

Volume 1, Section 3 – Finance

Q. In the manner set out at page 15 of Grant Thornton's February 4, 2003 Financial Consultant's Report in respect of NP's 2003 GRA, compare NP's actual revenues for 2002 to 2006 to revenue forecasts as proposed by NP for 2007 and 2008.

A. Table 1 is a summary of actual and forecast revenue for the period 2002 to 2008. Rate Stabilization Adjustments (“RSA”) & Municipal Tax Adjustments (“MTA”) charges are not included.

Table 1
Revenue from Rates
Excludes RSA & MTA
(\$000)

Rate Category	Actual					Forecast	Proposed
	2002	2003	2004	2005	2006 ¹	2007 ²	2008
Residential	\$216,375	\$224,263	\$236,087	\$243,852	\$244,121	\$282,572	\$303,824
General Service							
0-10 kW	10,825	10,906	11,300	11,510	11,269	12,434	12,642
10-100 kW	47,450	48,738	51,160	52,853	53,343	61,539	63,736
110-1000 kVA	54,370	56,687	59,707	61,037	60,261	71,426	75,247
Over 1000 kVA	20,944	22,186	23,570	24,280	24,556	29,299	31,244
Street & Area Lighting	10,713	10,995	11,343	11,524	11,658	12,175	12,920
Forfeited Discounts	2,095	2,319	2,410	2,541	2,481	2,710	2,873
Revenue From Rates	\$362,772	\$376,094	\$395,577	\$407,597	\$407,689	\$472,155	\$502,486
% Change	2.78%	3.67%	5.18%	3.04%	0.02%	15.81%	6.42%
Revenue Deferral Amortizations ³					3,086	2,714	6,180
Total Revenue	\$362,772	\$376,094	\$395,577	\$407,597	\$410,775	\$474,869	\$508,666

The year over year changes in revenues are due to a number of factors including changes in rates, changes in sales and changes in average usage patterns.

¹ Beginning in 2006, the Company adopted the accrual method of revenue recognition as approved in Order No. P.U. 40 (2005).

² Includes an RSA Shortfall adjustment which represents the difference in the increase in revenue and the increase in purchase power cost resulting from the change in the wholesale rate charged by Newfoundland and Labrador Hydro effective January 1, 2007 as per Order No. P.U. 42 (2006).

³ In Order Nos. P.U. 40 (2005) and P.U. 39 (2006), the Board approved the amortization of the 2005 Unbilled Revenue to offset income taxes in 2006 and 2007 arising from the 2005 Tax Settlement. In its 2008 Application, the Company is proposing to amortize revenue deferrals of \$6.2 million. See Section 3.7.1 of the Company's Application for the details on the proposed amortizations of revenue deferrals in 2008.

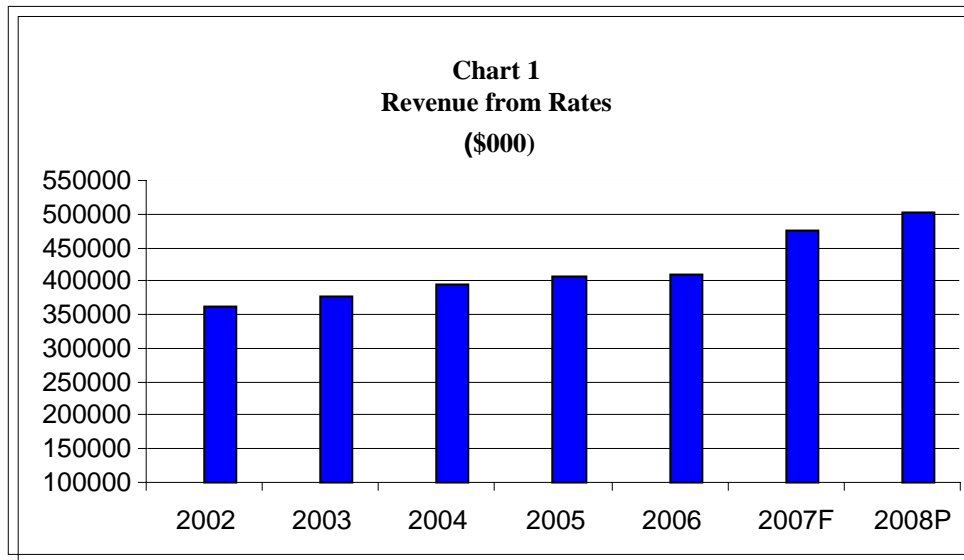
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2 Summary explanations for the year over year changes in revenue shown in Table 1 are:
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- 4 1. 2002 - The 2.78% increase in revenue is the result of customer and sales growth
5 along with a September 1, 2002 rate increase resulting from the 2001 Hydro
6 general rate application offset by the rate decrease effective January 1, 2002
7 resulting from the operation of the Automatic Adjustment Formula;
8
- 9 2. 2003 - The 3.67% increase in revenue for 2003 is a combination of customer and
10 sales growth along with the impact of the September 1, 2002 rate offset by the
11 August 1, 2003 rate decrease resulting from the 2003 NP general rate application;
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- 13 3. 2004 - The 5.18% increase for 2004 is a combination of customer and sales
14 growth along with the impact of the July 1, 2004 rate increase resulting from the
15 2003 Hydro general rate application;
16
- 17 4. 2005 - The 3.04% growth for 2005 is a combination of customer and sales growth
18 along with the impacts of the July 1, 2004 rate increase offset by a rate decrease
19 effective January 1, 2005 resulting from the operation of the Automatic
20 Adjustment Formula;
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- 22 5. 2006 - The .02% growth in revenue for 2006 is primarily the result of customer
23 growth offset by small negative sales growth;
24
- 25 6. 2007 - The 15.8% forecast growth for 2007 is a combination of customer and
26 sales growth along with the impact of the January 1, 2007 rate increase; and
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- 28 7. 2008 - The 6.42% forecast growth for 2008 is a combination of customer and
29 sales growth along with the impact of the January 1, 2008 proposed rate increase.

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Chart 1 is a summary of base rate revenue for 2002 to 2008.



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Table 2 is a summary of the changes to base rates approved by the Board from 2002 to 2007 including the proposed increase for 2008. Rate changes related to RSA & MTA are not included.

Table 2
Rate Changes for 2002 to 2006 and Forecast 2007 & 2008

Year	% Change Base Rates	
2002	0.56	decrease effective January 1, 2002 (operation of the Automatic Adjustment Formula (“AAF”))
2002	3.68	increase effective September 1, 2002 (Hydro flow-through)
2003	0.15	decrease effective August 1, 2003 (NP's 2003 GRA)
2004	5.56	increase effective July 1, 2004 (Hydro flow-through)
2005	0.54	decrease effective January 1, 2005 (operation of the AAF)
2007	0.61	decrease effective January 1, 2007 (operation of the AAF)
2007	3.83	increase effective January 1, 2007 (Hydro 2007 revenue requirement increase)
2007	10.66	increase effective January 1, 2007 (July 2006 Fuel Rider included in base rates)
2008	5.55	proposed increase effective January 1, 2008 (NP's 2008 GRA)

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Table 3 provides the number of customers and the GWH sales for 2002 to 2006 and forecast 2007 and 2008.

Table 3

	Actual					Forecast	Proposed
	2002	2003	2004	2005	2006	2007	2008
Customers	219,072	221,653	224,464	227,301	229,500	231,715	233,714
% Change	1.01	1.18	1.27	1.26	0.97	0.96	0.86
GWH Sales	4,764.9	4,882.0	4,978.6	5,004.0	4,995.1	5,054.0	5,120.8
% Change	2.10	2.46	1.98	0.51	(0.18)	1.18	1.32

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Average customer growth for 2002 to 2006 has been slightly above 1% while sales growth has varied from a high of 2.5% in 2003 to a low of (0.2%) in 2006.