.27	8.21	7.94
35 Regulated Return on Book Equity (percentage)	8.80	8.95	8.81	8.61	8.01
36 Interest Coverage (times)	2.2	2.5	2.4	2.3	2.3
37 CFO Pre-W/C + Interest / Interest (times)	2.8	2.9	3.1	3.0	3.0
38 CFO Pre-W/C / Debt (percentage)	13.6	14.9	15.3	15.1	14.8

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

Newfoundland Power Inc.

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

	<u>Forecast</u>		<u>Pro forma</u>		
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
1 Balance - Beginning	265,566	285,973	304,067	305,579	316,782
2 Net Income for the Period	30,075	32,303	32,646	32,429	30,975
3	<u>295,641</u>	<u>318,276</u>	<u>336,713</u>	<u>338,009</u>	<u>347,756</u>
4					
5 Dividends					
6 Preference Shares	586	586	586	586	586
7 Common Shares	9,082	13,623	30,548	20,641	20,640
8	<u>9,668</u>	<u>14,209</u>	<u>31,134</u>	<u>21,227</u>	<u>21,226</u>
9					
10 Balance - End of Period	<u>285,973</u>	<u>304,067</u>	<u>305,579</u>	<u>316,782</u>	<u>326,530</u>

Financial Performance: 2007 to 2011

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	1,270,976	1,309,018	1,345,015	1,382,775
5 Less: accumulated amortization	516,933	540,435	561,596	585,134	611,144
6 Less: Contributions in aid of Construction	23,350	23,464	23,401	23,474	23,521
7	<u>693,435</u>	<u>707,077</u>	<u>724,021</u>	<u>736,407</u>	<u>748,110</u>
8					
9 Current Assets					
10 Accounts receivable	69,853	72,818	73,134	72,817	73,531
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	14,165	14,165	15,635	18,443	21,522
14	<u>90,640</u>	<u>93,705</u>	<u>95,562</u>	<u>98,123</u>	<u>101,986</u>
15					
16 Deferred and other charges	101,716	104,526	108,197	112,319	117,514
17					
18 Regulatory Assets	23,416	18,635	12,592	6,562	5,160
19					
20 OPEB asset	34,102	40,374	46,580	52,893	59,367
21					
22	<u>943,309</u>	<u>964,317</u>	<u>986,952</u>	<u>1,006,304</u>	<u>1,032,137</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	285,973	304,067	305,579	316,782	326,530
29 Common shareholder's equity	<u>356,294</u>	<u>374,388</u>	<u>375,900</u>	<u>387,103</u>	<u>396,851</u>
30 Preference shares	9,353	9,353	9,353	9,353	9,353
31	<u>365,647</u>	<u>383,741</u>	<u>385,253</u>	<u>396,456</u>	<u>406,204</u>
32					
33 Current Liabilities					
34 Accounts payable and accrued charges	67,858	70,500	70,322	71,692	72,738
35 Current portion of long-term debt	4,549	4,550	5,250	5,250	5,250
36 Municipal tax liability	11,328	9,966	8,604	7,242	7,242
37	<u>83,735</u>	<u>85,016</u>	<u>84,176</u>	<u>84,184</u>	<u>85,230</u>
38					
39 Future income taxes	-	1,183	2,443	3,742	5,297
40					
41 Short-term borrowings	29,316	35,493	95	10,707	22,741
42					
43 Long-term debt	409,088	404,538	459,288	454,038	448,788
44					
45 Other Liabilities	3,633	3,845	4,062	4,284	4,511
46					
47 Regulatory Liabilities	17,788	10,127	5,055	-	-
48					
49 OPEB Liability	34,102	40,374	46,580	52,893	59,367
50	<u>943,309</u>	<u>964,317</u>	<u>986,952</u>	<u>1,006,304</u>	<u>1,032,137</u>
51					

Newfoundland Power Inc.

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

	Forecast		Pro forma		
	2007	2008	2009	2010	2011
1 Cash From (Used In) Operating Activities					
2 Net Income	30,075	32,303	32,646	32,429	30,975
3					
4 Amortization of capital assets	40,127	40,208	40,906	42,095	43,289
5 Amortization of deferred charges	320	298	217	232	195
6 Amortization of regulatory assets and liabilities	(1,455)	(5,850)	(3,248)	(3,227)	1,402
7 Regulatory deferrals	(6,940)	2,970	4,219	4,202	-
8 Future income taxes	-	1,183	1,260	1,299	1,556
9 Accrued employee future benefits	(6,327)	(2,896)	(3,171)	(4,132)	(5,162)
10 Change in non-cash working capital	(9,553)	(1,784)	(3,397)	(2,553)	(2,818)
11	<u>46,247</u>	<u>66,432</u>	<u>69,432</u>	<u>70,345</u>	<u>69,437</u>
12					
13 Cash From (Used In) Financing Activities					
14 Net Proceeds from long-term debt	69,700	-	59,500	-	-
15 Repayment of long-term debt	(36,420)	(4,550)	(4,550)	(5,250)	(5,250)
16 Short-term borrowings	(5,435)	6,176	(35,396)	10,613	12,034
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)	(13,623)	(30,548)	(20,641)	(20,640)
21	<u>19,677</u>	<u>(11,083)</u>	<u>(10,080)</u>	<u>(14,364)</u>	<u>(12,942)</u>
22					
23					
24 Cash From (Used In) Investing Activities					
25 Capital expenditures (net of salvage)	(65,524)	(55,349)	(59,352)	(55,981)	(56,495)
26					
27 Increase (Decrease) in Cash	400	-	-	-	-
28 (Bank Indebtedness) Cash, Beginning of Period	(400)	-	-	-	-
29 (Bank Indebtedness) Cash, End of Period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Financial Performance: 2007 to 2011

Newfoundland Power Inc.

**Financial Results and Forecasts
2007 - 2011
Average Rate Base¹
(\$000s)**

	Forecast		Pro forma		
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
1 Plant Investment	1,210,625	1,252,347	1,289,997	1,327,016	1,363,895
2					
3 Add:					
4 Deferred Charges	96,798	98,733	102,139	105,556	110,200
5 Weather Normalization Reserve	11,246	10,003	8,638	7,258	5,861
6 Deferred Energy Replacement Costs	574	951	558	180	-
7 Cost Recovery Deferral - Depreciation	8,690	9,655	5,794	1,932	-
8 Customer Finance Programs	901	2,528	2,528	2,528	2,528
9	<u>118,209</u>	<u>121,870</u>	<u>119,657</u>	<u>117,454</u>	<u>118,589</u>
10					
11 Deduct:					
12 Accumulated Depreciation	505,892	528,684	551,015	573,365	598,139
13 Work In Progress	1,716	2,314	2,188	2,199	2,149
14 Contributions In Aid of Construction	23,246	23,407	23,433	23,438	23,498
15 2005 Unbilled Revenue	17,803	12,841	6,927	2,309	-
16 Future Income Taxes	-	592	1,814	3,093	4,521
17 Accrued Pension Liabilities	-	3,003	3,218	3,437	3,662
18 Accrued OPEBS Liability	-	-	-	-	-
19 Municipal Tax Liability	-	3,406	2,044	682	-
20 Unit Cost Reserve	1,342	1,118	664	218	-
21 Customer Security Deposits	-	736	736	736	736
22	<u>549,999</u>	<u>576,101</u>	<u>592,039</u>	<u>609,477</u>	<u>632,705</u>
23					
24 Average Rate Base Before Allowances	778,835	798,116	817,615	834,993	849,779
25					
26 Cash Working Capital Allowance	6,684	9,669	9,807	9,980	10,149
27					
28 Materials and Supplies Allowance	4,411	4,427	4,470	4,511	4,551
29					
30 Average Rate Base At Year End	<u>789,930</u>	<u>812,212</u>	<u>831,892</u>	<u>849,484</u>	<u>864,479</u>
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	429,082	440,691	451,487	464,131	470,399
3 Preference Shares	9,353	9,353	9,353	9,353	9,353
4 Common Equity	346,091	365,341	375,144	381,501	391,976
5	<u>784,526</u>	<u>815,385</u>	<u>835,984</u>	<u>854,985</u>	<u>871,728</u>
6					
7 Debt	54.69%	54.04%	54.01%	54.29%	53.96%
8 Preference Shares	1.19%	1.15%	1.12%	1.09%	1.07%
9 Common Equity	44.12%	44.81%	44.87%	44.62%	44.97%
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%	7.93%	7.86%	7.89%	7.85%
15 Preference Shares	6.27%	6.27%	6.27%	6.27%	6.27%
16 Common Equity	8.80%	8.95%	8.81%	8.61%	8.01%
17					
18					
19 Weighted Average Rate of Return on Invested Capital					
20 Debt	4.34%	4.29%	4.25%	4.28%	4.24%
21 Preference Shares	0.07%	0.07%	0.07%	0.07%	0.07%
22 Common Equity	3.88%	4.01%	3.95%	3.84%	3.60%
23	<u>8.29%</u>	<u>8.37%</u>	<u>8.27%</u>	<u>8.19%</u>	<u>7.91%</u>

Financial Performance: 2007 to 2011

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	30,464	32,700	33,050	32,847	31,402
2 Return on Preferred Equity	586	586	586	586	586
3	<u>31,050</u>	<u>33,286</u>	<u>33,636</u>	<u>33,433</u>	<u>31,988</u>
4					
5 Finance Charges					
6 Interest on Long-term Debt	33,736	32,334	32,309	35,647	35,238
7 Other Interest	1,385	2,450	2,980	778	1,514
8 Interest Earned	(1,200)	-	-	-	-
9 Interest Charged to Construction	(420)	(283)	(273)	(275)	(272)
10 Amortization of Bond Issue Expenses	178	179	179	195	195
11 Amortization of Capital Stock Issue Expenses	62	-	-	-	-
12	<u>33,741</u>	<u>34,680</u>	<u>35,195</u>	<u>36,345</u>	<u>36,675</u>
13					
14 Return on Rate Base	<u>64,791</u>	<u>67,966</u>	<u>68,831</u>	<u>69,778</u>	<u>68,663</u>
15					
16 Average Rate Base	<u>789,930</u>	<u>812,212</u>	<u>831,892</u>	<u>849,484</u>	<u>864,479</u>
17					
18 Rate of Return on Rate Base	8.20%	8.37%	8.27%	8.21%	7.94%

Newfoundland Power Inc.

2008 Financial Forecasts

Major Inputs and Assumptions - Amended Application

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Specific assumptions include:

- Energy Forecasts :** Energy forecasts are based on economic indicators taken from the Conference Board of Canada forecast dated July 18, 2007.
- Revenue Forecast :** The revenue forecast is based on the Customer, Energy and Demand forecast filed in the Amended Application.
- Revenue for 2008 proposed includes the proposed amortization of \$2.6 million of the 2005 unbilled revenue related to the 2005 Tax Settlement and \$1.4 million related to the amortization of the MTA regulatory liability. Revenue for 2008 proposed also include \$4.6 million related to the amortization of the remaining 2005 unbilled revenue balance
- Revenues for 2009 to 2010 include \$4.6 million related to the amortization of the remaining 2005 unbilled revenue balance and \$1.4 million related to the amortization of the the MTA regulatory liability.
- Purchased Power Expense :** Rates charged by Newfoundland and Labrador Hydro approved by the Board in Order No. P.U. 8 (2007).
- Purchased Power Expense for 2008 through 2010 includes a proposed \$0.6 million per year amortization related to the Replacement Energy Costs and \$2.1 million per year related to the amortization of the non-reversing balance in the Weather Normalization Reserve.
- Purchased Power Expense for 2008 to 2010 also includes a proposed \$0.7 million per year amortization of the Supply Cost Reserve.
- Pensions and Early Retirement Costs :** Pension costs related to the 2005 Early Retirement Program are being amortized over a 10-year period from 2005 to 2015 as approved in Order No. P.U. 49 (2004).
- Pension funding is based on the actuarial valuation dated December 31, 2005 filed with this Application and a Board approved schedule of funding payments
- Pension expense discount rate is assumed to be 5.25% over the forecast period.
- Other Employee Future Benefits:** Forecast costs for 2008 are based on the Cash method for recognizing employee future benefits.
- Cost Recovery Deferral:** In Order No. P.U. 39 (2006), the Board approved the deferred recovery of \$5.8 million in 2007 costs related to the conclusion of the Depreciation True-up in 2005.
- 2008 to 2010 costs include \$3.9 million per year related to the amortization over a three year period of cost recovery deferrals related to depreciation.
- Depreciation** Depreciation rates for 2008 proposed are based on the 2006 depreciation study as filed in this Application.
- The Settlement Agreement provides for a 4 year amortization of a \$0.7 million depreciation reserve variance resulting from the 2006 Depreciation Study beginning in 2008
- Short-Term Interest Rates :** Average short-term interest rates are assumed to be 5.75% for 2008 to 2010.
- Long-Term Debt :** A \$70.0 million long-term debt issue was completed on August 17, 2007. The debt is for 30 years at a coupon rate of 5.901 %. Debt repayments will be in accordance with the normal sinking fund provisions for existing outstanding debt
- A \$60 million long-term debt issue is forecast in December, 2009. The debt is for 30 years at a coupon rate of 6.750 %. Debt repayments will be in accordance with the normal sinking fund provisions for existing outstanding debt
- Dividends :** Common dividend payouts are forecast based on maintaining a target common equity component of 45%.
- Income Tax :** Income tax expense reflects a statutory income tax rate of 34.5 % in 2008. The rates for 2009 and 2010 are 34% and 33% respectively.
- Income tax expense in 2008 includes \$2.6 million related to the 2005 Tax Settlement

Note: Reflects "Settlement Agreement" and revised forecasts for 2007 and 2008