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5 Q: Reference: Page 13, Lines 16-19
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7 Please provide evidence of Newfoundland Power's under-forecasting of revenues and
8 under-forecasting of cost efficiencies during each of the past eleven years.
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11 A: The referenced statement in lines 18-19 on page 13 of Dr. Cannon's evidence is simply
12 a logical deduction. A rate-regulated utility, such as NP, cannot logically earn a higher-
13 than-expected ROCE or a higher-than-budgeted ROCE unless (a) its actual revenues
14 exceed their forecasted level, (b) its actual costs are lower than forecasted, or (c) both.
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16 However, listed below are some examples that Dr. Cannon noted in his review of NPs
17 historical financial results as compared with the Company's prior forecasts.
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- 19 (1) NP over-earned the mid-point of its allowed ROCE range each year during the
20 1999-2002 period partly because it employed more short-term debt financing than
21 expected and thereby took advantage of interest cost savings the extent of which
22 had not been forecasted in P.U.36 (1998-99). This was noted in lines 2-7 on page
23 17 of Board Hearing Counsel's Final Brief in P.U.22 (2002-2003), and also pointed
24 out by Grant Thornton in its Report dated February 4, 2003, on page 22.
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- 26 (2) NP's actual revenues in 2001 exceeded their forecast level by 1.44%, apparently
27 because the Company under-forecasted the growth in average residential electricity
28 usage and the shift in heating markets from oil to electricity. This under-forecasting
29 of revenues, along with interest receipts associated with income tax refunds and
30 revenue from pole attachments related to the purchase of joint-use poles, helped NP
31 over-earn its allowed ROCE by 1.76% during 2001.
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- 33 (3) NP's actual total gross operating costs during 2002, 2003, and 2004 were lower than
34 those it forecasted in its 2003 GRA Application primarily because (a) NP under-
35 forecasted its total labour expense savings for 2003 and 2004, (b) it over-forecasted
36 its travel expenses for 2003 and 2004, (c) it under-forecasted its savings on tools
37 and clothing allowances for all 3 years, (d) it over-forecasted its insurance expenses
38 in all 3 years, (e) it under-forecasted its savings in the area of education and training
39 in all 3 years, (g) it under-forecasted its cost efficiencies in the equipment rental and
40 maintenance area in all 3 years, and (h) it over-forecasted its vegetation
41 management costs in all 3 years.
42
- 43 (4) Contributing to NP's over-earning the mid-point of its allowed ROCE in 2002,
44 2003, and 2004, was the fact that the Company under-forecasted its electricity
45 revenue growth rate over the 2001-to-2004 period because it under-forecasted the
46 actual growth rate in its number of customers each year as well as their overall
47 usage of electricity.