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Q. Over the past recent years, NP has brought forward proposals affecting its accounting policies. These include revenue recognition and the current proposals pertaining to OPEBs. Please provide NP's assessment as to further accounting changes that it is reasonably foreseeable will have to be considered in the coming years.

A. Further accounting changes that may have to be considered are related to (i) the Accounting Standards Board March 2007 exposure draft *Rate Regulated Operations* and (ii) the Accounting Standards Board January 2006 Strategic Plan.

The accounting changes proposed in the exposure draft, and their impact, are set out in the Responses to PUB-NP-1 through PUB-NP-7.

In summary, the accounting changes would affect only the reporting of future income taxes on Newfoundland Power's balance sheet. There would be no impact on Newfoundland Power's earnings, rate base or customers.

The Accounting Standards Board's Strategic Plan includes the decision to replace Canadian generally accepted accounting principles ("GAAP") with international financing reporting standards ("IFRS") in 2011.

There are differences between Canadian GAAP and IFRS. For Newfoundland Power, the major difference is that IFRS are silent on rate regulated operations. Entities subject to rate regulation may have to comply with IFRS with no exceptions or specific guidance for their circumstances.

The implication of the IFRS in this regard is that regulator approved accounting policies and treatments that differ from the IFRS would not be permitted to be used in publicly issued financial statements. For example, Newfoundland Power would not be able to carry regulatory assets and liabilities on its balance sheet for external financial reporting purposes.[1] They would have to be "written-off".

The adoption of IFRS, with no exceptions for rate regulated entities, would not necessarily impact customers. Board approved accounting policies and treatment that differ from IFRS could still be used in the rate setting process. However, such differences would effectively require Newfoundland Power to maintain two sets of financial statements; one set for rate setting and for reporting to the Board and one set for external financial reporting.

[1] Newfoundland Power's regulatory assets and liabilities are disclosed in note 4 to Newfoundland Power's 2006 audited financial statements which are filed in Return 1 to the PUB. They include the rate stabilization account, the weather normalization reserve, unrecognized OPEBs costs and the unrecognized 2005 unbilled revenue, etc.

Newfoundland Power continues to monitor the activities of the Accounting Standards Board with respect to the transition from Canadian GAAP to IFRS. However, the current position of the Accounting Standards Board is that it is too early to tell whether IFRS, as they relate to rate regulated entities, will be interpreted and applied in a manner that produces accounting policies and treatments that are consistent with existing Canadian GAAP for rate regulated entities.[2] It is therefore uncertain what impact, if any, that IFRS would actually have on Newfoundland Power.

[2] See paragraph 34(c) to the "Background Information and Basis for Conclusion" for the March, 2007 exposure draft "Rate Regulated Operations".