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Changes in the Company's accounting policy for verenue recognition for regulatory purposes.			Page 1		Page 2
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Page 3 Page 4 1 revise values for rate base and invested 2 capital which are part of the formula used to 3 set electrical rates for customers of 4 Newfoundland Power. 5 The Board is hearing this application 6 pursuant to its appropriate authorities and 7 regulations contained in the Public Utilities 8 Act. 9 And I'd ask at this point that the 10 persons really seated at the tables who are 11 formally participating in the proceedings, if 12 you could each introduce yourself, indicating 13 whom you represent and in what capacity you 14 will be participating in the hearings. And 15 I'd start off with the Applicant, Newfoundland 16 Power, please. 17 KELLY, Q.C.: 18 Q. Thank you, Chair, Vice-Chair. My name is Ian 19 Kelly and I'm counsel for Newfoundland Power. 20 And with me is Mr. John 21 Oconsumer Advocate? 22 Q. Thank you. Consumer Advocate? 23 Also been requested in the application to Page 4 1 Consumer Advocate in respect of this application. And seated with me is Mr. John 2 application. And seated with me is Mr. John 2 application. And seated with me is Mr. John 2 Todd, who've come from Toronto had has been, 3 application. And seated with me is Mr. John 3 opplication. And seated with me is Mr. John 4 is going to provide testimony for the Board, 4 is going to provide testimony for the Board, 5 as well. Thank you. 6 CHAIRMAN: 9 Q. Good morning, Mr. Kennedy. 8 MR. KENNEDY: 9 Q. Good morning, Mr. Kennedy. 8 MR. KENNEDY: 9 Q. Good morning, Chair, Vice-Chair. Mark 10 Kennedy, capacity as the Board hearing 11 counsel. I have no one with me. 12 CHAIRMAN: 13 Q. Thank you. Welcome everybody. At this 14 juncture I do provide generally a short 15 overview of the Board and the process we'll be 16 following throughout the duration of the 17 KELLY, Q.C.: 17 hearing. And I guess in looking at the 18 attendance here this morning, this descriptive 19 may be a little bit redundant, so in the 10 interests of time I'm going to dispense with 11 those explanations this morning. With regard 12 to the evidence itself, in addition,	23	Cheryl Blundon who is Board secretary.	23		the accounting treatment of Newfoundland Power
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	23	MR. JOHNSON:	23		to the paper copies of the documents which you
25 My name is Thomas Johnson. I'm the appointed 25 information on its website and all the	1	O Good morning Mr Chairman Vice-Chair Wh	alen 24		see below the Roard has posted this
		Q. Good morning, wir. Chairman, vice Chair vin	aren.		•

Dec	temper 7, 2005	Mulu-i	rag	e NL Power's Accounting Policy
	I	Page 5		Page 6
1	CHAIRMAN		1	being recorded by Discoveries Unlimited under
2	documentation, including daily transcripts,		2	the auspices of Judy Moss and the supervision
3	will be available throughout the course of the		3	of the Board secretary, Ms. Blundon, and we
4	hearing on our website as well. And I		4	will receive transcription, my understanding,
5	understand Ms. Jennifer Walsh, who is an		5	they will be available in the morning, I
6	employee of Newfoundland Power, I		6	guess, and will be transcribed throughout the
7	understanding working in their information		7	evening following the hearing. Is that
8	systems area will be assisting during the		8	correct?
9	hearing with electronic recall of the evidence		9 M	IS. BLUNDON:
10	as directed by the various counsel and Panel.		0	Q. Hopefully this evening.
11	Welcome, Ms. Walsh. And indeed, thank you			HAIRMAN:
12	agreeing to this assignment. The electronic		2	Q. Okay. So, that will certainly be timely. I
13	filing we're hoping would enhance the public		3	guess despite the later start this morning
14	access to the information before the Board an		4	because of the prospect of inclement weather,
15	hopefully improve the overall efficiency and		5	the daily sitting times we will maintain are
16	decision making process following the hearin	I	6	9:30 to 1:30 with a view to having a break at
17	itself, certainly. Those Are just my more	_	7	11 to 11:30. And I would ask the parties to
18	general remarks.		8	adhere to those times. I guess for purposes
19	There are a number of housekeeping items		9	of today given our 10:00 start, what we'llI
	I guess the seat assignments have been		20	understand there has been some agreement that
20		$\begin{vmatrix} 2 \\ 2 \end{vmatrix}$		we'll add on a little bit toward the end, if
21	provided and if there are any issues in terms			
22	of the creature comforts in the room, layout,		22	necessary. I'll look at about 11:45, perhaps,
23	supplies, files or records you may wish to		23	to break to see if that's suitable time to do
24	bring this to the attention of the Board		24	that. We'll take a half-hour break at that
25	secretary, Ms. Blundon. The proceedings are	e 2	25	time and continue on to two or thereabouts as
		Page 7		Page 8
1	necessary. Everybody in agreement with that?		1	order of the Board approvingpursuant to
2	KELLY, Q.C.:		2	Section 67 of the Act, adoption of the accrual
3	Q. That's quite acceptable, Chair.		3	method of revenue recognition commencing in
1	MR. JOHNSON:		4	2006; pursuant to Section 69 and 80 of the
5	Q. That's fine, thank you.		5	Act, the recognition of, for regulatory
6	CHAIRMAN:		6	purposes of \$9,579,000 of the 2005 unbilled
7	Q. Thank you. For the purposes of the		7	revenue as 2006 revenue; pursuant to Section
8	transcription service, you may refer to either		8	69(3) and 80 of the Act, the application of
9	of us, I guess, by name or certainly Chair and		9	295,000 of the 2005 unbilled revenue in 2006
10	Vice-Chair. The binders that you see in front	1	0	to dispose of the current balance in the
11	of you here represent the official version of	1	1	reserve; pursuant to Section 78 and 80 of the
12	the documents for the hearing and these will	1	2	Act, that the average value of the
13	be used for reference purposes only in the	1	3	unrecognized 2005 unbilled revenue be deducted
14	event of inconsistencies or problems with the	1	4	from rate base commencing in 2006; pursuant to
15	electronic record called upon the monitors.	1	5	Section 78 and 80 of the Act, 2006 forecast
16	And that's about, I think, all the items I	1	6	for rate base of 744,326,000 and a 2006
17	have. I'll ask Ms. Newman now to enter the	1	7	forecast for invested capital of 745,752, 000
18	matter before us, confirm the issuance of	1	8	to be used in the formula for the calculation
19	notices and advise of any other preliminary	1	9	of 2006 return on rate base. And finally such
20	items. Good morning, Ms. Newman.	2	20	further or other alternate matters which may
21	MS. NEWMAN:	2	21	upon the record of the proceeding in respect
22	Q. Good morning, Mr. Chairman. Thank you, very	$ _{2}$	22	of the application appear just and reasonable
23	much. The application which is the subject of	2	23	in all the circumstances.
24	this hearing starting today was filed on	$ _{2}$	24	I can confirm that notice of this
25	September 29th, 2005 and specifically seeks an		25	application was published in the Telegram on
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Page 9	
1 MS. NEWMAN	1 Q. One.
2 November 12, 2005 and by the publishing of	2 CHAIRMAN:
3 this, by the receipt and the publishing of	3 Q. One, this morning, which is really the joint
4 this notice the Board does have due authority	4 proposal indicating the parties' agreement on
5 to hear this application and proceed this	5 certain issues. And I think we would have
6 morning.	6 just received this 20 minutes or so before
7 In response to this notice we did receive	7 coming in this morning, so we haven't had a
8 one Notice of Intervention from the Consumer	8 lot of time to dwell on it or deal with it or
9 Advocate, who is here today, and confirmation	9 review it, for that matter. I would like to,
from Newfoundland and Labrador Hydro that they	however, commend the parties certainly for
11 would not be intervening.	focusing on issues where there can be
12 I would also wish to enter into the	agreement. From our perspective, I guess, it
record today as Consent No. 1 the parties'	facilitates the time and expense of dealing
14 agreement on certain issues, which is a	with these throughout the course of the
document which I'm entering for the	15 hearing and I think any time this can be
16 consideration of the Board in its	achieved prior to a hearing is a good thing as
deliberations setting out certain matters	far as everybody is concerned, particularly
which the parties do agree upon. And I also	the consumers and customers who have to pay
note for the record that responses to two RFIs	for these proceedings. Just my review of the
20 have been filed this morning. And I don't	20 issue, we will take this into consideration,
believe there's any other preliminary matters.	certainly in due course. My only, I guess,
22 CHAIRMAN:	point I would note with regard to item 2 on
23 Q. Thank you, Ms. Newman. I was in receipt of, I	page 2, it talks about the accounting accrual
guess it's Consent No	24 forecast to arise from the change in
25 MS. NEWMAN:	Newfoundland Power's accounting policy to the
Page 11	Page 12
Page 11 accrual method should be dealt with over a	Page 12 1 Q. That's acceptable, Chair.
1 accrual method should be dealt with over a	1 Q. That's acceptable, Chair.
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Page 13 Page 14 portion of the accrued unbilled revenue to 1 KELLY, O.C. offset this expense appears largely to be Company's proposals with respect to the 2 adoption of the accrual method and the accepted in the evidence. The amount of the 3 3 transitional provisions with respect to ARDM depreciation true up was a fully tested amount 4 4 in the last general rate hearing. And the are reasonable. The Consumer Advocate also 5 5 amount of additional depreciation arising from 6 has accepted those aspects of the application. 6 increased plant investment flows directly from 7 The Company's proposal with respect to 7 the use of a portion of the accrued unbilled capital expenditures approved by the Board and 8 8 revenue has itself three elements. The first depreciation rates set forth in Board orders. 10 is 3,086,000 of accrued unbilled income would 10 So, all three are specific and determined cost be applied in 2006 to offset the income tax 11 items. 11 effects of the tax settlement, 3,086,000. The Grant Thornton has stated in its report 12 12 at page 16 as follows, "We believe the 13 second is 5.793.000 of the accrued unbilled 13 appropriateness of Newfoundland Power's revenue would be applied to offset the 14 14 conclusion of the true up adjustment with proposal must be assessed based on whether 15 15 16 respect to depreciation. And finally, the 16 they provide the opportunity to earn a just third item is 1,157,000 of accrued unbilled and reasonable return in 2006", and we agree 17 17 revenue would be applied to offset additional with that statement. The adoption of the 18 18 depreciation expense resulting from increased Company's proposals results in a forecast rate 19 19 plant investment. of return on rate base for 2006 of 8. 20 20 21 (10:15 a.m.) percent, near the lower end of the approved 21 rage of rate of return on rate base of 8. 50 22 These are three specific cost items. The 22 23 additional tax is a known identifiable amount percent to 8.86 percent. Newfoundland Power 23 arising from the tax settlement. The amount believes that this resolution for 24 24 is not in dispute. The application of a represents a reasonable balance of the 25 25 Page 16

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interests of the Company and its customers in

the particular set of circumstances at this time. It is a practical approach and it permits an orderly regulatory process as follows: First, it deals with the accrual and transitional issues. That's one advantage. Second, it maintains existing customer rates.

And third, it provides Newfoundland Power with the opportunity to earn a just and reasonable

return in 2006. And that in turn then clears the way for a transparent and focused general rate hearing in 2006 based upon a 2007 test year. So, from the Company's perspective this

is a logical sequence approach.

There is one other issue that the Board will need to consider in its decision. An issue has been raised with respect to the interest refund received in 2005 as a result of the tax settlement. That interest is approximately \$2.1 million. The interest has been recorded in the normal course as miscellaneous revenue in the Company's system of accounts in accordance with existing Board orders. It has been included as revenue for the purpose of calculating the forecast rate

of return on rate base of 8.57 percent for 2005. In order P.U. 19 (2003) the Board indicated that it would deal with any issues arising from the final decision of the tax case including any potential liabilities or benefits to ratepayers once the case was resolved.

The Company recognizes that it is proper and appropriate for the Board to review the prudence of the Company's management of the tax dispute and its settlement. That power was recognized by the Newfoundland Court of Appeal in the decision in the Stated Case, subject, of course, to the presumption of managerial good faith. The Company's management of the income tax dispute, the successful resolution of the GEC issue with the CCRA and the current settlement with respect to the accrual issue had been a huge success for Newfoundland Power's customers. The original reassessments were set aside resulting in no additional taxes, interest or penalties. Anet present value analysis of the costs and benefits demonstrates that customers have received benefits estimated at

De	cember 7, 2005 M	ulti-Pa	nge TM NL Power's Accounting Policy
	Page	: 17	Page 18
1	KELLY, Q.C.	1	of return on rate base. With the inclusion of
2	approximately \$19 million from the Company's	2	the refund interest in 2005 the Company is
3	management of the tax issue. That benefit has	3	only forecast to earn a rate of return on rate
4	been achieved at a net cost to the Company	4	base of 8.57 percent toward the lower end of
5	itself of approximately 1.7 million after	5	the permitted range. However, more
6	receipt of the 2005 refund interest. The	6	importantly, from a policy perspective the
7	Company is very pleased to have been able to	7	evidence demonstrates that the recognition of
8	achieve such a satisfactory resolution of this	8	the refund interest in 2005 in the normal
9	issue for its customers.	9	manner and in accordance with existing Board
10	Mr. Smith, Newfoundland Power's President	10	orders is appropriate for cost recovery, is
11	and CEO, and Mr. Meyers, Newfoundland Power's	11	necessary to enable the Company to earn a just
12	Treasurer, will address the management and	12	and reasonable rate of return and provides
13	settlement of the tax dispute in their	13	balance to the interests of Newfoundland Power
14	evidence. Mr. Meyers will explain to you in	14	and its customers. Consequently, it is in
15	detail the customer benefits which have been	15	accordance with generally accepted public
16	attained.	16	utility practice.
17	In balancing the interests of	17	Now, as I indicated, the evidence before
18	Newfoundland Power and its customers, there is	18	you will be primarily from Mr. Smith, the
19	no basis to disturb or change the normal	19	Company CEO and Mr. Meyers, the Treasurer. In
20	recognition of refund interest in accordance	20	addition to their testimony Mr. John Browne,
21	with existing Board orders. Indeed, from a	21	who sits behind me, will testify as an expert
22	legal perspective, the issue would only become	22	in regulatory accounting policy. Mr.
23	relevant in accordance with the decision in	23	Chairman, those are my opening comments.
24	the Stated Case if the Company was to exceed	24	CHAIRMAN:
25	the upper limit of the permitted range of rate	25	Q. Thank you, Mr. Kelly. Good morning, Mr.
	Page	: 19	Page 20
1	Johnson.	1	purposes it be changed."
2	MR. JOHNSON:	2	We would not be here today except for the
3	Q. Good morning again, Mr. Chairman. A pleasure	3	fact that the tax case has been settled and
4	to be here with you again this morning. I'd	4	the dispute had ended. Finally it is safe to
5	like to start my opening by posing a very	5	talk about revenue recognition again as the
6	simple question, and that is what is his	6	topic had been off limits in previous
7	hearing all about.	7	proceedings for fear of prejudicing an ongoing
8	Newfoundland Power says that the	8	tax case. In the Company's application the
9	application arises because of the settlement	9	Board will already have noted, I suspect, that
10	of a long-standing tax dispute, and I think,	10	there are issues related to the tax settlement
11	Mr. Chairman, your words this morning confirm	11	contained in the application and there are
12	that interpretation. Indeed, in their	12	issues that are not related to the tax
13	overview to the application, and for the	13	settlement. I'd go further and I'd say to you
14	record, I'm referring to page 1 of the	14	that there are indeed issues totally unrelated
15	Company's evidence, Newfoundland Power says,	15	to the tax settlement. Oddly enough, there
16	and I quote, "Since 1998 Newfoundland Power's	16	are issues, while there are issues totally
17	Revenue Recognition Policy has been before the	17	unrelated to the settlement of the tax case
18	Board on a number of occasions. The Board has	18	raised in the application, the application on
19	indicated its intention to review that policy	19	its face omits to deal with an issue that is

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totally and completely an issue that arises

from the tax case, and that being the \$2.1

million of interest revenue. That issue arose

really for the first time by way of a Request

Now, the non-tax settlement related issue

for Information from Board staff.

and any issues arising from the tax dispute,

including potential liabilities or benefits to

current accounting policy for revenue

recognition for regulatory purposes and

customers following resolution of the dispute.

This application addresses the Company's

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Dece	mber 7, 2005	Multi-	Page TN	NL Power's Accounting Policy
	Pa	age 21		Page 22
1 M	R. JOHNSON		1	revenue increase for 2006. And they're
2	is the depreciation true up and the increased		2	seeking these revenues from customer funds.
3	plant investment depreciation expense. These		3	My submission is that issues such as that
4	non-tax settlement issues have nothing to do		4	should be properly tested in a procedure which
5	with the tax settlement, nor is there		5	allows it to be tested and which allows one to
6	treatment necessary in this application in		6	review the overall revenue requirement, and
7	order for Newfoundland Power to switch over to		7	that is why I would submit that Grant Thornton
8	an accrual method of revenue recognition for		8	in their report noted the relative lack of
9	regulatory purposes. Nor is it a transition		9	comfort that the Board might feel by being
10	issue. These non-tax-related issue should not		10	asked to look at issues outside of the context
11	be addressed here at all in this application.		11	where an overall revenue requirement review
12	They should be addressed, in my submission, as		12	can be undertaken.
13	part of the Company's next general rate		13	Now, what are the issues left that are
14	application whenever the Company chooses to		14	related to the tax settlement? It is my view
15	file it.		15	there are two boxes: tax settlement issues and
16	The reason for our submission on this		16	non-tax settlement issues. And with the tax
17	point is that depreciation and the claim to		17	settlement issues I put them into two
18	have revenue offset an anticipated increase in		18	categories: ones that don't seek additional
19	depreciation expense, it belongs in a GRA		19	revenue and ones that do seek additional
20	simply because the customers' money is no less		20	revenue. The ones that don't seek additional
21	worthy of protection because it is sitting in		21	revenue are non-contentious from the point of
22	an unbilled revenue account than it would be		22	view of the Consumer Advocate, those being the
23	if it was sitting in the customers' wallets		23	switch to the accrual method itself, the
24	and Newfoundland Power came forward looking	;	24	identification and quantification of the
25	for a rate increase. This is fundamentally a		25	amount of the unbilled revenue, that
	Pr	age 23		Page 24
1	commencing in 2006 Newfoundland Power should	-	1	up and the increased plant deposit are clearly
2	adopt the Asset Rate Base Model and use the		2	outside of the tax settlement box and these
3	same for the calculation of its rates pursuant		3	are GRA issues.
4	to its next GRA and that Newfoundland Power		4	With respect to the \$2.1 million we say
5	should apply the amount of 295,000 of the		5	that this is clearly an issue over which this
6	unbilled revenue in 2006 so as to dispose of		6	Board has retained jurisdiction in stating
7	the current balance in the unbilled revenue		7	that it would review any issues after the
8	increase reserve.		8	conclusion of the tax case and should beand
	0:30 a.m.)		9	those issues pertaining to the \$2.1 million
10	Because technically, at least my consultant		10	should be dealt with in this application as
11	tells me, that that is not a draw down upon		11	part of the promised review that the Board

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tells me, that that is not a draw down upon 12 the unbilled revenue, because the 295,000 is 13 already recognized and the 295 is a means of 14 actually quantifying what the unbilled revenue 15 actually is. And the 495,000 figure referred 16 to the application is further a statement as 17 to the additional revenue that appears in 2006 18 by way of operation of the accrual method of 19 accounting. 20 So, the contentious issues are the true 21 up of 5.793 million and the impact of the 22 increased plant investment on depreciation at

part of the promised review that the Board indicated that it would take upon itself once the tax case was over. In our view, this is the promised review. We say that the Board should deal with the 2.1 million in this application and order that the GAAP rules do not dictate its disposition for regulatory purposes and we say that the disposition of the \$2.1 million is to be put in a reserve for the disposition to the benefit of consumers. And we'll get into, in final argument, as to the Stated Case and our views on that.

And with respect to the 3.86, 3,086,000, that too is clearly a direct upshot of the tax cases settlement and should be dealt with in

1.157 million. Then we have the tax of

3,086,000 and the \$2.1 million in interest on

the tax case deposit. As I've said, the true

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December 7, 2005 Mult		Page	NL Power's Accounting Policy	
	Page 25		Page 26	
1 MR. JOHNSON	- 1	1 MR	. ROBERT MEYERS (SWORN)	
2 this application as well because that is			AIRMAN:	
3 clearly within the box of tax settlement		3 (Q. You may begin, Mr. Kelly, when you're ready.	
4 issues.	4		LLY, Q.C.:	
5 With those opening statements, I shall		5 (Q. Thank you, Chair. Mr. Smith, you are the	
6 allow the evidence to be heard and I shall be		6	President and CEO of Newfoundland Power?	
7 pleased to make final argument at the	,	7 MR	. SMITH:	
8 conclusion of the case.		8	A. That's correct.	
9 CHAIRMAN:		9 (Q. I understand that from 1995 to 1999 you were	
10 Q. Thank you, Mr. Johnson. Mr. Kelly, I'd ask	10	0	the Vice-President Finance and Chief Financial	
you to introduce your witnesses, please, and	1:	1	Officer of Newfoundland Power, from 1999 to	
following that I'll swear them in.	12	2	the end of 2003 you were the Vice-President	
13 KELLY, Q.C.:	13	3	Finance and the Chief Financial Officer of	
Q. Thank you, Chair. The witnesses this morning	14	4	Fortis Inc., and you assumed your current	
will be, our first two witnesses will sit as a	1:	5	position with Newfoundland Power on January 1,	
Panel. We have Mr. Carl Smith, who is the	10	6	2004, is that -	
President and CEO of Newfoundland Power.	1	7 MR	. SMITH:	
18 CHAIRMAN:	18	8	A. That's correct.	
19 Q. Good morning, Mr. Smith, and welcome.	19	9 (Q. Okay. Mr. Meyers, you are the Treasurer of	
20 KELLY, Q.C.:	20		Newfoundland Power?	
21 Q. And with him is Mr. Robert Meyers, who is the			. MEYERS:	
Treasurer of Newfoundland Power.	22	2 4	A. Yes, I am.	
23 CHAIRMAN:	23		Q. I understand that from 1999 to 2004 you were	
Q. Good morning, Mr. Meyers, welcome to you, to			the manager of internal audit at Newfoundland	
25 MR. CARL SMITH (SWORN)	25		Power, from June of 2004 to June of 2005 you	
	Page 27		Page 28	
1 77 5 1 5	-	1	the Company's treatment of capitalized general	
were the Vice-President Finance and Chie Financial Officer of Fortis, B.C., and you		1 2	expenses for tax purposes. And in 2000,	
assumed your current position as Treasure		3	following detailed negotiations the federal	
with Newfoundland Power on July 1, 2005?		<i>3</i> 4	tax authorities withdrew the reassessments on	
5 MR. MEYERS:		5	this issue. The Board will recall that it was	
6 A. Yes, that's correct.		6	the settlement of the capitalized general	
7 Q. Mr. Smith, I'd like to start by having you		7	expenses issue that gave rise to Newfoundland	
8 provide the Board with an overview of the t		8	Power's 2001 application to rebate excess	
9 settlement.		9	earnings to our customers. There were further	
10 MR. SMITH:	10		rebates related to settlement of the issue as	
11 A. I'd be happy to, thanks. In June, 2005 the			a result of the Board's order on Newfoundland	
12 Company settled its long-standing tax dispu			Power's 2003 general rate application. In	
with the Canada Revenue Agency. Resolution			total, \$8.8 million has been rebated to	
this dispute is a good news story for	1.		customers.	
15 consumers. It is the settlement of this	1:		The second issue in the original	
dispute which is the primary catalyst for this			reassessments concern the Company's policy of	
17 application.	1		revenue recognition for tax purposes. This	
In 1995 the federal tax authorities			issue could not be resolved in 2000 and as a	
reassessed Newfoundland Power's income			result the federal authorities issued new tax	
20 returns for the years 1988 to 1993 inclusive.			reassessments. By 2004 the amount of tax and	
The amount of tax and interest involved in			interest involved totalled approximately \$16	
these original reassessments totalled	22		million. By early 2005 the dispute was being	
23 approximately \$33 million. There were tw			prepared for trial in the Tax Court of Canada.	
approximately \$55 minion. There were to	w 0 2.		In June of this year Newfoundland Down	

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In June of this year Newfoundland Power reached settlement on the revenue recognition

primary issues involved in the original

reassessments. The largest issue concerned

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December 7, 2005	Multi	-Pa	age ML Power's Accounting Policy
	Page 29		Page 30
1 MR. SMITH	-	1	issues arising from final resolution,
2 issue with the federal at	uthorities and this	2	including the potential benefits or
3 settlement represents the	e final resolution of	3	liabilities to customers. This application
4 the Company's long-s	tanding income tax	4	provides the appropriate forum for
5 dispute.	-	5	consideration of these potential benefits and
6 Q. How does the resolution	on of the issue of	6	liabilities.
7 revenue recognition for	tax purposes relate to	7	Q. Let's start with the benefits. What are the
8 this application?		8	benefits of the tax settlement for
9 MR. SMITH:		9	Newfoundland Power's customers?
10 A. The Company's Revenu	e Recognition Policy has	10	MR. SMITH:
been before the Board	l on a number of	11	A. The benefits for Newfoundland Power's
12 occasions. The uncertain	nty created by the tax	12	customers of the settlement and overall
dispute made it difficul	t to fully consider	13	conduct of the tax dispute are significant.
the appropriate Revenue	Recognition Policy for	14	In our responses to the Request for
15 the Company until nov	w. The settlement	15	Information filed in response to questions
provides the necessary of	ertainty to both the	16	from the Board staff and from the Consumer
17 Company and this Boar	d to now consider the	17	
appropriateness of the	Company's Revenue	18	the costs relating to the tax dispute. And
19 Recognition Policy. In	the Board's order on	19	Mr. Meyers will take you through those very
20 the Company's last gen	eral rate application	20	shortly. I believe that we have clearly
21 the Board indicated its	intention to review	21	demonstrated that Newfoundland Power's
the Company's Revenu	ne Recognition Policy	22	customers have already received substantial
23 following resolution of t	the dispute with the	23	benefits as a result of the Company's
24 federal tax authorities.	In addition, the	24	management of this tax dispute. The Company's
25 Board indicated that it v	would deal with any	25	actions resulted in savings of \$33 million
	Page 31		Page 32
1 with respect to past rat	es. As well, our	1	practice in Canada currently. In addition, it
2 customers' future rates	will be lower than	2	is consistent with generally accepted
3 they otherwise might ha	ve been as a result of	3	accounting principals. Due to these reasons,
4 the \$24 million in unbill	ed revenue.	4	the implementation of the proposed policy
5 Q. And were there any pot	ential liabilities for	5	change has been agreed to by the Consumer
6 Newfoundland Power's	customers from the tax	6	Advocate, Board staff and the Company.
7 settlement?		7	Q. Can you comment generally on the settlement of
8 MR. SMITH:		8	some of these issues which was reached by the
9 A. As mentioned, the Com	pany avoided the payment	9	Consumer Advocate, the Board staff and the
of any tax or any interes	t in respect of its	10	Company?
11 historical tax practices.	Therefore, the	11	MR. SMITH:
12 final tax settlement cre	-	12	, , ,
liabilities for Newfo		13	
14 customers. In actual f	act, it eliminated	14	
15 that.		15	
16 Q. Let's go next to the acco		16	<u>c</u>
Just explain what the p		17	our customers must pay and any reasonable
policy change for revenue	_	18	E
being made by Newfor	andland Power in this	19	
20 application?		20	• •
21 MR. SMITH:		21	reduced the number of issues and the
22 A. Newfoundland Power is		22	
the accrual method of re	_	23	anticipate similar approaches as a means to
24 regulatory purposes con	9	24	*
25 proposal is consistent	with regulatory	25	Q. And the next area I want to look at is this

December 7, 2005	Multi-P	Page [™] NL Power's Accounting Policy
Pa	age 33	Page 34
1 MR. JOHNSON	1	revenue?
2 concept of the 2005 unbilled revenue. So,	2	2 MR. SMITH:
3 let's start by having you explain the nature	3	A. In this application the Company is proposing
4 of that 2005 unbilled revenue?	4	F
5 MR. SMITH:	5	to offset additional income tax and additional
6 A. Certainly. The primary issue that arises from	1 6	depreciation expense anticipated in 2006.
7 the Revenue Recognition Policy change is th	ne 7	This is a very pragmatic customer-friendly
8 forecast accounting accrual of approximately	y 8	proposal. The additional tax flows directly
9 \$24 referred to as the 2005 unbilled revenue.	9	from the tax settlement. The increased
10 It essentially represents the value of	10	depreciation is primarily caused by the
electricity delivered in the last two months	11	conclusion of a three-year true up adjustment.
of 2005. Under the existing bill method by	12	The resolution of the tax dispute provides the
contrast, this revenue would not be recognize	ed 13	Company and the Board with means to deal with
until 2006. In order to change to the accrual	14	these items without affecting customer rates.
method of revenue recognition the Company	will 15	By recognizing a portion of the 2005 unbilled
have to recognize, for regulatory purposes,	16	revenue in 2006 these cost items can be
the unbilled revenue of \$24 million. Because	e 17	addressed without a rate increase.
the amount is so large the Company is	18	Q. Mr. Smith, I just want you to clarify a point
proposing to phase in the recognition of this	19	for the Chairman. When you were talking about
amount. The 2005 unbilled revenue is not	20	the meaning of the 2005 unbilled revenue, you
cash, so the extent to which it can be used in	21	referred to that as the electricity delivered
any one year to offset revenue from rates may	y 22	in the last two months, I believe is the
be limited.	23	phrase you used.
24 Q. Now, describe for the Board the Company'	's 24	4 MR. SMITH:
proposal with respect to the 2005 unbilled	25	A. I'm sorry, that should be two weeks.
Pa	age 35	Page 36
1 Q. So, it's the last two weeks of December. I	1	
2 just wanted to be sure we had that correct.	2	turn, this permitted the Company to file the
3 MR. SMITH:	3	accounting application in order to deal with
4 A. Thank you.	4	the change in accounting policy and related
5 Q. Now, come back to the Company's propos	al. 5	transitional matters while at the same time
6 Just explain next why the Company's propos	sal 6	dealing with the forecast increase in
7 is being dealt with in this accounting policy	7	depreciation and tax cost in 2006. This
8 application instead of in a general rate	8	
9 application?	g	produces a measure of rate stability and
10 MR. SMITH:	10	overall lower costs for customers. Dealing
11 A. Newfoundland Power's last general rate	11	
application established customer rates for	12	
2004 and these rates are the basis of the	13	
14 Company's current customer rates. It's been		
known for some time that depreciation expens		
would increase significantly in 2006 and that		
the Company would have to address the		
consequential revenue shortfall. Normally	18	
this would result in an application for	19	
20 increased rates.	20	
21 (10:45 a.m.)	21	
The settlement of the tax dispute, however,	22	·
L 1 1 0 1 1 1 1 1		

23 KELLY, Q.C.:

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Q. Would you comment generally on the other proposals before the Board concerning the

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provides the Company with an alternative to

provided the certainty necessary to address

filing a general rate application. It

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25 MR. SMITH:

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Page 40

Page 37 1 KELLY, O.C. forecast 2006 tax and depreciation expense? A. Yes. Both Grant Thornton and Mr. Todd, in their evidence, seem to indicate that 5 6 recognizing a portion of the 2005 unbilled revenue to offset the income tax effects of 7 the tax settlement is acceptable. Grant 8 Thornton characterizes the overall proposal as 10 reasonable. Mr. Todd indicates it would be appropriate to recognize only enough of the 11 2005 unbilled revenue to offset the 12 13 approximately 3.1 million dollars in tax effects. It seems that the principal point of 14 disagreement on the issue of recognizing the 15 16 2005 unbilled revenue relates to the amount, if any, to be recognized in respect of 17 increased depreciation expense. 18 Grant Thornton indicates that a 19 distinction should be made between the 20 increase in depreciation expense caused by the 21 conclusion of the true up versus the 22 incremental increased depreciation expense 23 caused by the increase in plant investment. 24 In addition, both identify deferral of costs 25 Page 39

as an alternative to the accrual of 2005 unbilled revenue as a means of disposing of this part of the application. From the Company's perspective, there is little practical difference between the Board approving an accrual in respect of the increased depreciation expense and the Board ordering a deferral of the recovery of the increased depreciation expense.

Mr. Todd's evidence on addressing the increased 2006 depreciation expense seems clear. He recommends that no accrual of unbilled revenue could be justified without a general rate hearing for 2006. From the Company's perspective, and I believe the customer's perspective, a general rate hearing would be the least desirable course of action to deal with the increase in 2006 depreciation.

The depreciation true up of approximately 5.8 million dollars is a known value and was tested at the Company's last general rate application. It's conclusion is also an accepted fact. The Company's request to deal with this in this proceeding is, from a

practical perspective, quite reasonable. While there is no preexisting mechanism to

deal with the conclusion of the true up, it is

known what this change in depreciation expense will be in 2006. Dealing with the matter of

the true up now is not, in the Company's view,

subject to any practical constraints.

Mr. Todd appears to draw a distinction between the past true up commodity costs and the increased 2006 depreciation expense resulting from the conclusion of the true up. Newfoundland Power does not agree that the distinction is practically valid nor that a full rate review is necessary to deal with the conclusion of this true up. Similarly, the additional depreciation with respect to new plant investment flows directly from the Board's approved capital expenditures and depreciation rates that have been established by existing Board orders. Q. I want to turn next to look at this question of the 2005 interest refund. Let's start by

having you comment generally on Mr. Todd's

evidence regarding the 2005 interest refund.

A. Mr. Todd's evidence suggests that allowing 1 Newfoundland Power to retain the 2.1 million 2

dollars in interest revenue in 2005 violates 3 cost of service principles. The Company 4

disagrees with this conclusion for a number of 5

reasons. In general terms, Mr. Todd's 6

7 conclusion suggests a focus on cost recovery of specific items. The Company, on the other 8

hand, focuses on overall cost minimization. 9

Although the difference may appear subtle and

ethos of overall cost management is more

likely to produce results that benefit customers in the long term. In specific

13 terms, Mr. Todd suggests that only customers 14

incurred the cost of the tax dispute. In 15

actual fact, the Company financed the initial

deposit in 1995 and 1996. While the final resolution of the tax dispute clearly provides

net tangible benefits to customers, it was at

a net cost to the Company.

The Company has treated the 2005 interest revenue in the normal course. consistent with Board approved past practice for treatment of interest revenue. In past years, the recognition of interest revenue

	1910ti 7, 2005 William	i-i age	11D Tower's Accounting Foncy
	Page 41		Page 42
1 M	IR. SMITH	1	faced with a choice. They could accept the
2	resulted in excess earnings which was refunded	2	tax reassessments as levied or could dispute
3	to customers. The consistent treatment of	3	them. It would have been easy to simply write
4	interest revenue in 2005 will not result in	4	a cheque for the tax reassessments. If
5	excess earnings. On the contrary, it only	5	Newfoundland Power was more focused on cost
6	allows the Company to earn a rate of return on	6	recovery as opposed to cost minimization, that
7	rate base that is within the approved range.	7	might have been the choice it made. But
8	A range of return on rate base is a key	8	Newfoundland Power believed that the
9	aspect of regulation in Newfoundland and	9	reassessments were inappropriate. They
10	Labrador. This Board has recognized that a	10	presented a substantial potential liability
11	range of allowed return on rate base can serve	11	for both the Company and our customers.
12	as an important incentive to effective	12	Therefore, the Company made the correct
13	management. This has served customers well.	13	decision to contest the reassessments. In the
14	In circumstances where effective management of	14	result, the customers of Newfoundland Power
15	tax has resulted in benefits to customers, it	15	clearly benefited from this decision. Whether
16	hardly seems appropriate, from a policy	16	Newfoundland Power would have been allowed by
17	perspective, to remove the incentive to the	17	this Board to recover all the tax and interest
18	Company after the matter has been resolved.	18	costs if it chose to pay the original
19	Q. I'd like you to elaborate on the comment that	19	reassessments, it is uncertain and I'm glad we
20	you made a few moments ago with respect to	20	didn't have to deal with that situation.
21	effective cost minimization in the context of	21	It is a fair observation that the
22	the management of the tax dispute.	22	historical tax practices which were in dispute
23 M	IR. SMITH:	23	did not provide any benefit to Newfoundland
24	A. When confronted with the original tax	24	Power in terms of increased returns.
25	reassessments in 1995, Newfoundland Power was	25	Newfoundland Power's conduct of the tax
	Page 43		Page 44
1	Page 43 dispute resulted in lower historical rates for	1	Page 44 chosen to place the entire amount on deposit.
1 2	•		-
1	dispute resulted in lower historical rates for	1	chosen to place the entire amount on deposit.
2	dispute resulted in lower historical rates for customers. It will also result in lower	1 2	chosen to place the entire amount on deposit. However, depositing the minimum amount
2 3	dispute resulted in lower historical rates for customers. It will also result in lower future rates. Income tax, like any other	1 2 3	chosen to place the entire amount on deposit. However, depositing the minimum amount minimized the associated financing costs.
2 3 4	dispute resulted in lower historical rates for customers. It will also result in lower future rates. Income tax, like any other utility cost, must be managed. Newfoundland	1 2 3 4	chosen to place the entire amount on deposit. However, depositing the minimum amount minimized the associated financing costs. Because the reassessments had been abandoned
2 3 4 5	dispute resulted in lower historical rates for customers. It will also result in lower future rates. Income tax, like any other utility cost, must be managed. Newfoundland Power's effective management of income tax	1 2 3 4 5	chosen to place the entire amount on deposit. However, depositing the minimum amount minimized the associated financing costs. Because the reassessments had been abandoned by CRA as a result of the tax settlements, all
2 3 4 5 6	dispute resulted in lower historical rates for customers. It will also result in lower future rates. Income tax, like any other utility cost, must be managed. Newfoundland Power's effective management of income tax costs has had a positive impact on customers'	1 2 3 4 5 6	chosen to place the entire amount on deposit. However, depositing the minimum amount minimized the associated financing costs. Because the reassessments had been abandoned by CRA as a result of the tax settlements, all assessment interest has also been avoided,
2 3 4 5 6 7	dispute resulted in lower historical rates for customers. It will also result in lower future rates. Income tax, like any other utility cost, must be managed. Newfoundland Power's effective management of income tax costs has had a positive impact on customers' rates, similar to our effective management of	1 2 3 4 5 6 7	chosen to place the entire amount on deposit. However, depositing the minimum amount minimized the associated financing costs. Because the reassessments had been abandoned by CRA as a result of the tax settlements, all assessment interest has also been avoided, including the 7.7 million dollars of arrears
2 3 4 5 6 7 8	dispute resulted in lower historical rates for customers. It will also result in lower future rates. Income tax, like any other utility cost, must be managed. Newfoundland Power's effective management of income tax costs has had a positive impact on customers' rates, similar to our effective management of other costs.	1 2 3 4 5 6 7 8	chosen to place the entire amount on deposit. However, depositing the minimum amount minimized the associated financing costs. Because the reassessments had been abandoned by CRA as a result of the tax settlements, all assessment interest has also been avoided, including the 7.7 million dollars of arrears interest included in the original
2 3 4 5 6 7 8	dispute resulted in lower historical rates for customers. It will also result in lower future rates. Income tax, like any other utility cost, must be managed. Newfoundland Power's effective management of income tax costs has had a positive impact on customers' rates, similar to our effective management of other costs. Q. Mr. Meyers, would you, first of all, describe for us the alternatives that were available to Newfoundland Power when faced with the tax	1 2 3 4 5 6 7 8	chosen to place the entire amount on deposit. However, depositing the minimum amount minimized the associated financing costs. Because the reassessments had been abandoned by CRA as a result of the tax settlements, all assessment interest has also been avoided, including the 7.7 million dollars of arrears interest included in the original reassessments. Q. Mr. Meyers, I'd now like to take a closer look at the Company's response to CA-23, and would
2 3 4 5 6 7 8 9	dispute resulted in lower historical rates for customers. It will also result in lower future rates. Income tax, like any other utility cost, must be managed. Newfoundland Power's effective management of income tax costs has had a positive impact on customers' rates, similar to our effective management of other costs. Q. Mr. Meyers, would you, first of all, describe for us the alternatives that were available to	1 2 3 4 5 6 7 8 9	chosen to place the entire amount on deposit. However, depositing the minimum amount minimized the associated financing costs. Because the reassessments had been abandoned by CRA as a result of the tax settlements, all assessment interest has also been avoided, including the 7.7 million dollars of arrears interest included in the original reassessments. Q. Mr. Meyers, I'd now like to take a closer look
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2 3 4 5 6 7 8 9 10 11 12 13 14 15 M 16 17 18	dispute resulted in lower historical rates for customers. It will also result in lower future rates. Income tax, like any other utility cost, must be managed. Newfoundland Power's effective management of income tax costs has had a positive impact on customers' rates, similar to our effective management of other costs. Q. Mr. Meyers, would you, first of all, describe for us the alternatives that were available to Newfoundland Power when faced with the tax reassessments in 1995 and the legal requirements with respect to contesting the reassessments? IR. MEYERS: A. Yes, certainly. I'd like to begin where Mr. Smith left off. The Company chose in 1995 to contest the tax reassessments, simply because it was the right thing to do for customers.	1 2 3 4 5 6 7 8 9 10 0 11 12 13 14 15 MR 16 17 18 19	chosen to place the entire amount on deposit. However, depositing the minimum amount minimized the associated financing costs. Because the reassessments had been abandoned by CRA as a result of the tax settlements, all assessment interest has also been avoided, including the 7.7 million dollars of arrears interest included in the original reassessments. Q. Mr. Meyers, I'd now like to take a closer look at the Company's response to CA-23, and would you start by explaining the approach taken by the Company in analysing the costs and the benefits related to the tax settlement? R. MEYERS: A. CA-23 deals with a matter that spans approximately ten years. To provide a fair and meaningful assessment of the costs and benefits related to the tax settlement, we
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2 3 4 5 6 7 8 9 10 11 12 13 14 15 M 16 17 18 19 20 21	dispute resulted in lower historical rates for customers. It will also result in lower future rates. Income tax, like any other utility cost, must be managed. Newfoundland Power's effective management of income tax costs has had a positive impact on customers' rates, similar to our effective management of other costs. Q. Mr. Meyers, would you, first of all, describe for us the alternatives that were available to Newfoundland Power when faced with the tax reassessments in 1995 and the legal requirements with respect to contesting the reassessments? IR. MEYERS: A. Yes, certainly. I'd like to begin where Mr. Smith left off. The Company chose in 1995 to contest the tax reassessments, simply because it was the right thing to do for customers. Having made that decision, the company was legally required to place one half of the reassessed amount on deposit with CRA. This deposit was therefore a necessary and	1 2 3 4 5 6 7 8 9 10 0 11 12 13 14 15 MR 16 7 18 19 20 21	chosen to place the entire amount on deposit. However, depositing the minimum amount minimized the associated financing costs. Because the reassessments had been abandoned by CRA as a result of the tax settlements, all assessment interest has also been avoided, including the 7.7 million dollars of arrears interest included in the original reassessments. Q. Mr. Meyers, I'd now like to take a closer look at the Company's response to CA-23, and would you start by explaining the approach taken by the Company in analysing the costs and the benefits related to the tax settlement? R. MEYERS: A. CA-23 deals with a matter that spans approximately ten years. To provide a fair and meaningful assessment of the costs and benefits related to the tax settlement, we have provided, in the response to CA-23, a present value or NPV analysis. Apresent
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Page 45 Page 46 benefit analysis contained in CA-23. They are 1 MR. MEYERS 1 provides a reasonable estimate of the impact 2 noted in the response and I will refer to them to customers and to Newfoundland Power of further in a moment. In order to remain 3 3 costs and benefits associated with the tax conservative in estimating the customer 4 4 settlement from 1995 to 2005 expressed in 2005 benefits and in order to simplify the 5 5 6 dollars. analysis, these benefits were excluded. The 6 7 NPV analysis is a tool that has been net benefit to customers resulting from 7 relied upon by the Board to evaluate Newfoundland Power's settlement of the tax 8 8 appropriateness of capital expenditures, for dispute is therefore actually higher than the 10 example, and operating expense reduction 10 analysis in CA-23 demonstrates. initiatives such as the Company's early 11 In order to make this analysis more 11 retirement programs. The NPV analysis in CArobust, the Company has used three discount 12 12 23 includes all appropriate costs borne in rates for purposes of calculating the net 13 13 respect of the tax dispute. Income tax present values. A discount rate is intended 14 14 related to the revenue in question would to reflect the time value of money or the 15 15 16 ultimately be payable in any event. For that 16 interest effects, if you will, over the analysis period. The three rates used in the reason, we have not included the tax itself in 17 17 analysis in CA-23 are; 6.9 percent or the cost benefit analysis. What we have 18 18 included are the financing costs and legal Newfoundland Power's after-tax weighted 19 19 fees that have been incurred as a result of average cost of capital; 8.5 percent or 20 20 the tax dispute and the arrears interest that Newfoundland Power's weighted average cost of 21 21 22 has been avoided through resolution of the tax 22 capital; and 10.8 percent or Newfoundland case. There are other financial benefits to Power's pre-tax weighted average cost of 23 23 capital. Arguments are sometimes made which customers arising from the tax settlement that 24 24 suggest that one of these rates may be more have also not been included in the core cost 25 25 Page 47 Page 48 appropriate than the other. In preparing been passed out here this morning, which 1 1 2 present value analysis to evaluate revenue 2 include copies of requests for information CA-3 requirement impacts, Newfoundland Power has 23 and PUB-12, as well as Exhibits NP-6 and 3 traditionally used a discount rate that is 4 4 NP-15. 5 equivalent to its weighted average cost of 5 The first component of the analysis capital, or in this case, the 8.5 percent. 6 identifies the financial benefit to customers 6 7 Using the three rates indicates a range of 7 as a result of Newfoundland Power's management sensitivity upon which the Board should be 8 8 of the tax dispute. This analysis is set out 9 comforted. 9 in Section 3.1 on page two of the response, In the case of this net present value and Ms. Walsh has put that up on the screen 10 10 analysis, using either of the three rates 11 11 for us. provided results in the same conclusion. 12 (11:02 A.M.) 12 Regardless of the discount rate used, this 13 13 In 1995, when CRA reassessed Newfoundland analysis clearly demonstrates the positive 14 14 Power's income tax returns for the years 1988 economic benefit to customers resulting from 15 through 1993, it took the position that the 15 Newfoundland Power's pursuit and resolution of Company was liable for interest on the unpaid 16 16 the tax dispute. 17 17 taxes. This is referred to as arrears Q. Now with that overview, I want you to take us 18 18 interest. The principal financial benefit 19 through the detailed financial analysis 19 included in the analysis stems from the fact provided in the Company's response in CA-23. that arrears interest has been avoided as a 20 20 21 21 MR. MEYERS: result of the tax settlement. As mentioned a 22 A. Yes. I would like to highlight--take some 22 moment ago, additional benefits associated time and highlight some of the main points of 23 23 with delay payment of income tax itself has

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not been included in this analysis but would

serve to increase the benefit to customers if

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our analysis for the benefit of the Board. To

assist, I'll refer to the handouts that have

Page 49 Page 50 solely to the issue of arrears interest in 1 MR. MEYERS it were included. Avoiding the payment of 2 1995 dollars as a result of Newfoundland arrears interest means that customers will Power's decision to contest the tax 3 3 bear no cost associated with arrears interest 4 4 reassessments. related to the tax dispute. The present value 5 5 The numbers shown at the bottom of the 6 to customers of the avoided arrears interest table indicate the net present value of this 6 7 is calculated in Attachment A to the response. avoided revenue requirement based on the three 7 discount rates that I referred to earlier. 8 Q. In Attachment A, okay. Now please explain the 8 amounts that are shown in Attachment A. The net present value of the avoided revenue 9 10 MR. MEYERS: 10 requirement at a discount rate of 8.5 percent is shown to be approximately 30 million A. As we see on the screen, arrears interest 11 11 12 assessed by CRA in 1995 in the amount of 7.7 12 million dollars is shown in the first column 13 13 Q. Okay. Now the next section in the response to to the right of the year 1995. Because CA-23 is entitled Customer Costs. Just 14 14 arrears interest charged by CRA is not tax 15 15 explain that next. 16 deductible, the revenue requirement must be 16 MR. MEYERS: tax effected in order to arrive at the total A. Yes. Section 3.2, beginning on page three of 17 17 avoided cost to customers. The amount of the response, addresses the cost to customers 18 18 associated with financing the tax dispute that 19 approximately 5.6 million dollars shown in the 19 next column to the right represents the income were included in the customer rates. The cost 20 20 tax effects in 1995, based on an income tax referred to in this portion of the analysis 21 21 22 rate of 42 percent. The amount shown in the 22 are the financing costs associated with the column to the far right, \$13,276,000, is the 23 income tax deposit and legal fees incurred by 23 sum of the two previous amounts. This is the the Company in dealing with the tax dispute. 24 24 total avoided revenue requirement related Another important component of the rate impact 25 25 Page 51 Page 52 on customers in this case is the rebates to then? 1 1 2 customers in 2001 and 2003. These are also 2 MR. MEYERS: 3 included in the analysis and details of the A. To this point, we've reviewed both the 3 analysis are provided in Attachment B to the customer benefits associated with the avoided 4 4 5 response. 5 payment of arrears interest and the customer Q. Okay. Just continue. costs related to the tax dispute. The next 6 6 7 MR. MEYERS: 7 step then is to calculate the net benefit to customers of settling the dispute. This 8 A. Attachment B, on the screen, shows that 8 9 financial costs and legal fees associated with simply involves offsetting the benefits and 9 the tax dispute were not reflected in customer the costs that I've indicated thus far. 10 10 11 rates until 1997. In this table, the 11 This is done in Section 3.3 of the estimated financing costs, legal fees and for response on page four. We see here Table 3 12 12 2001 and 2003, rebates to customers, are shown titled Net Customer Benefits. Table 3 nets 13 13 for each year. The net present value of these the customer benefits shown in Attachment A. 14 14 costs, based on each of the three discount 15 15 which we've just talked about, against the rates, is shown at the bottom of the table. customer costs shown in Attachment B, and 16 16 Q. What's the result of the analysis of the 17 17 Table 3 shows that the net economic result of customer costs? Newfoundland Power's management of the tax 18 18 19 MR. MEYERS: 19 dispute is a positive one for customers. At a discount rate of 8.5 percent, the net economic A. Attachment B shows that the present value of 20 20 customer costs related to the tax dispute and benefit to customers on a present value basis 21 21

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is approximately 19 million dollars within a

range of 16.2 million to 24.7 million dollars.

Q. Now you mentioned earlier that there are a

number of other financial benefits to

eight and a half percent.

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included in customer rates is approximately

10.7 million dollars, at a discount rate of

Q. Okay. What's the next step in the analysis

Page 54

Multi-Page TM **December 7, 2005** Page 53 delayed as a result of the Company's decision 1 MR. JOHNSON 1 to contest the reassessments. Those taxes customers associated with the tax dispute that 2 were not included in the analysis. Could you will now be determined based on tax rates that 3 3 just explain those in a bit more detail? are lower than those which were in effect in 4 4 5 MR. MEYERS: 5 the 1990s when the reassessments were first A. These other benefits to customers can be found 6 in Section 3.4 of the response beginning on 7 7 page four. This section summarizes these 8 8 other substantial benefits to customers as a 9 10 result of Newfoundland Power's actions in 10 disputing CRA's position. These benefits have 11 11 not been included in the net present value 12 12 that we've just reviewed. The first of these 13 13 benefits relates to the tax deposit amount. 14 14 As I said earlier, while Newfoundland 15 15 16 Power could have deposited the full amount of 16 the tax with CRA and thereby avoided further 17 17 accumulation of arrears interest, the Company 18 18 chose instead to deposit the minimum required 19 19 amount or one half of the reassessment. This 20 20 reduced the financing costs borne by customers 21 21 22 and was the least cost option available. 22 The second benefit relates to changes in 23 23 income tax rates over the period from 1995 to 24 24 2008. Payment of income taxes has been 25 25 Page 55 analysis set out in response to CA-23. 1 1 Including them would increase the significant 2 2 3 benefit to customers that this NPV analysis 3 already demonstrates. 4 4 5 Q. Okay. So that's the benefits to customers. 5 Now the next section in this report, Section 4 6 6 of the response, refers to Newfoundland Power 7 7 in 2005. costs. Would you explain to the Board what 8 8 those costs are? 9 10 MR. MEYERS: 10 11 A. Yes, Commissioners. Section 4 begins on page 11 12 12

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issued. It's noted here on page four, the tax rate in effect for 2006 to 2008, when these taxes will be calculated, is forecast to be approximately 36 percent. This compares to a higher average tax rate of approximately 43 percent for the period 1993 to 2005. The estimated benefit to customers related to the lower tax rates is shown to be approximately 3.1 million dollars. This estimated amount has not been present valued. If it were, the benefit would be greater. The third benefit to customers, which has also not been included in the NPV analysis, is the positive impact to customers resulting from delayed payment of the tax itself. The delayed payment of tax results in a lower present value cost. This benefit has been reflected in lower customer rates. As I've mentioned, neither of these three tangible benefits has been included in the NPV Page 56 column to the far right. In 2000, 2001 and 2005, we see the after-tax interest benefits which Newfoundland Power retained related to tax refunds in those years. The 2005 amount of 1.35 million dollars represents the aftertax value of refund interest received from CRA This analysis of the cost borne by Newfoundland Power in relation to the tax dispute shows that even with inclusion of refund interest in 2005, the Company incurred a net cost as a result of its efforts in contesting and resolving the tax

five of the response and addresses the financing costs and legal fees related to the tax dispute that were not included in customer rates. When I referred to Attachment B a moment ago, I indicated that no costs associated with the tax dispute were included in customer rates for '95 or '96. Effectively, the Company bore the financing and legal costs in those years. If we look at Attachment C of the response, we see here the financing costs and legal fees associated with the tax dispute for

1995 and 1996 in the first two rows with the

total of these amounts shown in the net cost

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reassessments. The present value of that cost, as shown on Attachment C at a discount rate of 8.5 percent, equates to approximately 1.7 million dollars. Q. So you've already taken that 2.1 million in interest into account in calculating the 1.7 million cost, correct? 21 MR. MEYERS: A. Yes, that's correct. Q. Okay. Now let's go next to summarize the

results of the analysis set out in CA-23.

Multi-Page TM **December 7, 2005 NL Power's Accounting Policy** Page 57 Page 58 suggestion that the Company's pursuit of the 1 MR. MEYERS: tax dispute was not beneficial to customers. A. The analysis in CA-23 clearly shows that the 2 net impact of the tax dispute, including the The NPV analysis in CA-23 provides clear 3 3 cost of financing the tax deposit, has confirmation that pursuing and resolving the 4 4 provided a substantial economic benefit to tax dispute has, in fact, materially 5 5 benefitted customers. 6 customers. That benefit is shown in Table 3 6 7 on page four of the response. The benefit to 7 (11:15 A.M.) customers on a present value basis ranges from 8 8 Q. Okay. Now that's the net present value 16.2 million to 24.7 million dollars. Again, analysis in CA-23, and a few minutes ago you 9 10 as I mentioned previously, these indicated 10 referred also to PUB-12 and I'd like to go benefits do not include any amounts related to there next. And the Company's response to 11 11 the three other financial benefits to PUB-12 provides a separate analysis of the 12 12 customers mentioned in Section 3.4 of the benefits to customers of Newfoundland Power of 13 13 response. refund interest received from the Canada 14 14 15 The analysis in CA-23 also shows that the 15 Revenue Agency as a result of settling the tax 16 taxes dispute resulted in a net cost to 16 case, and I'd like you to explain this Newfoundland Power. This net cost is shown in analysis to the Board. 17 17 Table 4 on page five. The net cost to 18 MR. MEYERS: 18 Newfoundland Power on a present value basis is A. The response to PUB-12 provides an alternative 19 view of the benefits received by customers and estimated to be in the range of 1.2 million 20 20 dollars to 2.4 million dollars, even with the by Newfoundland Power with respect to refund 21 21 interest. It shows that of the 10.8 million 22 refund interest received in 2005 included as 22 revenue to Newfoundland Power in 2005. dollars in total benefits realized from refund 23 23 24 In Newfoundland Power's 2003 GRA Order. interest, customers have received 8.8 million 24 the Board disagreed with an intervenor's dollars or approximately 82 percent. This 25 25 Page 60 Page 59 supports the view that customers have been the transitional issues noted in this application. 1 1 major beneficiary of Newfoundland Power's Can I get you to comment on that, explain 2 2 3 pursuit and settlement of the tax dispute. that? 3 Customers receive benefits through rebates in 4 4 MR. MEYERS: 5 2001 and 2003 as a result of excess earnings A. Yes. The interest income received in 2005 is in 2000 and 2001. These excess earnings not a transitional issue. The interest income 6 6 resulted on the receipt of refund interest 7 7 and the transitional issues in this related to the tax dispute. The refund application are two separate issues. The 8 8 9

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9 interest received by Newfoundland Power in 2005, as Mr. Smith indicated earlier, has been 10 11 recorded in the normal course. It has been recorded in accordance with generally accepted 12 accounting principles and with the Company's 13 Board approved system of accounts. Finally, 14 it has been recorded in a manner consistent 15 with the manner in which previous refund 16 interest has also been recorded. 17 difference being between 2005 and the years 18 19 2000 and 2001 is that no excess earnings are forecast for 2005, which would result in a 20 customer rebate. 21 Q. Grant Thornton indicated in their report that

interest income is revenue which has been recorded by Newfoundland Power in the normal course. The transitional issues in this application, on the other hand, are all about dealing with prospective changes in regulatory accounting policy and about providing an appropriate means by which customers should receive the 24 million dollars in additional benefit arising from Newfoundland Power's prospective adoption of the accrual method of revenue recognition for regulatory purposes. O. I want to look now at the Company's proposal to apply part of the 2005 unbilled revenue in 2006. Let's start by looking at the Company's forecast financial picture in the absence of its proposal.

the Board may want to consider whether the

settlement should be incorporated with the

interest income arising from the tax

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	Page 61		Page 62
1	MR. MEYERS:	1	
2	A. The Company's forecast financial results for	2	· · · · · · · · · · · · · · · · · · ·
3	2006, in the absence of its proposal to apply	3	
4	a portion of the 2005 unbilled revenue in	4	
5	2006, have been provided in Exhibit NP- 15	5	
6	under the heading 2006 Existing. This shows a	6	
7	forecast rate of return on rate base for 2006,	7	
8	on line 31, of 7.02 percent. This rate of	8	
9	return is well below the current approved	9	- •
10	range of 8.50 percent to 8.86 percent.	10	
11	Q. So that's if nothing was done?		1 MR. MEYERS:
1	MR. MEYERS:	12	
13	A. If nothing was done.	13	
14	Q. Okay. Now would you explain the Company's	14	
15	proposal to apply part of the 2005 unbilled	15	•
16	revenue in 2006?	16	
1	MR. MEYERS:	17	•
18	A. The Company is proposing that a portion of the	18	
19	2005 unbilled revenue be used to offset a	19	
20	forecast increase in depreciation expense of	20	
21	approximately seven million dollars and a 3. 1	21	• •
22	million dollar forecast increase in income tax	22	
23	relatedof tax effects related to the	23	
24	transition to the accrual method of revenue	24	
25	recognition for income tax purposes. To	25	
١.	Page 63		Page 64 unbilled revenue is used to offset the
1 2	investment has been the subject of capital budget applications by the Company which have	1	
$\frac{1}{2}$	already been approved by the Board. The	2	
3	depreciation rates used to forecast	3 4	
4	depreciation rates used to forecast depreciation expense for 2006 are those which		
5		5	- ·
6	were approved by the Board in 2003.	6	\mathcal{E}
7	Because depreciation is essentially a	7	
8	non-cash expense and because recognizing a	8	
9	portion of unbilled revenue as proposed	9	1 · J · · · · · · · · · · · · · · · · ·
10	provides no additional cash revenue, using one to offset the other has no cash flow impacts	10	
11 12	and simply represents the substitution of one	11 12	
13	and simply represents the substitution of one accounting accrual for another.	13	
14	Q. What are the income tax effects of the		4 MR. MEYERS:
15	Company's proposals?	15	
1	MR. MEYERS:	16	
17	A. As shown in Exhibit NP-6, if cash revenue from	17	
18	customer rates was used to offset the increase	18	•
19	in depreciation expense and the tax effects	19	•
20	related to the tax settlement, that additional	20	
21	cash revenue would attract additional income	21	-
22	tax. Therefore, the amount that would be	22	
23	required from customer rates, as shown on line	23	**
24	18 of Exhibit NP-6, would increase from ten	24	
25	million to 15.7 million dollars. As long as		F,

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Page	Page 6
1 MR. MEYERS:	of Newfoundland Power's next test year costs,
2 A. That's correct.	2 deferred cost recovery, as opposed to the
3 Q. Okay. Now Grant Thornton, in its report,	deferral of depreciation expense, would have
4 suggested an alternative accounting treatment	4 no unfavourable tax effects.
5 based on deferring some of the costs which are	5 Q. Okay. Now are there examples where the Board
6 the subject of Newfoundland Power's proposals,	6 has permitted the recovery of specific costs
but that in doing so, the Board should also	7 without effecting customer rates and without a
8 consider the tax effects of such a deferral,	8 general rate hearing?
9 and I'd like you to explain that suggestion,	9 MR. MEYERS:
and just take your time with this, because	10 A. Yes, there are. As noted in the Company's
it's a bit hard to understand, especially for	response to CA-12, the Company is aware of at
12 me.	least two previous occasions when the Board
13 MR. MEYERS:	approved a change in accounting policy and at
14 A. The Company's response to PUB-14 indicates	the same time allowed for cost recovery in a
that deferring depreciation expense per se has	way that did not have an immediate impact on
unfavourable income tax effects. Grant	customer rates and without a general rate
17 Thornton suggests that these unfavourable tax	proceeding.
effects should be considered in the event that	In 1979, the Board approved an
a deferral of depreciation expense is deemed	application by Newfoundland Telephone to fully
by the Board to be appropriate. Newfoundland	20 amortize its income tax accounting. The
Power agrees. As an alternative, if the	resulting cost increase was offset by what
22 Company were to record depreciation expense	22 would otherwise have been excess revenue in
for 2006 as forecast and were the Board to	each of the succeeding five years.
order a cost recovery of an equivalent amount	In 1995, the Board approved an
be deferred for consideration in the context	25 application by Newfoundland Power to change
Page	Page 6
Page 1 its accounting policy for allocating general	Page 6
1	_
its accounting policy for allocating general expenses to capital. At the same time, the Board approved the Company's proposal for	1 CHAIRMAN:
its accounting policy for allocating general expenses to capital. At the same time, the Board approved the Company's proposal for special pension funding. Income tax	 CHAIRMAN: Q. Thank you very much, Mr. Kelly. Mr. Johnson, when you're ready, you can begin your cross, please.
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1 MR. SMITH	1	opening comments, we've all known for a while,
2 Policy which in turn cleared the way to deal	2	the Board included, that the depreciation true
with the other issues that we've brought	3	up would end in 2006. So we clearly had an
4 forward to the Board.	4	issue that we knew had to be dealt with in
5 MR. JOHNSON:	5	2006. The question then becomes, how do you
6 Q. Let me put it this way. In tort law, there's	6	deal with that issue? And there's always a
a test called the "but for" test. Would it be	7	number of options that are available. In this
8 fair to say that but for the resolution of	8	particular case, I think there's probably two
your tax case, that you would not have been	9	options. One was to bring forth a general
bringing on an accounting application such as	10	rate application to deal with it. The other
you've brought on?	11	option was present it to us and this is my
12 MR. SMITH:	12	comment about the catalyst. The other option
13 A. You're getting me a bit over my waders when	13	was to present it to us by resolution of the
you start talking about tort law.	14	tax case. The tax case allowed us to get on
15 MR. JOHNSON:	15	with changing the Revenue Recognition Policy
16 Q. No, the but -	16	which resulted in non-billed revenue which
17 MR. SMITH:	17	presented us with an alternative to deal with
18 A. However -	18	particular cost arising in 2006 that had been
19 MR. JOHNSON:	19	set in motion back in 2003.
20 Q but for, dwell on the but for, never mind	20	Q. Let me put it this way, actually, I thought
21 the tort reference.	21	that I was going to receive an affirmative
22 MR. SMITH:	22	answer to the question because it seemed to me
23 A. The but for? Just let me take you through our	23	based on the long entangled history of this
24 thinking a little bit in terms of the	24	tax case that discussions in this forum with
accounting application. As I mentioned in my	25	respect to revenue recognition and switched to
	ge 71	Page 72
1 Accrual Methods, et cetera was, essentially,	1	A. But it needs some clarification though in this
off limits because it would have been	2	sense. You refer to it as being off limits
3 prejudicial to your case. So, I'm suggesting	3	and I think that's a mischaracterization. It
to you that but for the resolution of your tax	4	wasn't so much off limits as much as it was a
5 case, that you would never have to come on in	5	collective decision. And by collective, I
6 here and brought on an accounting application	6	mean, through the Company and the Board to
such as you've been bringing on. Fair	7	take a prudent decision not to deal with it
8 statement?	8	until the tax case was resolved. And I think
9 MR. SMITH:	9	that's a fair characterization of why it's
10 A. I think what we'll continue to agree to	10	dragged on as long as it has. And I think
disagree.	11	also now with the benefit of hindsight, the
12 Q. No, but just understand me. Let us suppose	12	decision turned out to be the appropriate
that you did not reach a settlement in your	13	decision to take, not so much for the Company,
tax case in June of 2005. And your case is	14	although it has benefitted the Company, as Mr.
percolating through the system in the Tax	15	Meyers pointed out, but particularly for the
Court of Canada ready to go to trial in	1.6	hanefit of the austamars. So to get healt to

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benefit of the customers. So, to get back to

accounting application absent the resolution

of the tax case? Probably not, but we would

have been here in some fashion to deal with

the costs that are coming on board in 2006.

that in the past when the Board ordered that

your Revenue Recognition Study be filed at a

certain date, that your Company took steps to

Q. And in fact, would it also not be the case

your question, would we have been here with an

A. I do agree with that comment.

Accrual Method.

Court of Canada, ready to go to trial in

February of 2006, right. I take it you would

agree with me that we--you would never have

brought on an application while your tax case

was going on to ask for a switch to the

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22 MR. SMITH:

25 MR. SMITH:

Q. Okay.

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1 MR. JOHNSON	1	Q. But surely the statement that this Board made
2 have the order amended because of the concern		back when it made its order in 2003 and it
3 that you didn't want to be getting into filing	3	said that we will review any issues arising
4 a Revenue Recognition Study while your	4	from the tax dispute includingand they say
5 litigation was ongoing, correct?	5	"any issues" arising from the tax dispute
6 MR. SMITH:	6	including potential liabilities or benefits to
7 A. That's absolutely correct.	7	customers following resolution of the dispute.
8 Q. Okay. Now, clearly theI think you would	8	Surely, within the ambit of those words, the
9 agree with me, I would invite you to, that the	9	question of what happens to the 2.1 million
disposition of the 2.1 million dollars is an	10	dollars in interest revenue falls. Would that
issue arising from the tax dispute.	11	be fair?
12 MR. SMITH:		MR. SMITH:
13 A. I hate to get off on the wrong foot with you	13	A. I think that would be fair because I think the
here and continue to disagree, but I do	14	Board has ultimate jurisdiction and authority
disagree. I think it's a separate thing	15	to look at all of those types of matters,
altogether as indicate in Mr. Meyers' opening	16	absolutely.
comments. It's not a transitional issue that	17	Q. Okay. Now, so I can understand the Company's
arises from disposition of the tax case.	18	evidence on this point, and I'm a little bit
There is a connection to the tax case	19	at a disadvantage because the 2.1 million
20 obviously. It was resolved satisfactorily,	20	dollar issue was raised as a result RFI's as
therefore we got some interest revenue back.	20 21	opposed to being presented in the application.
The accounting and recording of that interest	22	And so there is a dearth of written Company
revenue then, I think, reverts back to normal	23	evidence analysing what the Company's position
24 course. Normal course is exactly how we	23	is in the application. But do I understand
25 accounted for it this year.	25	you to mean that because the interest refund
-		<u> </u>
	ge 75	Page 76
was received in 2005 as opposed to 2006, that		recorded in accordance with our Board approved
2 that would impact upon this Board's right to	2	system of accounts which states that that's
3 make a disposition in relation to the 2.1	3	the way we are required to record that
4 million in favour of the consumers?	4	interest.
5 MR. SMITH:	5	Q. Now, the tax settlement agreement, if we could
6 A. No, that's not my position. My position is	6	bring that up. This was an agreement
7 that the Board has the right to look at it	7	negotiated over some period of time, but I
8 regardless which year it falls in. My	8	understand, Mr. Smith, that certainly by May
9 additional point is that the year in which it	9	month, it was known that it was going to be
falls in really has little bearing upon it.	10	resolved along these terms. Would that be a
11 If it was recorded in 2000 or 2001 or 2005,	11	correct statement?
the interest revenue should be treated and has		MR. SMITH:
been treated exactly the same.	13	A. Yes, it would. May, things started to look
14 MR. MEYERS:	14	very positive.
15 A. Mr. Johnson, if I might add, the Company has		Q. Okay. And I note that the Agreement is
Board approved system of accounts that has	16	structured so that essentially the refund of
been in place for a number of years. And one	17	the interest, although the Agreement is silent
of the items in that approved system of	18	on it, but because your tax case was resolved
19 accounts is an account called Miscellaneous	19	in June 2005, I think we've followed that you
Non-Consumer Revenue. And it clearly states		get the refund from the interest and deposit
in that approved system of accounts that this	21	back in 2005, but would you agree with me that
22 account should include interest revenue	22	the way the Agreement is structured that the
derived from income tax refunds. So, when we	e 23	interest comes back to you in 2005, but the

25

tax hit does not start until 2006 and then

2007, 2008 in terms of how much money you got

said earlier that this has been recorded in a

normal course, that means that it's been

24

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Pa	nge 77	Page 78
1 MR. JOHNSON	1	why it's set up the way that it is.
to attribute to 2006, 2007, 2008 in switching	2	Q. Could I refer you, Mr. Smith, to CA-18 and in
3 to the Accrual Method. Would that be a fair	3	particular, page 2 of the Company's response
4 comment?	4	to CA-18. And for the record, in CA-18 I'm
5 MR. SMITH:	5	asking the question, "as part of the out-of-
6 A. That is correct. That is how the settlement	6	court settlement, did Newfoundland Power
7 was orchestrated. They just provided a	7	propose this time frame for inclusion of the
8 context around that though.	8	unbilled revenue and income. And if so, why"?
9 Q. Yes.	9	That would be 2006, 2007, 2008. You would
10 MR. SMITH:	10	notethe Company notes in its response to me,
11 A. When we sat into negotiations with Revenue	e 11	in the second last paragraph on page 2 of the
12 Canada on this, our conclusion was that likely	/ 12	reply, that Newfoundland Power was also
we had to change our Revenue Recognition	n 13	informed by confidential information it
Policy for tax purposes. Without a doubt that	14	received from another Canadian Utility and I'm
was going to happen. So, our objective going	15	not going to ask you, at this point, to
into it was to accomplish two things. One was	S 16	divulge that. It goes on to say,
to have a settlement that resulted in	17	"Newfoundland Power was informed by this
prospective rather than retroactive change.	18	Utility that they had reached an agreement
That was accomplished by having the so-calle	ed 19	with Federal Tax Authorities, the transition
20 tax hit take place in the subsequent three.	20	to the Accrual Method of revenue recognition
21 That was accomplished. The second objective	/e 21	over a three-year period which included the
was to make sure that or try to achieve some	22	year of the Agreement". Now, I take it that
kind of transition period to give the Company		it would be reasonable for me to expect assume
and its customers an opportunity to deal with	24	if the Minister was prepared to reach that
25 the change over a period of time. So, that's	25	sort of agreement with another Canadian
Pa	ige 79	Page 80
1 Utility, that it would have been prepared to	1	with them. So, I can't speak to what their
2 reach that sort of deal with Newfoundland	2	intentions would be; I can't speak to what
3 Power, had Newfoundland Power requested it	t? 3	their preferences would be, but I know during
4 MR. SMITH:	4	the course of the negotiations, things did
5 A. A reasonable assumption on your part, yes.	5	move around quite a bit and change from time
6 I'd like to think it was that easy, but it	6	to time.
7 wasn't.	7	Q. Did Revenue Canada ever ask you to pay later,
8 Q. But in fact, I mean, the Minister would have	8	you know -
9 an interest, it seems to me, in having you do		R. SMITH:
things more quicker, more quickly than less		A. No, but they asked us to pay a lot earlier.
quickly. That's usually the way the tax man		Q. Mr. Smith, I take it Newfoundland Power did
12 operates.	12	not ask to be treated like this other Canadian
13 MR. SMITH:	13	Utility in this Agreement?
14 A. I would agree with that.		R. SMITH:
15 Q. Yes. So, they would have been indifferent to,		A. Well, I need to seek some clarification; in
if you wanted to adopt that sort of proposal	16	what sense?
along the lines of the other Canadian Utility		Q. In terms of the timing. Because in the other
18 wanted.	18	Canadian Utility's case, they had reached an
19 MR. SMITH:	19	agreement with the Federal tax authorities to transition to the Accrual Method of Revenue
20 A. You would think they should be. I don't know		Recognition over a three-year period which
if anybody has had the luxury or the pleasure of negotiated with the Federal tax	21 22	included the year of the agreement.
of negotiated with the Federal tax authorities, but what we found, even during		R. SMITH:
24 the course of our negotiations, that as the		A. Yes.
25 people changed, the positions changed along		Q. Right. Did you seek to have that sort of
25 people changed, the positions changed along	, 23	2. Mgn. Did you seek to have that soft of

Page 81 I MR. IOHNSON 2 treatment for Newfoundland Power or did your 3 people seek it? 5 A. Explicitly, no. We knew that sort of 6 established the playing field for us, three 7 years and three years became our objection 8 very early in the game. 9 Q. Well, I'm given to understand that, Mr. Smith, that had Newfoundland Power adopted—and by 10 the way, when did you find out this 12 information about the other Canadian Utility? I'm going from memory, but it would have been back in the 15 carly days of starting negotiations or 17 starting discussions with Revenue Canada. A particular year, late '90s. Also relevant though is, as 1 indicated, there were two aspects. In the 21 carly years we focused on the general expenses 22 capitalized which is where most of the money was. And the strategy there was that these 24 were two very different issues, so we wanted 25 to separate them to increase the chance of 10 cases in 2005, let's assume the same facts. 2 MR SMITH: 3 A. I'm having some difficulty though setting up a 5 hypothetical situation and trying to deal with 65 it because like the Application in front of us 6 today. I mean, this is dynamic situation of the focus was on cach of them. So, in the carly year 300 for scolve. 4 particular year, late '90s, and '90s (19 the focus was on the general expenses of the fine to understand, Mr. Smith, that had Newfoundland Power cached the 2.1 million dollars in June 2005 and would have been that the result would have been asked to pay to the time the year were two sepects. In the carry days of starting are goilations, and regotation, in 2005. Would that be correct? 1 MR. SMITH: 2 M. A. Given the hypothesis that you set up, yes, 1 think that would be the case. 2 Late in the year is a dynamic simulation of this one running the perspective to be able to deal with the impacts. We wanted the perspective to be able to deal with the impacts, rather than be facing it with a situat	December 7, 2005	Multi-Pa	age NL Power's Accounting Policy
I MR_SOHNSON 2 treatment for Newfoundland Power or did your 3 people seek it? 4 MR_SMITH: 4 AR_SMITH: 4 AR_SMITH: 5 AExplicitly, no. We knew that sort of 6 established the playing field for us, three 7 years and three years became our objection 8 very early in the game. 9 Q. Well, I'm given to understand that, Mr. Smith, 9 the way, when did you find out this 10 that had Newfoundland Power adopted—and by 11 the way, when did you find out this 12 information about the other Canadian Utility? I'm going from 14 A. The other Canadian Utility? I'm going from 15 memory, but it would have been back in the 16 early days of starting negotiations or 17 starting discussions with Revenue Canada. A 18 particular year, late '90s, mid '90s, mid to 19 late '90s. Also relevant though is, as 16 indicated, there were two aspects. In the 21 early years we focused on the general expenses 24 were two very different issues, so we wanted 25 to separate them to increase the chance of 26 year 2000 the year with the strategy there was that these 24 were two very different issues, so we wanted 25 to separate them to increase the chance of 26 year 2005, let's assume the same facts. 2 MR_SMITH: 2		Page 81	Page 82
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to say, what if this and what if that, I have good combination for that hour in the day. difficulty with. Because I can only dealin 23 good combination for that hour in the day. So, if we'll just play it by ear, if everybody			· · · · · · · · · · · · · · · · · · ·
difficulty with. Because I can only dealin 24 So, if we'll just play it by ear, if everybody	1	-	
	T		· · · · · · · · · · · · · · · · · · ·
	•		is in agreement, then we'll see where we are

	Multi-Page ML Power's Accounting Poli
Pa	ge 85 Page
1 CHAIRMAN	reasonable return in 2005. And to treat it
2 at around that hour. Thank-you. Mr. Johnson	
3 when you're ready, please.	3 out of the ordinary and unusual.
4 MR. JOHNSON:	4 Q. Now, am I correct in understanding that with
5 Q. Thank you, Mr. Chair. Mr. Smith, I don't mea	
6 to pick on you, Mr. Meyers can jump in too, i	
7 he knows the answer. Is there any practical	7 correct?
8 impediment standing in the way of this Board	
9 recognizing the 2.1 million dollars for	9 A. Actually there's an RFI on the record, Mr.
regulatory purposes, say, in the next GRA and	Johnson, PUB-11. And what the table here on
then to have the 2.1 treated as part of the	PUB-11 shows is that for 2005 with the refund
revenue and when it's making its revenue	interest included, the Company earns a rate of
requirement determination. Is there any	return on rate base of 8.57 percent which is
practical impediment to that happening?	within the allowed range. And if we exclude
15 MR. SMITH:	the refund interest, our rate of return on
16 A. I don't know if there's a practical	rate base drops to 8.38 percent which is below
impediment, but it would, in our view, be the	
improper thing to do.	the current approved range. 2. So, I just take it from that, that
19 Q. Improper why?	Newfoundland Power would have had the
20 MR. SMITH:	
	opportunity in 2005 to earn its proper rate of return on rate base by the rates that were set
A. As Bob, Mr. Meyers has pointed out earlier, the nature of the item, the interest revenue,	· ·
	in respect to 2005. There's no issue with thaT?
1	24 MR. SMITH: 25 A. Well, going into the year, the rates have been
	ge 87 Page
established. They were the ones that we were	1 MR. MEYERS:
2 operating under in 2005. Like any other year,	2 A. Would be our forecast for 2005, yes.
3 there's always a number of things that you	3 Q. Okay. And the footnote 3, states that "as
	· · · · · · · · · · · · · · · · · · ·
4 never anticipate or can ever anticipate. And	4 filed in Exhibit NP-14 of the 2006 Accounting
5 so to say that we had an opportunity to earn	 filed in Exhibit NP-14 of the 2006 Accounting Policy Application: -
so to say that we had an opportunity to earn just and reasonable return, I think in a	 filed in Exhibit NP-14 of the 2006 Accounting Policy Application: - MR. MEYERS:
so to say that we had an opportunity to earn just and reasonable return, I think in a regulatory parlance is absolutely correct,	 filed in Exhibit NP-14 of the 2006 Accounting Policy Application: - MR. MEYERS: A. Yes, that's correct.
so to say that we had an opportunity to earn just and reasonable return, I think in a regulatory parlance is absolutely correct, absolutely.	 filed in Exhibit NP-14 of the 2006 Accounting Policy Application: - MR. MEYERS: A. Yes, that's correct. Q. And, of course, that application was filed
so to say that we had an opportunity to earn just and reasonable return, I think in a regulatory parlance is absolutely correct, absolutely. Q. Yes, okay, that was my only point. Mr. Smith	filed in Exhibit NP-14 of the 2006 Accounting Policy Application: - MR. MEYERS: A. Yes, that's correct. Q. And, of course, that application was filed with this Board in September of 2005.
so to say that we had an opportunity to earn just and reasonable return, I think in a regulatory parlance is absolutely correct, absolutely. Q. Yes, okay, that was my only point. Mr. Smith I noticed this morning that PUB-15 was	filed in Exhibit NP-14 of the 2006 Accounting Policy Application: - 6 MR. MEYERS: A. Yes, that's correct. Q. And, of course, that application was filed with this Board in September of 2005. MR. MEYERS:
so to say that we had an opportunity to earn just and reasonable return, I think in a regulatory parlance is absolutely correct, absolutely. Q. Yes, okay, that was my only point. Mr. Smith I noticed this morning that PUB-15 was circulated and attached to that is Attachment	filed in Exhibit NP-14 of the 2006 Accounting Policy Application: - 6 MR. MEYERS: 7 A. Yes, that's correct. 8 Q. And, of course, that application was filed 9 with this Board in September of 2005. 10 MR. MEYERS: 11 A. Yes.
so to say that we had an opportunity to earn just and reasonable return, I think in a regulatory parlance is absolutely correct, absolutely. Q. Yes, okay, that was my only point. Mr. Smith I noticed this morning that PUB-15 was circulated and attached to that is Attachment A to the response to PUB-15 showing the incon	filed in Exhibit NP-14 of the 2006 Accounting Policy Application: - 6 MR. MEYERS: 7 A. Yes, that's correct. 8 Q. And, of course, that application was filed 9 with this Board in September of 2005. 10 MR. MEYERS: 11 A. Yes. 12 Q. And do you know when the financial numbers
so to say that we had an opportunity to earn just and reasonable return, I think in a regulatory parlance is absolutely correct, absolutely. Q. Yes, okay, that was my only point. Mr. Smith I noticed this morning that PUB-15 was circulated and attached to that is Attachment A to the response to PUB-15 showing the incon statement of the period ending September 30	filed in Exhibit NP-14 of the 2006 Accounting Policy Application: - 6 MR. MEYERS: 7 A. Yes, that's correct. 8 Q. And, of course, that application was filed 9 with this Board in September of 2005. 10 MR. MEYERS: 11 A. Yes. 12 Q. And do you know when the financial numbers 13 would have been generated, as of what date for
so to say that we had an opportunity to earn just and reasonable return, I think in a regulatory parlance is absolutely correct, absolutely. Q. Yes, okay, that was my only point. Mr. Smith I noticed this morning that PUB-15 was circulated and attached to that is Attachment A to the response to PUB-15 showing the incon statement of the period ending September 30 2005 filed with the Board as part of the third	filed in Exhibit NP-14 of the 2006 Accounting Policy Application: - 6 MR. MEYERS: 7 A. Yes, that's correct. 8 Q. And, of course, that application was filed 9 with this Board in September of 2005. 10 MR. MEYERS: 11 A. Yes. 12 Q. And do you know when the financial numbers would have been generated, as of what date for putting in that NP-14 of the 2006 Accounting
so to say that we had an opportunity to earn just and reasonable return, I think in a regulatory parlance is absolutely correct, absolutely. Q. Yes, okay, that was my only point. Mr. Smith I noticed this morning that PUB-15 was circulated and attached to that is Attachment A to the response to PUB-15 showing the incon statement of the period ending September 30 2005 filed with the Board as part of the third quarter report updated to include the actual	filed in Exhibit NP-14 of the 2006 Accounting Policy Application: - 6 MR. MEYERS: 7 A. Yes, that's correct. 8 Q. And, of course, that application was filed with this Board in September of 2005. 10 MR. MEYERS: 11 A. Yes. 12 Q. And do you know when the financial numbers would have been generated, as of what date for putting in that NP-14 of the 2006 Accounting Policy Application?
so to say that we had an opportunity to earn just and reasonable return, I think in a regulatory parlance is absolutely correct, absolutely. Q. Yes, okay, that was my only point. Mr. Smith I noticed this morning that PUB-15 was circulated and attached to that is Attachment A to the response to PUB-15 showing the inconstatement of the period ending September 30 2005 filed with the Board as part of the third quarter report updated to include the actual results as of October 31, 2005. Now, I note	filed in Exhibit NP-14 of the 2006 Accounting Policy Application: - 6 MR. MEYERS: 7 A. Yes, that's correct. 8 Q. And, of course, that application was filed 9 with this Board in September of 2005. 10 MR. MEYERS: 11 A. Yes. 12 Q. And do you know when the financial numbers 13 would have been generated, as of what date for 14 putting in that NP-14 of the 2006 Accounting 15 Policy Application? 16 MR. MEYERS:
so to say that we had an opportunity to earn just and reasonable return, I think in a regulatory parlance is absolutely correct, absolutely. Q. Yes, okay, that was my only point. Mr. Smith I noticed this morning that PUB-15 was circulated and attached to that is Attachment A to the response to PUB-15 showing the inconstatement of the period ending September 30 2005 filed with the Board as part of the third quarter report updated to include the actual results as of October 31, 2005. Now, I note on Attachment Athank you for bringing tha	filed in Exhibit NP-14 of the 2006 Accounting Policy Application: - 6 MR. MEYERS: 7 A. Yes, that's correct. 8 Q. And, of course, that application was filed 9 with this Board in September of 2005. 10 MR. MEYERS: 11 A. Yes. 12 Q. And do you know when the financial numbers 13 would have been generated, as of what date for 14 putting in that NP-14 of the 2006 Accounting 15 Policy Application? 16 MR. MEYERS: 17 A. I can't recall the exact date. I'm thinking
so to say that we had an opportunity to earn just and reasonable return, I think in a regulatory parlance is absolutely correct, absolutely. Q. Yes, okay, that was my only point. Mr. Smith I noticed this morning that PUB-15 was circulated and attached to that is Attachment A to the response to PUB-15 showing the inconstatement of the period ending September 30 2005 filed with the Board as part of the third quarter report updated to include the actual results as of October 31, 2005. Now, I note on Attachment Athank you for bringing that up for meon Attachment A, it indicates in	filed in Exhibit NP-14 of the 2006 Accounting Policy Application: - 6 MR. MEYERS: 7 A. Yes, that's correct. 8 Q. And, of course, that application was filed 9 with this Board in September of 2005. 10 MR. MEYERS: 11 A. Yes. 12 Q. And do you know when the financial numbers 13 would have been generated, as of what date for 14 putting in that NP-14 of the 2006 Accounting 15 Policy Application? 16 MR. MEYERS: 17 A. I can't recall the exact date. I'm thinking 18 it was some time around early September maybe
so to say that we had an opportunity to earn just and reasonable return, I think in a regulatory parlance is absolutely correct, absolutely. Q. Yes, okay, that was my only point. Mr. Smith I noticed this morning that PUB-15 was circulated and attached to that is Attachment A to the response to PUB-15 showing the incon statement of the period ending September 30 2005 filed with the Board as part of the third quarter report updated to include the actual results as of October 31, 2005. Now, I note on Attachment Athank you for bringing that up for meon Attachment A, it indicates in the far right column, the forecast for 2005.	filed in Exhibit NP-14 of the 2006 Accounting Policy Application: - 6 MR. MEYERS: 7 A. Yes, that's correct. 8 Q. And, of course, that application was filed 9 with this Board in September of 2005. 10 MR. MEYERS: 11 A. Yes. 12 Q. And do you know when the financial numbers 13 would have been generated, as of what date for 14 putting in that NP-14 of the 2006 Accounting 15 Policy Application? 16 MR. MEYERS: 17 A. I can't recall the exact date. I'm thinking 18 it was some time around early September maybe 19 Q. Have there been any further updates since
so to say that we had an opportunity to earn just and reasonable return, I think in a regulatory parlance is absolutely correct, absolutely. Q. Yes, okay, that was my only point. Mr. Smith I noticed this morning that PUB-15 was circulated and attached to that is Attachment A to the response to PUB-15 showing the inconstatement of the period ending September 30 2005 filed with the Board as part of the third quarter report updated to include the actual results as of October 31, 2005. Now, I note on Attachment Athank you for bringing that up for meon Attachment A, it indicates in the far right column, the forecast for 2005. Correct? Do you see that?	filed in Exhibit NP-14 of the 2006 Accounting Policy Application: - 6 MR. MEYERS: 7 A. Yes, that's correct. 8 Q. And, of course, that application was filed 9 with this Board in September of 2005. 10 MR. MEYERS: 11 A. Yes. 12 Q. And do you know when the financial numbers 13 would have been generated, as of what date for 14 putting in that NP-14 of the 2006 Accounting 15 Policy Application? 16 MR. MEYERS: 17 A. I can't recall the exact date. I'm thinking 18 it was some time around early September maybe 19 Q. Have there been any further updates since 20 early September in respect of the forecast for
so to say that we had an opportunity to earn just and reasonable return, I think in a regulatory parlance is absolutely correct, absolutely. Q. Yes, okay, that was my only point. Mr. Smith I noticed this morning that PUB-15 was circulated and attached to that is Attachment A to the response to PUB-15 showing the inconstatement of the period ending September 30 2005 filed with the Board as part of the third quarter report updated to include the actual results as of October 31, 2005. Now, I note on Attachment Athank you for bringing that up for meon Attachment A, it indicates in the far right column, the forecast for 2005. Correct? Do you see that?	filed in Exhibit NP-14 of the 2006 Accounting Policy Application: - 6 MR. MEYERS: 7 A. Yes, that's correct. 8 Q. And, of course, that application was filed 9 with this Board in September of 2005. 10 MR. MEYERS: 11 A. Yes. 12 Q. And do you know when the financial numbers 13 would have been generated, as of what date for 14 putting in that NP-14 of the 2006 Accounting 15 Policy Application? 16 MR. MEYERS: 17 A. I can't recall the exact date. I'm thinking 18 it was some time around early September maybe 19 Q. Have there been any further updates since 20 early September in respect of the forecast for 21 2005?
so to say that we had an opportunity to earn just and reasonable return, I think in a regulatory parlance is absolutely correct, absolutely. Q. Yes, okay, that was my only point. Mr. Smith I noticed this morning that PUB-15 was circulated and attached to that is Attachment A to the response to PUB-15 showing the incon statement of the period ending September 30 2005 filed with the Board as part of the third quarter report updated to include the actual results as of October 31, 2005. Now, I note on Attachment Athank you for bringing that up for meon Attachment A, it indicates in the far right column, the forecast for 2005. Correct? Do you see that? MR. MEYERS: A. The number in the far right column would have	filed in Exhibit NP-14 of the 2006 Accounting Policy Application: - 6 MR. MEYERS: 7 A. Yes, that's correct. 8 Q. And, of course, that application was filed 9 with this Board in September of 2005. 10 MR. MEYERS: 11 A. Yes. 12 Q. And do you know when the financial numbers 13 would have been generated, as of what date for 14 putting in that NP-14 of the 2006 Accounting 15 Policy Application? 16 MR. MEYERS: 17 A. I can't recall the exact date. I'm thinking 18 it was some time around early September maybe 19 Q. Have there been any further updates since 20 early September in respect of the forecast for 21 2005? 22 MR. MEYERS:
so to say that we had an opportunity to earn just and reasonable return, I think in a regulatory parlance is absolutely correct, absolutely. Q. Yes, okay, that was my only point. Mr. Smith I noticed this morning that PUB-15 was circulated and attached to that is Attachment A to the response to PUB-15 showing the inconstatement of the period ending September 30 2005 filed with the Board as part of the third quarter report updated to include the actual results as of October 31, 2005. Now, I note on Attachment Athank you for bringing that up for meon Attachment A, it indicates in the far right column, the forecast for 2005. Correct? Do you see that? MR. MEYERS: A. The number in the far right column would have been our original plan for 2005.	filed in Exhibit NP-14 of the 2006 Accounting Policy Application: - 6 MR. MEYERS: 7 A. Yes, that's correct. 8 Q. And, of course, that application was filed 9 with this Board in September of 2005. 10 MR. MEYERS: 11 A. Yes. 12 Q. And do you know when the financial numbers 13 would have been generated, as of what date for 14 putting in that NP-14 of the 2006 Accounting 15 Policy Application? 16 MR. MEYERS: 17 A. I can't recall the exact date. I'm thinking 18 it was some time around early September maybe 19 Q. Have there been any further updates since 20 early September in respect of the forecast for 21 2005? 22 MR. MEYERS: 23 A. I believe there was also an RFI on that as
so to say that we had an opportunity to earn just and reasonable return, I think in a regulatory parlance is absolutely correct, absolutely. Q. Yes, okay, that was my only point. Mr. Smith I noticed this morning that PUB-15 was circulated and attached to that is Attachment A to the response to PUB-15 showing the incon statement of the period ending September 30 2005 filed with the Board as part of the third quarter report updated to include the actual results as of October 31, 2005. Now, I note on Attachment Athank you for bringing that up for meon Attachment A, it indicates in the far right column, the forecast for 2005. Correct? Do you see that? MR. MEYERS: A. The number in the far right column would have	filed in Exhibit NP-14 of the 2006 Accounting Policy Application: - 6 MR. MEYERS: 7 A. Yes, that's correct. 8 Q. And, of course, that application was filed 9 with this Board in September of 2005. 10 MR. MEYERS: 11 A. Yes. 12 Q. And do you know when the financial numbers 13 would have been generated, as of what date for 14 putting in that NP-14 of the 2006 Accounting 15 Policy Application? 16 MR. MEYERS: 17 A. I can't recall the exact date. I'm thinking 18 it was some time around early September maybe 19 Q. Have there been any further updates since 20 early September in respect of the forecast for 21 2005? 22 MR. MEYERS:

1 MR. JOHNSON 2 that too, but I think the RFI was in relation 3 to updated forecasts for 2006, not 2005 4 MR. MEYERS: 5 A. You may be correct, I'd have to check. But I 6 can tell you that the forecast for 2005, as 7 you see here, hasn't changed from what was 8 filed in NP-14 which is provided here. We're 9 still operating on the same forecast. 10 Q. It hasn't changed, is that because you haven't 11 put your minds to coming up with a new 12 forecast or is it because you put your minds 13 to coming up with a new forecast and you've 14 determined what the forecast is, but the 15 numbers don't change. 16 MR. MEYERS: 17 A. The process that we go through, on a fairly 18 regular basis, would involve looking at 19 various aspects of the forecast from time to 20 time and there's nothing in this forecast- 21 what we see in terms of year-to-date changes, 22 we see as mostly timing things right now that 23 wouldn't affect our overall forecast for mine and 24 year. 25 Q. Would it be a reasonable request of mine and 2 forgive me if it's not and it's six months 2 work, but would it be possible to provide an 3 updated forecast, say as of the end of October in keeping with your updating the other in keeping with PUB-15? 7 MR. MEYERS: 8 A. The forecast that we have here would have been our October 31, 2005, in keeping with PUB-15? 7 MR. MEYERS: 8 A. The forecast	December 7, 2005 M	ulti-Page	NL Power's Accounting Policy
that too, but I think the RFI was in relation to updated forecasts for 2006, not 2005 4 MR. MEYERS: A You may be correct, I'd have to check. But I can tell you that the forecast for 2005, as you see here, hasn't changed from what was filed in NP-14 which is provided here. We're still operating on the same forecast. Q It hasn't changed, is that because you haven't put your minds to coming up with a new forecast or is it because you put your minds to coming up with a new forecast and you've determined what the forecast is, but the numbers don't change. MR. MEYERS: Q, Okay, I understand your point. Yes, what I don't understand about that, maybe I moved on a bit too quickly, but if that forecast for 2005, you obviously didn't have 10 months of actuals, right, obviously? MR. MEYERS: Q, Would it be possible to provide an updated forecast, say as of the end of October in keeping with your updating the other in keepi	Page	89	Page 90
to updated forecasts for 2006, not 2005 4 MR. MEYERS: 5 A. You may be correct, I'd have to check. But I 6 can tell you that the forecast for 2005, as 7 you see here, hasn't changed from what was 8 filed in NP-14 which is provided here. We're 9 still operating on the same forecast. 10 Q. It hasn't changed, is that because you haven't 11 put your minds to coming up with a new 12 forecast or is it because you put your minds 13 to coming up with a new forecast and you've 14 determined what the forecast is, but the 15 numbers don't change. 16 MR. MEYERS: 17 A. The process that we go through, on a fairly 18 regular basis, would involve looking at 19 various aspects of the forecast from time to 20 time and there's nothing in this forecast- 21 what we see in terms of year-to-date changes, 22 we see as mostly timing things right now that 23 wouldn't affect our overall forecast for the 24 year. 25 Q. Would it be a reasonable request of mine and Page 91 1 MR. MEYERS: 2 A. Again, I think, you know, it would be the same 3 forecast because the differences would be 4 strictly one of timing. 5 A. You may be correct, I'd have to check. But I 5 information to October 31, 2005, in keeping with PUB-152 7 MR. MEYERS: 8 A. The forecast that we have here would have been our October 31 updated forecast which is the our October 31 updated forecast whatch safe with a updated safe was in the Application. As I said, i	1 MR. JOHNSON	1	forgive me if it's not and it's six months
4 MR. MEYERS: 5 A. You may be correct, I'd have to check. But I can tell you that the forecast for 2005, as fled in NP-14 which is provided here. We're still operating on the same forecast. 9 still operating on the same forecast. 10 Q. It hasn't changed, is that because you haven't put your minds to coming up with a new forecast or is it because you put your minds to coming up with a new forecast and you've determined what the forecast is, but the numbers don't change. 13 to coming up with a new forecast and you've determined what the forecast is, but the numbers don't change. 14 MR. MEYERS: 15 A. You may be correct, I'd have to check. But I in formation to October 31, 2005, in keeping with PUB-15? 16 MR. MEYERS: 18 A. The forecast that we have here would have been our October 31 updated forecast which is the same as what was in the Application. As I said, indifferences would be strictly timing differences. 16 Q. Okay, I understand your point. Yes, what I don't understand about that, maybe I moved on a bit too quickly, but if that forecast for 2005 was prepared, say September of 2005, you obviously didn't have 10 months of actuals. right, obviously? 18 regular basis, would involve looking at various aspects of the forecast from time to time and there's nothing in this forecast— 21 what we see in terms of year-to-date changes, we see as mostly timing things right now that wouldn't affect our overall forecast for the year. 22 year. 23 Q. Would it be a reasonable request of mine and 24 year. 25 Q. Would it be a reasonable request of mine and 26 Page 91 27 MR. MEYERS: 28 A. The forecast that we have here would have been our October 31 updated forecast which is the same, as what was in the Application. As I differences would be the same as what was in the Application. As I don't understand about that, maybe I don't understand about th	2 that too, but I think the RFI was in relation	2	work, but would it be possible to provide an
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1 MR. MEYERS: 2 A. Again, I think, you know, it would be the same 3 forecast because the differences would be 4 strictly one of timing. 5 Q. Okay, all right. Let me justI got a little 6 off topic there for a moment, but I want to go 1 A. It's technically possible for the Board to do 2 that as it would with any other cost or 3 revenue item, but my point is, it maybe 4 technically possible, but I still think it 5 would absolutely improper. 6 Q. And I want to plumb a little bit deeper into	25 Q. Would it be a reasonable request of mine and	25	•
1 MR. MEYERS: 2 A. Again, I think, you know, it would be the same 3 forecast because the differences would be 4 strictly one of timing. 5 Q. Okay, all right. Let me justI got a little 6 off topic there for a moment, but I want to go 1 A. It's technically possible for the Board to do 2 that as it would with any other cost or 3 revenue item, but my point is, it maybe 4 technically possible, but I still think it 5 would absolutely improper. 6 Q. And I want to plumb a little bit deeper into	Page	91	Page 92
forecast because the differences would be strictly one of timing. Okay, all right. Let me justI got a little off topic there for a moment, but I want to go off topic there for a moment, but I want to go off topic there for a moment, but I want to go strictly one of timing. technically possible, but I still think it would absolutely improper. Okay, all right. Let me justI got a little off topic there for a moment, but I want to go Okay, all right. Let me justI got a little off topic there for a moment, but I want to go	_		A. It's technically possible for the Board to do
4 strictly one of timing. 5 Q. Okay, all right. Let me justI got a little 6 off topic there for a moment, but I want to go 4 technically possible, but I still think it 5 would absolutely improper. 6 Q. And I want to plumb a little bit deeper into	2 A. Again, I think, you know, it would be the same	2	that as it would with any other cost or
5 Q. Okay, all right. Let me justI got a little 5 would absolutely improper. 6 off topic there for a moment, but I want to go 6 Q. And I want to plumb a little bit deeper into	3 forecast because the differences would be	3	revenue item, but my point is, it maybe
5 Q. Okay, all right. Let me justI got a little 5 would absolutely improper. 6 off topic there for a moment, but I want to go 6 Q. And I want to plumb a little bit deeper into	4 strictly one of timing.	4	· ·
6 off topic there for a moment, but I want to go 6 Q. And I want to plumb a little bit deeper into		5	* =
		6	·

- - treating this 2.1 million dollars, for
- regulatory purposes as part of the next, say, 9
- GRA. Okay. Is it a problem in the Company's 10
- 11 view that the Public Utilities Board did not
- expressly set up an expressed deferral account 12
- 13 in respect of interest, tax deposits interest
- 14 back some years before 2005?
- 15 MR. SMITH:

- A. Is that a problem for us? 16
- 17 Q. Yes.
- 18 MR. SMITH:
- 19 A. No, absolutely not.
- Q. All right. And would it also be hectically 20
- 21 possible, in the Company's view, for this
- 22 Board now to set up a deferral account for 2.1
- million dollars that we're talking about in 23
- 24 this Application?
- 25 MR. SMITH:

- 8
 - if you wouldn't mind.
- 9 MR. SMITH:

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A. Well, let's put it in context first because when we start getting into lists and specific things, we lose the big picture. And the big picture is really what I think what we should be focused on today. This particular item is not unprecedented. It has been anticipated, these types of things will come up from time to time. The system of accounts has been established in anticipation of that to deal with it. The regulatory construct has been established to deal with earnings in any given year and whether or not there are excess earnings in any given year. There's been a range--a range has been established. So, I think that the regulatory circumstances that exist, anticipated and deals with the interest

Dec	cember 7, 2005 Mu	ılti-P	Page T	NL Power's Accounting Policy
	Page			Page 94
1 1	MR. SMITH	1	1	Board's statement back then. The Board
2	revenue in a fashion that is not a surprise to	2	2	indicated that it would be review the
3	anybody. And has been dealt with properly,	3	3	resolution of the tax case, the resulting
4	given the rules that we currently operate	4	1	liabilities, the resulting benefits, that's
5	under. And part of our point is consistency	5	5	what we're talking about here today. They've
6	and doing things the same from year to year.	6	5	been laid out very clearly. None of that
7	And also not changing the rules after the	7	7	suggests, in my mind, that the Board
8	fact, so to speak.	8	3	anticipated that they would deal with the
9	Q. What I don't understand about that is how can	9)	interest revenue any differently that has been
10	you say that it's, it would be inappropriate	10)	dealt with already, any differently than it
11	for the reasons that you've outlined in the	11	1	was dealt with in 2000 or 2001 when they had
12	context of this Board, you know, at least a	12	2	interest revenue then associated with a tax
13	couple of times, say, and certainly in the	13	3	case. This is not the first time we dealt
14	last GRA decision, that once this case is	14	1	with this question or the first time the Board
15	over, we're going to assess all of the	15	5	has dealt with the question. So, I think what
16	benefits and all of the potential liabilities.	16	5	I'm saying is consistent with the Board's
17	I can't track the wording, I don't have it	17		comments.
18	directly in front of me. You know, in light			30 p.m.)
19	of the Board having said that, I'm surprised	19		. But, you're not backtracking at all, I don't
20	that you would find it inappropriate that the	20		think, from the notion that what should happen
21	Board would now put in place a mechanism to	21		to the \$2.1 million in interest comes under
22	give effect to its determination of what	22		the ambit of any and all potential benefits
23	should happen with the monies.	23		and liabilities?
1	MR. SMITH:			SMITH:
25	A. I think my answer is consistent with the	25	5 A	. No different than any other item that the
	Page	95		Page 96
1	Board views with respect to our financial	1	1	on, for a moment, the years 1995 and 1996,
2	numbers. No different than the cost	2	2	because as I understand your evidence, you're
3	associated with the early retirement program	3	3	saying that's the only years that the Power
4	that you see in front of you, for instance.	4	1	Company bore these costs of the tax dispute.
5	The Board has to purview, to examine all of	5		Am I correct?
6	these things. And the statement that the			MEYERS:
7	Board made back at the last GRA I think are	7		. That's correct, yes.
8	just consistent with that broad purview.	8		Okay. Now, my understanding for the reason
9	Q. Now, just to ask you a couple of questions	9		that the Power Company is saying that it bore
10	about the past refunds that were made to	10		those costs itself in those years is because
11	consumers. That, strictly speaking, was not a	11		you didn't have a rate case for those years?
12	refund of the tax itself, that was an	12		Is thatthey weren't specifically figured
13	operation of the excess earnings account,	13		into the rate. Would that be a correct
14	right?	14		assumption?
1	MR. MEYERS:			MEYERS: Veel, the tay denotit that these financing
16 17	A. Yes, that's right. Q. Right. So, but for the fact that you, if you	16 17		Yeah, the tax deposit that these financing costs relate to and the legal fees that are
18	had not exceeded your range, I guess the	18		referred to here would not have been included
19	Company's position is that the customers	19		in the forecast costs that were used to set
20	wouldn't have got it in those two years?	20		rates for '95 and '96. The first time they
1	MR. MEYERS:	21		were used in the forecast to set rates would
$\begin{vmatrix} 21 \\ 22 \end{vmatrix}$	A. Generally speaking, yes.	22		have been in 1997.
23	Q. Yeah, okay. Could I bring you to CA-23,	23		And in the 1997, that's when it first got
24	Attachment C? And you've referred to this,	24		involved in the rate case, the issue came up
127	Mr. Mayora cordian And Livet went to divel	24		in towns of the numbers of the rote age

in terms of the purposes of the rate case,

Mr. Meyers, earlier. And I just want to dwell

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	Page 97	Page 98
1 MR. JOHNSON	1	your rates were producing sufficient revenues
2 would that be right?	2	to compensate Newfoundland Power for all the
3 MR. MEYERS:	3	Company's costs, including these costs. Would
4 A. That's when they would have first bee	en 4	that be a fair statement?
5 reflected in the forecast used to set rates,	5	MR. MEYERS:
6 yes.	6	A. The rates were established based on forecast
7 Q. If you had had a rate case in 1996, would	d 7	costs which did not include these costs. And,
8 these have been included in the forecast?	8	you know, to go back and pick out one specific
9 MR. MEYERS:	9	item and say that, you know, this cost was up
10 A. Likely so, yes.	10	or this other cost was down and therefore it
Q. And then your decision to apply for a rat	e 11	was or wasn't included in rates, I don't think
case, you would have considered that issue	? 12	is really appropriate.
13 MR. MEYERS:	13	*
14 A. When we look at options available to us, th	nere 14	MR. MEYERS:
are a number of alternatives available at an		A. We manage this business on an overall.
given time. The GRA may have been one	•	_
then. But, to suggest that we would com		·
forward requestingcome forward with a C		
recover an additional \$500,000 or \$1 milli	I	MR. MEYERS:
20 knowing that the cost of actually going	20	A. We earned a just and reasonable return in
21 through a rate proceeding can be severa		those years, yes.
million dollars and those would be addition		•
costs that would be passed on to customers		
24 Q. So, you know, presumably then in the ye		-
before 1997, and specifically 1995 and 19		-
	Page 99	Page 100
1 might pop up in a year that you're not goin	_	the decision that the rates and revenue isn't
into a rate case. I mean, at the end of the		
day -	3	
4 MR. SMITH:	4	
5 A. Such as interest revenue?	5	deminimus, there's always the cost associated
6 Q. No. In terms of a cost, something that pop	os 6	
7 up that wasn't specifically identified for the	· I	
8 purpose of making the rate in that particular		
9 year.	9	
10 MR. SMITH:	10	
11 A. Absolutely. And that could apply to any y		MR. SMITH:
and it applies to every year. But, the thrust		
of your question, I think, is should we have		
and I'm sort of conjecturing here. But,	14	
should we have called a rate case to deal w		
these specific costs? And I think the answer		MR. SMITH:
is absolutely not. But, that's an actual	17	A. If that's the case, we agree.
extension of the question, in my mind, and	it 18	
belies the fundamental point that as soon a		MR. SMITH:
rates are struck and as soon as rates are set	20	A. Okay.
based on a forecast, the forecast is out the	21	Q. My point is that in '95 and '96 you didn't
window and everything that happens after	that 22	under earn?
is a case of management. And how do	you 23	MR. SMITH:
manage your way through any particular y	ear, 24	A. That's correct.
given the rates that you have, or do you ma	ake 25	Q. Right.

De	cember 7, 2005	Multi-I	Page	NL Power's Accou	ınting Policy
	Pa	age 101			Page 102
1	MR. SMITH:		1	ie, the switch over from bill to the ac	ecrual
2	A. Nor did we over earn.		2	method. That's what we're really	
3	Q. You earned a just and reasonable rate of		3	about in terms of transitional issues?	_
4	return?		4 MF	R. SMITH:	
5	MR. SMITH:		5	A. Yes, we're talking about transitional	issues
6	A. I think so.		6	that arise out of a change in the acco	unting
7	Q. Just move on a little bit and talk about	,	7	policy and what can be done there.	
8	depreciation for a moment. If your tax		8	Q. Now, the depreciation issue had	this
9	settlement had not come about, had not		9	independent life, right? And I'm str	uggling
10	occurred and the case was still outstanding,	10	0	with the idea or the labelling of	the
11	obviously your depreciation issues would sti	ill 1	1	depreciation expense in 2006 as b	eing a
12	be there, for instance, the conclusion of the	1:	2	transitional issue for the switch from	n the
13	true up and that sort of stuff. In fact, if	1:	3	bill to the accrual method. I frankly	don't
14	you were remaining on the bill method, the	e 1	4	see it. Can you explain how -	
15	depreciation, the conclusion of the	1:	5 MF	R. SMITH:	
16	depreciation true up would still be there.	1	6	A. Oh, okay.	
17	You agree with that?	1	7	Q that is some sort of transitional issu	e? I
18	MR. SMITH:	1	8	mean, I can see setting up a reserve	
19	A. I do.	15	9	account for the unbilled revenue and	I can see
20	Q. Okay. Now, can I ask you to turn to Table of	of 20	0.	quantifying the unbilled revenue as	•
21	Contents to your application, specifically	2	1	transitional issue. But, for the life of	me I
22	part 3? At the Table of Contents, part 3,	2:	2	can't see how the 2006 depreciation of	expense is
23	under Section 3.2 we see transitional issues.	2:	3	a transitional issue.	
24	And I take that to be transitional issues	2	4 MF	R. SMITH:	
25	arising from the change in accounting policy	7, 2	5	A. Okay. I understand the confusion.	And
	Pa	age 103			Page 104
1	transition, when we said the transitional		1	forward to offset with this unbilled r	evenue
2	issues, our thinking and our view was proba	bly	2	would be, you know, a transitional is	ssue for
3	somewhat broader than the approach that yo	u're	3	Newfoundland Power as you've defin	ned it?
4	taking with respect to it. As we said		4 MF	R. SMITH:	
5	earlier, the story doesn't stop necessarily		5	A. Bringing forward, sorry, I don't und	lerstand
6	when you set up the unbilled revenue accou	nt	6	the question.	
7	because I think that would be an incomplet	e l	7	Q. Let us say you were bringing forwar	
8	picture at current day circumstances. The		8	forecast increase in expense in 2006	and said,
		1			

depreciation expense in 2006, as we've 9 indicated, is something that we knew was 10 11 coming, was canvasses at the last GRA. So, it

12 was a problem that was hanging out there. 13 This particular application and changing the accounting policy leads to the unbilled 14 15 revenue which then leads to, in our view

anyway, the solution to solving that 16 17 depreciation expense issue in 2006. So,

transitional related, I think we're talking 18 19 about semantics rather than substance. And 20 so, in our view that's the logic behind it and

21 that's why it fits with this application or 22 flows out of this application or flows out of 23 the accounting policy change.

24 Q. Okay. So, under that approach to the term 25 transitional anything that you're bringing

listen, you know, let us offset that too with some unbilled revenue. That too would be equally, under your definition, a transitional issue?

13 MR. SMITH:

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14 A. Not from my perspective it wouldn't be. And we're not trying to hide behind anything here. 15 We're certainly not trying to hide behind any 16 17 words. We're saying this is a real-life circumstance that the change in accounting 18 19 policy provides a solution to. We're just bringing forward an application that we think 20 21 is comprehensive, that we think is customer 22 friendly and we think is very pragmatic. So, 23 the point I'm making is that I'm less concerned about the semantics and the 24 25 definitional issues as I am with the outcomes

December 7, 2005	Mulu-Pa	age NL Power's Accounting Policy
	Page 105	Page 106
1 MR. SMITH	1	solution is the big question. The proposal
2 and what's best for customers.	2	that we're bringing forward provides a
3 (12:45 p.m.)	3	solution to that that doesn't cost any money.
4 Q. But really, isn't the real issue here that you	4	That is, as I said earlier, practical and so
5 need some way, the Company needs some wa	ay to 5	on. We're not trying to hide from that at
6 get, as is outlined in Exhibit NP-15 to your	6	all. There is a revenue shortfall in 2006.
7 application, if you wouldn't mind bringing it	7	We've identified the couple of issues that it
8 up. The real issue here that you need, the	8	mainly results from. We think we've put
9 Company needs some way to get from its	9	forward a proposal that adheres to the
existing forecast for 2006 of a 7.02 percent	10	regulatory construct that we have in place
rate of return on rate base up to somewhere in	. 11	here and doesn't break, it doesn't even bend
your approved range? I mean, that's the	12	any rules associated with that. So, I'm not
bottom line. I mean, that's what's driving	13	tryingI'm not disagreeing with you at all,
the inclusion of the depreciation true up and	14	but I think it's important that we put it in
increased plant investment as being claimed	15	the right context and talk about it properly.
under the unbilled revenue?	16	The accounting policy application provides a
17 MR. SMITH:	17	vehicle and a very appropriate vehicle to
18 A. And let's be very careful here. Is it a real	18	address some significant cost increases
19 issue? Absolutely it's a real issue. This	19	arising in 2006, absolutely.
20 Company has the right to earn a just and	20	Q. So, I take it from that that you would agree
21 reasonable return. We all agree, I think,	21	with me that if your forecast for 2006 was
that that's in the best interests of the	22	that you were going to be within your range,
customers and the Company. So, we're not		you would never be coming before this Board
24 trying to avoid that at all. There is a	23	suggesting that they should use unbilled
25 revenue shortfall in 2006. What is the	25	revenue in 2006?
25 revenue shortran in 2000. What is the		
1 MR. SMITH:	Page 107	Page 108 particular. Line 32, and it shows your 2004
	$\frac{1}{2}$	particular. Line 32, and it shows your 2004 test year versus the 2006 forecast. Line 32.
		And I should say for the record that this
		purports to be operating expenses by
1	-	breakdown, 2004 test year versus 2006
back to is the practical circumstance tha we're faced with. We would not be askin		forecast. With respect to the 2004 test year
	_	*
7 any more revenue than is necessary to ear		the net operating expenses 52,434,000 and the
8 just and reasonable return. That's is the	1	2006 forecast, 54,153,000 and so it shows an
9 fundamental principal.	9	increase in operating expenses forecasted for
10 Q. Okay. So, that addresses the practical		2006 of about \$1.7 million?
scenario. If the practical scenario, what w		MR. SMITH:
happening on the ground was that you		A. That's correct, yes.
looking at 2006 and forecasting the rate		Q. Okay.
return on rate base that was coming with		MR. MEYERS:
your approved range, you would not be a	-	A. In saying that, though, I'd like to qualify it
this Board to allow you to bring in	16	a little bit, if I could.
17 unrecognized or unbilled revenue for 200:		Q. Sure.
18 MR. SMITH:		MR. MEYERS:
19 A. As a matter of fact, if we were toif we w		A. First of all, maybe we can go back to 2003
forecasting a just and reasonable return i		when we were before this Board in our GRA.
21 2006, I think it would be absolutely	21	And we presented the Board at that time with a
inappropriate for me to be here asking for	-	forecast of what 2006 was going to look like.
23 additional revenue. That's not whatwe	1	And it showed the increase in depreciation
24 not here to do that.	24	expense that time and everybody recognized at
25 Q. Could you turn to PUB-5? And Attachment	t A, in 25	that time that there was going to be a problem

Decem	1,200	- "5"	i i i i i i i i i i i i i i i i i i i
	Page 109		Page 110
1 MR.	MEYERS	1	tax case, and that puts us in the position we
2	in 2006. But, everybody also recognized that	2	are now.
3	this tax case was out there and it was, there	3	Q. I guess where I'm driving at, Mr. Meyers, is
4	could be some, you know, possible benefit to	4	at least in the present question is not to
5	customers if that thing was resolved. And	5	query you on what specific measures have been
6	there were also some other things out there	6	put in place since the last case, but, rather,
7	that people recognized back then. At that	7	another point. We see about a \$1.7 million
8	time we said one of the things that might	8	higher forecast for 2006 over your 2004 test
9	happen is that we might introduce or implement	9	year in respect of operating expenses. Given
10	some cost reduction initiatives over the	10	what you've said about, you know, the
11	period. And what was looked at back then and	11	practicalities of using or, not you said, Mr.
12	what we're looking at here is kind of a	12	Smith has said practicalities of using the
13	breakdown of what our operating costs are.	13	unbilled revenue in order to achieve the fair
14	And we generally look at what the subtotal of	14	and reasonable return on rate base. Perhaps I
15	those costs is before we talk about things	15	should thrown back to Mr. Smith, but if you're
16	like pension costs and those types of things	16	comfortable, fine. Would it not be just as
17	which are largely driven by things that are	17	legitimate in the context of this application
18	outside of our control. So, if you were to	18	to include a request for a portion of the
19	look at line 25, for example, which is kind of	19	unbilled revenue to offset a heightened
20	a subtotal of what we consider to be our more	20	operating expense estimate for 2006 if to do
21	controllable operating costs, you'll see that	21	so would have the result of bringing you
22	our 2006 forecast is actually about \$1.2	22	within your just and reasonable rate of return
23	million below what our test year forecast was.	23	in 2006?
24	So, we have introduced some cost cutting	24 MI	R. SMITH:
25	initiatives since 2003 and we have settled the	25	A. Obviously, obviously we don't think that's the
	Page 111		Page 112
1	appropriate thing to do, because we brought	1	may not string together here. But, it gets a
2	forward this application to do it this way. I	2	bit more tangly for increased, in the case of

think that doing it that way would create

3 certain difficulties. If I can use the 4

5 terminology what we're asking for here is

probably pure from a regulatory perspective.

And Mr. Meyers has talked about that, he's 7

8 talked about the depreciation expense and true 9

up and the fact that that's been canvassed and

tested and so on, that the additional tax 10 11 flows out of the tax settlement. So, those

are finite, known values. And again, if I go

right back to the genesis of our application

13 and trying to come up with a practical 14

15 solution, the solution that you're alluding to

here probably adds some more complexities and 16

17 it's somewhat more difficult from a regulatory

perspective to deal with it that way, I think. 18

19 Q. Might I suggest to you that it gets a little

bit more tangly, if I could use that 20 21 expression.

22 MR. SMITH:

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A. That's a nice expression. 23

24 Q. When you're dealing with an increased forecast. And forgive me if I'm--the words 25

3 operating expenses, because they are simply

less certain than what we have in terms of the 4

5 removal of the true up and the depreciation

amount for the 1.157 million? 6

7 MR. SMITH:

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A. They're less--they're more difficult to define. And whereas the depreciation is much easier, you know, the calculations flow naturally, they flow naturally from past Board orders and so on. So, the two are different from that point of view. The other thing that distinguishes them, of course, is that the depreciation is non-cash, whereas the operating expenses would be cash. So, again, we think there's a symmetry between using unbilled revenue to compensate for depreciation expense. In that senses they're both accounting accruals. Q. If we were into a situation, okay, we were

not, we were not facing the conclusion of the true up, but what we were facing was in 2006 a ballooning of a certain forecast of one of the items under your operating expenses, say, by

December 7, 2005 Mu	lti-Page	NL Power's Accounting Policy
Page 11	.3	Page 114
1 MR. JOHNSON	1	concede, deprive this Board of the opportunity
2 \$4 million and it was sufficient, the effect	2	and deprive the parties of an opportunity, as
3 of that would be sufficient to deprive the	3	well, to fully and thoroughly review the
4 Company of its ability to earn its just and	4	Company's overall revenue requirement. Would
5 proper return on rate base in 2006, would the	5	that be a fair statement?
6 Company suggest in the context of an	6 MR	R. SMITH:
7 application such as this that we should, say,	7 .	A. No, I don't think it is. First of all,
8 use the unbilled revenue from 2005 to deal	8	deprive is a very strong word. I mean,
9 with it?	9	there's nothingthe Board is not being
10 MR. SMITH:	10	deprived of assessing the application that's
11 A. You keep trying to drag me to this	11	in front of them and the aspects of the
hypothetical ground, which I have some	12	application that's in front of them. So, I
difficulty with. I mean, this is the	13	have difficulty accepting the comment that the
application that we think makes the most sense	14	Board is being deprived of anything.
and it makes the most sense for the reasons	15	Q. But, let us just go back then NP-15, if we
that we've already cited. If there was a	16	might. Would it be fair to say, let's just
different set of circumstances, would there be	17	look at Line 15, that the numbers express both
a different proposal from the Company? I	18	in the 2006 existing column and the 2006
think the answer to that has to be yes,	19	proposed that that number really can't be
20 potentially that would be the case. But, all	20	certain and can't be tested in the context of
I can deal with is the circumstance that we're	21	this proceeding as framed? Would that be a
faced with now. And we think we've brought	22	fair statement?
23 forward a very straightforward, pragmatic	23 (1:	00 p.m.)
24 proposal to deal with that.	24 MR	R. SMITH:
25 Q. But, this application does, I think you will	25	A. The fair statement is that they're not being
Page 11	.5	Page 116
asked to be tested, absolutely.	1	bit out of the ordinary, potentially, because
2 Q. And but this, the mechanism that we're here	2	the circumstances are somewhat out of the
3 engaged with and your Company's application,	3	ordinary.
4 it's not really designed, is it, to test and	4	Q. Going back, though, let's say line 31, your
5 be certain about any of the lines in this, you	5	rate of return on rate base, 702 (sic.)
6 know, in these columns. I mean, where in this	6	percent versus 7.56 percent with your
7 process, for instance, do we get an	7	proposals. I mean, if we can't test the other
8 opportunity to test and be certain about line	8	lines on this chart, we really can't test
9 15? We don't, really, do we?	9	whether you need the money you say you need
10 MR. SMITH:	10	from the unbilled revenue in order to get you
11 A. The Company is not asking for anything to be	11	to 8.56 either. I mean, isn't that a
tested other thanthe only things we're being	12	necessary implication?
asked the Board to assess is the proposals	13 MR	R. SMITH:
that we've brought forward. There's no doubt	14	A Does judgment have to be exercised here?

14 that we've brought forward. There's no doubt 15 that we've fashioned this as an accounting application. We've come forward with very 16 17 specific proposals. That's what we're asking for. We're not asking for anything to be 18 19 tested. And I think the critical difference between the scenario that you're setting up is 20 21 that if the Company was asking for additional 22 rates or additional money from customers, then 23 in that forum more than likely we would be 24 coming in with costs to be tested. What we're 25 suggesting here is something that's a little

14 A. Does judgment have to be exercised here? 15 Absolutely judgment has to be exercised here. But, surely, it's within the ability of all 16 17 the parties, the Board included, to look at a return on rate base of 7.02 percent and say 18 19 that chances are the Board is not going to--or the Company is not going to earn a just and 20 21 reasonable return. So, I think the context is 22 absolutely critical. 23 Q. Yeah.

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Pag	ge 117	Page 118
1 MR. SMITH:	1	a portion of the unbilled revenue, correct?
2 A. Because in a relative sense what you're	2 MF	R. SMITH:
3 suggesting is very easy to ascertain. We'd	3	A. Yes.
4 have to reduce our operating expenses by	4	Q. And just to be clear, what is the distinction
5 something in the order of -	5	that you draw?
6 MR. MEYERS:	6	A. Reference was made toin the regulatory
7 A. \$10 million.	7	parlance, a general rate application. This is
8 MR. SMITH:	8	not a general rate application.
9 A. \$10 million. That's certainlywe're not		Q. Understood.
asking for anything that I think can be judged	I	R. SMITH:
as on the surface being unreasonable. So,	11	A. This is not a general rate application. This
once we get into the category of or the	12	is an accounting application and we're making
position where is this a reasonable request,	13	a request for a certain disposition of an
then I think we can focus on the issues and	14	accounting accrual. That's where I think the
the points that we're actually specifically	15	important distinction lies.
asking for. So, yeah, the first step is, is		Q. So is the fact that you were looking for a
it a reasonable request. And I think the	17	portion of the unbilled revenue as opposed to
answer to that is yes. And then once we get	18	coming in and looking for rates to offset the
into that, okay, let's look at the specifics	19	depreciation true up and the increased plant
of the request itself and deal with those,	20	expense and the extra tax money, does that
which is what we're trying to do here.	21	make it okay to employ any less scrutiny of
Q. Okay. Let me just put it to you this way just	22	your overall revenue requirement than as would
to follow-up, Mr. Smith, on something you sa		apply in a normal rate case?
a moment ago, that you drew a distinction between coming in looking for rates and using		R. SMITH: A. I think that's the case.
	-	
_	ge 119	Page 120
1 Q. Why?		for compensation for, so to speak, the
2 MR. SMITH:	2	depreciation, change in depreciation and the
3 A. Again, you have to go back to thethe logic	3	tax, are very clearly defined. The unbilled
4 is linear. There will be a revenue shortfall	4	revenue is there to be able to use some of
5 in 2006. How does that get addressed? And		that to apply to. They're both accounting
then I thinkand let's just talkI'm going to make my comments in reasonable terms, ol	6 15032	accruals. There's a natural symmetry is what we're suggesting, a pragmatic symmetry to the
to make my comments in reasonable terms, of There is a revenue shortfall in 2006. The	kay. 7 8	application and therefore it makes sense.
9 primary reason for the revenue shortfall is	9	Quite frankly, with that at our disposal,
the depreciation true up and the income tax	10	I think it would be inappropriate for the
arising out of the tax settlement. This has	11	Company to trigger a broader application,
12 cleared the way to change a Revenue	12	consume millions of dollars in costs, to get
Recognition Policy which has been in play for		to likelywhat would likely be the same
a long time. All these things come together	14	result anyway, because the unbilled revenue,
in a very dynamic stew, so to speak. How do		if we were looking at this more broadly,
we address the revenue shortfall in 2006?	16	surely, in my view anyway, we would come back
There is an alternative whereby we ask for	17	to that and say this is an opportunity that
rates, the customers to pay for that. We've	18	doesn't require an increase in rates to
decided that that's not the appropriate place	19	customers and why don't we take advantage of

21

23

24

25

it.

22 MR. SMITH:

Q. And -

A. So, you know, our views differ on that point.

Q. And I'm--I don't wish to be painted into a

There's no question about it.

20

21

22

23

24

25

to go. The unbilled revenue that arises from

24 million dollars, is at our disposal,

collectively our disposal, to deal with this

revenue shortfall. So what we're suggesting

is that because the items that we're asking

the change in the Revenue Recognition Policy,

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1 MR. JOHNSON	1	think that that would o	conclude my questioning,
2 corner of being termed impractical and a	non-	just on that point. Th	e precedents that you
3 pragmatic, Mr. Smith, you know, with re	spect. 3	referred to, being the	Newfoundland Tel case
4 Because I -	4	and the P.U. 3 (95/96)	case, first of all, I
5 MR. SMITH:	5	must confess that I do	not have a hard copy of
6 A. I promise I won't do that.	6	P.U. 28 (1979), but I o	lo have a hard copy of
7 Q. I know, and I'm attuned to what regula	tory 7	the latter. But we'll se	ee from your response
8 proceedings cost, okay, and I want to m	nake 8	whether I need to get	a hard copy.
9 that very clear. But I am also attuned to	9	The Newfoundland	l Tel case, would you
10 comments from the Board's indepen	ident 10	agree that the Board's	Order in that case did
consultant where Grant Thornton questio	ns the 11	not result in a reven	ue increase to the
level of comfort where the Board is not g	iven 12	company, at least unti	l they went to a general
an opportunity to look at the overall rever	nue 13	rate application?	
requirement, which is odd. That is od	d, 14	R. MEYERS:	
right?	15	A. What it did do, from r	ny understanding, is that
16 MR. SMITH:	16	it avoided what other	wise would have been
17 A. Well, I wouldn't say it was odd. I'd say i	t's 17	excess earnings to the	company, which would
not normal. It's out of the ordinary, but t	he 18	have been somehow g	gone back to customers in
19 circumstances are out of the ordinary.	19	some fashion, depende	ing on how the Board would
20 MR. MEYERS:	20	have chose to do that.	
21 A. And it has happened before is the other p	oint, 21	Q. So my understanding	is right that the Board's
I guess, that we would make. The two pro	evious 22	Order did not result in	a revenue increase to
23 occurrences that I referred to in my open	ing 23	the company?	
remarks were exactly that.	24	R. MEYERS:	
25 Q. And that's exactly where I'm going to go	and I 25	A. It didn't result in any	rate change to the
	Page 123		Page 124
1 company.	1	goes back to custon	mers somehow. And that
2 Q. Well, is there any real differenceI mea	n, 2	would have been	the situation with
3 let's get down to brass tacks. The unbill	ed 3	Newfoundland Tel	ephone in those years.
4 revenue hasthe use of the unbilled revenue	nue, 4	Because they were	in an excess earnings
5 as Newfoundland Power has proposed it	is in 5	position, they would	dn't have accounted for
6 essence a request for increased revenu	e, 6	that money as reven	ue.
7 correct?	7	Q. And with respect to	P.U. 3 (1995-1996), am I
8 MR. MEYERS:	8	also correct in putt	ing to you that the
9 A. An accrual of revenue, yes, unbilled reve	nue.	Board's Order in tha	at case also did not result
10 Q. Yes. Because you need the revenue in or	der to	in a revenue increas	e to the Company, at least
get to your rate base. I haven't missed that	it, 11	until there could be	a GRA? Would that be
12 I hope.	12	correct?	
13 MR. MEYERS:	13	R. MEYERS:	
14 A. No.	14	A. It allowed Newfoun	dland Power to use pension
15 Q. Now the other way of getting revenue		funding and tax de	ductions resulting from
applying for rates. But at the end of the	16	pension funding to	o offset other cost
day, it's the same thing, you're applying	for 17	increases.	
revenue, correct?	18	Q. An accounting chan	ge that did not affect the
19 MR. MEYERS:	19	amount of revenue	the Company would be
20 A. Yes, but how I record my revenue and I	how I 20	receiving?	
21 recognize my revenue, depending on who		R. MEYERS:	
22 within that range or above my allowed ra	-	-	nge at the time was a change
different. If I'm within my range, then		· · · · · · · · · · · · · · · · · · ·	pany records or allocates
don't recognize that as revenue. I recogn		-	capital. And that was
it as excess earnings, the benefit of which	ch 25	changed to reduce the	ne amount that was being

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	Page 125	Page 126
1 MR. MEYERS	1	CA-12 -
2 allocated over a five-year period. So	in 2	MR. MEYERS:
3 effect, what the Board's Order did wa	s it 3	A. I guess, we did -
4 allowed Newfoundland Power to re-	cognize 4	Q. My question -
5 increased operating expenses and to o	ffset 5	MR. MEYERS:
6 those increases by increased tax deduc	tions 6	A we did state here that we weren't aware of
7 which reduced its tax expense.	7	any decision that dealt specifically with
8 Q. And just finally, to close out the point,	. I 8	
9 asked the question of Newfoundland Po		
request for information as to whether t	• 1	Q. And that would bethat would include any
were any precedents that dealt with just		
type of situation, and do you know wh		
you know, a specific research task		MR. MEYERS:
undertaken to find out if there was any	I	
similar to what you're proposing here?	15	•
16 MR. MEYERS:	16	
17 A. I think the two cases that we've quoted		
1		• • •
1		MR. MEYERS:
changes in accounting policy and it inv	I	
decisions and orders by the Board that a		•
21 the Company to do certain things to off	I	
impact of those changes in accounting p	-	
So they are very similar to what we		*
24 proposing.	. 24	, 1
25 Q. I understand that, but I think my question	on in 25	unbilled revenue to offset shortfall.
	Page 127	Page 128
1 Q. And you would have brought this reque	est to the	
1 Q. And you would have brought this reque 2 attention of your consultant, John Brow	est to the	order that's requested by the Company in its
	est to the	order that's requested by the Company in its application. And am I correct in that one of
2 attention of your consultant, John Brow	est to the 1 ne? 2	order that's requested by the Company in its application. And am I correct in that one of the assumptions is that the operating expenses
2 attention of your consultant, John Brow 3 MR. MEYERS:	est to the 1 2 3 4	order that's requested by the Company in its application. And am I correct in that one of the assumptions is that the operating expenses of the Company will come in, in material
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	Page 129	Page 130
1 MR. MEYERS:	1	Q. That is, as I understand from this appendix or
2 A. And the tax.	2	this attachment, the core operating expenses,
3 Q consequences of the tax settlement.	3	if you will, and the other expenses relate to
4 MR. MEYERS:	4	deferred regulatory costs and then your
5 A. Yes.	5	extraordinary pension costs?
6 Q. Okay. I just wanted to ask you then t	to 6	MR. MEYERS:
7 comment principally on the very first of	those 7	A. Generally speaking, yes.
8 assumptions dealing with the operati	ing 8	Q. Now just on that point, line 29, your 2005
9 expenses and we've looked at the two ex	hibits, 9	early retirement program costs, they would
but we never actually compared the two	numbers 10	have been as a result of a early retirement
sort of side by side, and the first RFI was	s 11	program approved by this Board in 2004?
12 PUB-5, I want to look at, and it was		MR. MEYERS:
13 Attachment A. This is an exhibit the consum	I	A. Late 2004, early 2005, I believe, yes.
advocate had up just a moment ago, an		Q. Right. And as I understand it, that would
number, as I understand it, that the Com		have been as a result of a specific
is using in its forecast figures for 2006 o		application by the Company seeking approval of
its operating expenses is that very last		the early retirement program?
number, the net operating expenses for 2		MR. MEYERS:
19 54,153,000, is that correct?	19	A. Yes.
20 MR. MEYERS:	20	Q. So when the Company applied for that and in
21 A. That's right.	21	turn, knew that there would be an increase in
Q. Okay. And if we go up to line 25, we have		the early retirement costs of 1.666 million
23 subtotal, 49,499,000.	23	dollars as reflected here, it would also have
24 MR. MEYERS:	24	been aware of the projected shortfall in 2006
25 A. Yes.	25	due to the loss of the true up?
	Page 131	Page 132
1 MR. MEYERS:	1	is it fair to say that those were within the
2 A. I wasn't here at the time, but I'm assumi	- 1	control of the Company?
3 yes.		MR. MEYERS:
4 MR. SMITH:	4	A. Those costs would be based on the approved
5 A. Yes, that's correct.	5	Board Orders with respect to the early
6 Q. You would have been aware of that?	6	1 0
7 MR. MEYERS:	7	Q. Right, and since the Company decided or had it
8 A. Yes.	8	1
9 Q. Line 28, the pension cost increase from 3		early retirement program or not, is it fair
million to 5.088 million, is that a result o		assumption then to sayor fair conclusion then to reach that well then the actual
the Company's exercising a discretion of this an expense that, if I could borrow fr		booking of the early retirement costs was
		within the control of the Company?
the vernacular, is being thrust upon th Company as a result of factors beyond		MR. MEYERS:
control?	15	A. Yeah, I guess I would qualify that by saying
16 MR. MEYERS:	16	that the early retirement program, you know,
17 A. It's due to factors beyond our control, ye		is justified based on the longer term -
18 Q. Okay. So line 29 or sorry, line 28, thos		Q. Sure. There's -
pension costs increasing from the test year		MR. MEYERS:
20 3.855 million to 5.088 million, the Com		A benefits associated with it.
21 has no direct control over?	21	Q there's usually a positive net present value
22 MR. MEYERS:	22	attributable to any particular early
23 A. That's correct.	23	retirement program -
		MR. MEYERS:
25 attributable to the early retirement progra	I	A. Yes.

Page 133 1 MR. JOHNSON: 2 Q that's applied for and then subsequently 3 presumably approved by the Board? 4 MR. MLYERS: 5 A. Yes. 6 Q. Right. So while we have an increase of 1.666 7 million dollars in early retirement costs, 8 that is, over the long term, actually because 9 of the set up of the early retirement, it's 10 supposed to lower the overall cost to the 11 Company? 12 MR. MEYERS: 13 A. Yes. 14 Q. That increase would be offset by a 15 corresponding decrease somewhere? 16 MR. MEYERS: 17 A. In later years, yes. 18 Q. Right, in later years, yes. 19 A. In later years, yes. 19 A. In later years, yes. 20 Q. There's a line there, line-I'm looking at the 21 Is, Attachment A. Do you have that before you 22 there now? 23 MR. MEYERS: 24 A. Yes. 25 Q. There's a line there, line-I'm looking at the 26 expenses line. 27 Q. Okay. So the amortization also continued in 28 2005? 29 MR. MEYERS: 30 A. Yes. 31 O. The regulatory expense from the 2003 hearing? 4 Q. Okay. So there's 400,000 relating to the deferred regulatory costs? 29 MR. MEYERS: 20 Q. Nay. So there's 400,000 relating to the deferred regulatory costs? 20 MR. MEYERS: 21 A. Yes. 22 Q. Nay. So prearing expenses, the last on one over, plan 2005. You're saying that the left of the operating expenses for 2005 are, according to Attachment in the deferred regulatory costs? 20 MR. MEYERS: 21 A. Yes. Tim not sure if it's exactly 400,000 but it is in that vicinity. 22 Q. Okay. So pist with that in mind then, be basically if we need that out the of 200 door on operation on over, plan 2005. You're saying that the fore a part of a word of a mount of a mount of a condition of a mount of a condition of a mount of a condition of a condition of a mount of a mount of a condition of a mount of a c	December 7, 2005	Mulu-Page	NL Power's Accounting Policy
2 Q that's applied for and then subsequently 3 presumably approved by the Board? 4 MR. MISYERS: 5 A Yes. 6 Q. Right. So while we have an increase of 1.666 7 million dollars in early retirement costs, 8 that is, over the long term, actually because 9 of the set up of the early retirement, if 's 10 supposed to lower the overall cost to the 11 Company? 12 MR. MEYERS: 13 A Yes. 14 Q. That increase would be offset by a 15 corresponding decrease somewhere? 16 MR. MEYERS: 17 A. In later years, yes. 18 Q. Right. in later years, ves. 19 Q. That in ind and then just look at PUB- 20 R. MEYERS: 21 A. Yes. 22 Q. There's a line there, line-I'm looking at the 23 MR. MEYERS: 24 A. Yes. 25 Q. There's a line there, line-I'm looking at the 26 A. Yes, but I believe that \$400,000 expense for 27 2005 would be included in that operating 28 MR. MEYERS: 29 MR. MEYERS: 30 A. Yes. 40 A. Yes, but I believe that \$400,000 expense for 2005 would be included in that operating 2005? 9 MR. MEYERS: 31 A. Yes, 32 Q. Okay. So there's 400,000 in that, so let's go back to the one that we have on the screen life in your PUB-S, Oval're saying that the deferred regulatory costs? 30 MR. MEYERS: 31 A. Yes, 31 Q. Okay. So there's 400,000 relating to the deferred regulatory costs? 31 MR. MEYERS: 32 Q. New could be included in that operating expenses for 2005? 32 MR. MEYERS: 33 A. Yes, 34 A. Yes, 35 Q. Neys, So the amortization also continued in the continued in the companied to the companied proper in the continued in the companied to the companied proper in the continued in the companied to the companied proper in the companied to the companied prop	Pag	e 133	Page 134
3 menuals forecast 2005 and plan 2005. And I guess we could deal with the plan as much as 5 A Yes. 6 Q. Right. So while we have an increase of 1.666 6 million dollars in early retirement costs, 8 that is, over the long term, actually because 9 of the set up of the early retirement, it's supposed to lower the overall cost to the 11 Company? 12 MR. MEYERS: 10 supposed to lower the overall cost to the 11 Company? 13 A. Yes. 14 Q. That increase would be offset by a corresponding decrease somewhere? 15 A. In later years, correct. Now the core 19 number then, the 49.499.000; if we could just 20 keep that in mind and then just look at PCB. 15, Attachment A. Do you have that before you there now? 2 MR. MEYERS: 2 A. Yes. 2 Q. Right. in later years, line-1'm looking at the 2 2000—but that's in your 2000—it's below that 2 line in your PCB-8. Attachment A? 2 2005 would be included in that operating expenses fine. 1 Q. O. Right. That's the \$400,000 expense for 5 2005 would be included in that operating 6 expenses line. 2 Q. O. Right. That's the \$400,000 that was in your 2005. You're saying that the 40 Q. So portaing expense from the 2003 hearing? 1 RM. MEYERS: 3 A. Yes. 4 Q. O. Right. That's correct, yes. 10 Q. Nay. So the amortization also continued in 8 2005? 2 MR. MEYERS: 10 A. Yes. 10 Q. O. Right. That's correct, yes. 11 Q. Now your forecast for 2006 is then 49,499,000? 2 MR. MEYERS: 11 Q. Now your forecast for 2006 is then 49,499,000? 2 MR. MEYERS: 12 A. Yes. 2 MR. MEYERS: 13 A. Yes. 14 Q. Sa an operating expense for 2005? 2 MR. MEYERS: 15 Q. O. Right. That's correct, yes. 16 Q. So roughly 2.2 million difference between the two? 15 MR. MEYERS: 16 A. Yes. 17 MR. MEYERS: 17 MEYERS: 18 A. Yes. 19 MR. MEYERS: 19 Q. O. Right. That's correct, yes. 10 Q. So roughly 2.2 million difference between the two? 19 MR. MEYERS: 19 Q. O. Right. That's correct, yes. 10 Q. So roughly 2.2 million difference between the two? 19 MR. MEYERS: 19 Q. O. Right. That we condition that operating expense for 2005? 2 MR. MEYERS: 19 Q. O. Right. That	1 MR. JOHNSON:	1 sa	me columns as the Consumer Advocate and
A MK_MEYERS. 4	2 Q that's applied for and then subsequently	2 sp	ecifically the ones to the far right, the
5 A. Yes. 5 Q. Right. So while we have an increase of 1.666 6 million dollars in early retirement costs, 8 that is, over the long term, actually because 9 of the set up of the early retirement, it's 10 supposed to lower the overall cost to the 11 Company? 12 MR, MEYERS: 13 A. Yes. 15 corresponding decrease somewhere? 16 MR, MEYERS: 17 A. In later years, yes. 18 Q. Right. in later years, escorrect. Now the core number then, the 49,90,000, if we could just 20 keep that in mind and then just look at PUB- 21 15. Attachment A. Do you have that before you there now? 23 MR, MEYERS: 24 A. Yes. 25 Q. There's a line there, lineI'm looking at the 2003 hearing? 16 expenses line. Page 135 1 2000—but that's in your 2000—it's below that 2 line in your PUB-5. Attachment A? 3 MR, MEYERS: 4 A. Yes. 5 Q. Okay. So the amortization also continued in 8 2005? 5 MR, MEYERS: 6 A. Yes. 10 Q. Okay. So there's 400,000 in that, so let's go 15 back to the one that we have on the screen 16 there, line 5, organizing expenses from the 2003 hearing? 10 one over, plan 2005. You're saying that the 18 47,643,000 includes \$400,000 relating to the deferred regulatory expenses from the 2003 hearing? 10 one over, plan 2005. You're saying that the 18 47,643,000 includes \$400,000 relating to the deferred regulatory costs? 11 A. Yes. I'm not sure if it's exactly 400,000 but it's expenses for 2005? 12 MR, MEYERS: 13 A. Yes. 14 Q. Okay. So inst with that in mind then, 25 Qokay. So just with that in mind then, 26 Qokay. So just with that in mind then, 27 Qokay. So just with that in mind then, 28 days of the poperating expense for 2005 and the deferred regulatory costs? 20 MR, MEYERS: 21 A. Yes. I'm not sure if it's exactly 400,000 but it's below that 28 days of the poperating expense for 2005 and the deferred regulatory costs? 21 A. Yes. 1 Set the operating expense for 2005? 22 MR, MEYERS: 23 Q. Okay. So intere's 400,000 in that, so let's go 2005. You're saying that the 300 the poperating expense for 2005 is 3. Think about the only thing that would be de	3 presumably approved by the Board?	3 an	nuals forecast 2005 and plan 2005. And I
6 Q. Right. So while we have an increase of 1.666 7 million dollars in early retirement costs, 8 that is, over the long term, actually because 9 of the set up of the early retirement, it's 10 supposed to lower the overall cost to the 11 Company? 12 MR MEYERS: 12 A. Yes. 13 A. Yes. 14 Q. That increase would be offset by a corresponding decrease somewhere? 15 A. In later years, yes. 16 WR, MEYERS: 17 A. In later years, orrect. Now the core number then, the 49,499,000, if we could just 20 keep that in mind and then just look at PUB-21 15, Attachment A. Do you have that before you there now? 21 MR. MEYERS: 23 MR. MEYERS: 24 A. Yes. 25 Q. There's a line there, line—I'm looking at the 2 2000—but that's in your 2000—it's below that 2 line in your PUB-5, Attachment A? 2005 would be included in that operating expenses for 2005 would be included in that operating expenses for 2005 would be included in that operating expenses for 2005 would be included in that operating expenses for 2005 would be included in that operating expenses for 2005 would be included in that operating expense for 2005 would be included in that operating expenses for 2005 would be included in that operating expenses for 2005 would be included in that operating expenses for 2005? 2 MR. MEYERS: 2 Q. Okay. So the amortization also continued in 2 2005. You're saying that the 47,643,000 includes \$400,000 relating to the deferred regulatory costs? 2 MR. MEYERS: 15 A. Yes. 16 Q. Now your forecast for 2006 is then 49,499,000? 2 MR. MEYERS: 16 A. Yes. 17 Q. The regulatory expense from the 2003 hearing? 15 MR. MEYERS: 17 Q. Now your forecast operating expenses for 2005? 2 MR. MEYERS: 18 A. Yes. 19 A. That's correct, yes. 19 A. That's correct, yes. 10 Q. So roughly 2.2 million dilference between the 11 two? 2 WR. MEYERS: 15 A. Yes. 15 MR. MEYERS: 15	4 MR. MEYERS:	4 gu	less we could deal with the plan as much as
7 million dollars in early retirement costs, 8 that is, over the long term, actually because of the set up of the early retirement, it's supposed to lower the overall cost to the 11 Company? 12 MR. MEYERS: 10 supposed to lower the overall cost to the 11 Company? 12 MR. MEYERS: 11 A Yes. 11 Company? 13 A Yes. 15 corresponding decrease somewhere? 14 A Yes. 16 MR. MEYERS: 15 A. That's correct. 15 O. Right, in later years, yes. 16 O. Right, in later years, yes. 17 A. In later years, yes. 17 A. In later years, yes. 18 O. Right, in later years, orrect. Now the core number then, the 49,499,000, if we could just 10 years and 15 comparable to 15 o. There is a line there, line—I'm looking at the 15 o. Q. Right. That's the \$400,000 that was in your 15 o. Q. Right. That's the \$400,000 that was in your 15 o. A Yes. 10 O. Now your forecast for 2005? 14 2000—but that's in your 2000—it's below that 1 line in your PUB-5, Attachment A? 15 2005 would be included in that operating expense for 2005 would be included in that operating expense for 2005 would be included in that operating expense for 2005? 15 2005 would be included in that operating expense for 2005? 16 20 Now your forecast for 2006 is then 49,499,000? 17 2 MR. MEYERS: 17 A. A Yes. 19 O. The regulatory expense from the 2003 hearing? 18 2 MR. MEYERS: 19 A. Yes. 10 O. The regulatory expense from the 2003 hearing? 19 2 MR. MEYERS: 10 A. Yes. 10 O. The regulatory expense from the 2003 hearing? 10 C. Now your forecast for 2006 is then 49,499,000? 11 MR. MEYERS: 10 A. That's correct. 18 That's the operating expense for 2005? 12 MR. MEYERS: 20 A. That's correct. 18 the operating expense figure we looked at on 19 line 25 on Attachment A on PUB-5, the different would be the deferred regulatory 200—it's below that 20 different would be the deferred regulatory 200—it's below that 20 different would be the deferred regulatory 200—it's below that 20 different would be middle the deferred regulatory 200—it's below that 20 different would be middle the deferred regula	5 A. Yes.	5 the	e forecast. There's little difference
8 that is, over the long term, actually because of the set up of the early retirement, it's supposed to lower the overall cost to the 11 Company?	6 Q. Right. So while we have an increase of 1.666	6 be	tween the two. I just happen to use the
9 of the set up of the early retirement, it's supposed to lower the overall cost to the 11 Company? 12 NR, MEYERS: 13 A. Yes. 14 Q. That increase would be offset by a corresponding decrease somewhere? 15 corresponding decrease somewhere? 16 MR, MEYERS: 17 A. In later years, correct. Now the core number then, the 49,499,000 if we could just to expense from then the 49,499,000 if we could just to expense from the core of number then, the 49,499,000 if we could just to expense from the core of number then, the 49,499,000 if we could just to expense from the core of number then, the 49,499,000 if we could just to expense from the core of number then, the 49,499,000 if we could just to expense from the 200 and the first of the operating expenses from the 200 and the first of the operating expenses from the 200 and the first of the operating expenses from the 200 and the first of the operating expenses from the 200 and the first of the operating expenses from the 200 and the first of the operating expenses from the 200 and the first of the operating expenses from the 200 and the first operating expenses from the 200 and the first one over, plan 2005. You're saying that the first one over, plan 2005. You're saying that the deferred regulatory costs? 10 A. Yes. 11 Q. Okay. So there's 400,000 in that, so let's go back to the one that we have on the screen the first one over, plan 2005. You're saying that the deferred regulatory costs? 12 MR. MEYERS: 13 A. Yes. 14 Q. Okay. So there's 400,000 in that, so let's go back to the one that we have on the screen the first one over, plan 2005. You're saying that the deferred regulatory costs? 15 A. That's correct. 16 Q. Now your forecast for 2006 is then 49,499,000? 18 MR. MEYERS: 19 A. That's correct. 20 D. Now your forecast for 2006 is then 49,499,000? 21 MR. MEYERS: 22 NR. MEYERS: 23 A. Yes. 24 Q. Okay. So there's 400,000 in that, so let's go back to the one that we have on the screen the first one over, plan 2005. You're saying that the deferred regulatory costs? 20 NR. ME	7 million dollars in early retirement costs,	7 pla	an figure. I'm looking at the operating
10 supposed to lower the overall cost to the 11 Company? 12 MR_MEYERS: 13 A Yes. 14 Q. That increase would be offset by a 15 corresponding decrease somewhere? 16 MR_MEYERS: 17 Company? 18 Q. That increase would be offset by a 19 Company and the provided in the provided	8 that is, over the long term, actually because	8 ex	penses, line 5.
1	9 of the set up of the early retirement, it's	9 MR. ME	YERS:
12 MR. MEYERS: 13 A. Yes. 15 corresponding decrease somewhere? 16 MR. MEYERS: 16 Q. That increase would be offset by a latter years, correct. Now the core number then, the 49,499,000; if we could just look at PUB-19 line 25 on Attachment A on PUB-5, the 49,499,000? 18 Q. Right, in later years, correct. Now the core number then, the 49,499,000; if we could just look at PUB-19 line 25 on Attachment A on PUB-5, the 49,499,000? 18 Lattachment A. Do you have that before you there now? 19 In MEYERS: 20 A. Yes. 21 A. Yes. 22 A. Yes. 23 Q. There's a line there, lineI'm looking at the line in your PUB-5, Attachment A? 25 Q. There's a line there, lineI'm looking at the line in your PUB-5, Attachment A? 26 Expenses line. 27 Q. Okay. So the amortization also continued in latter years, sorrect, look and the line in your PUB-5, Attachment A? 3 MR. MEYERS: 4 A. Yes, but I believe that \$400,000 expense for 2005 would be included in that operating expenses line. 4 Q. Okay. So there's 400,000 in that, so let's go back to the one that we have on the screen there, line 5, operating expenses, the last one over, plan 2005. You're saying that the 44,43,000 in that, so let's go back to the one that we have on the screen there, line 5, operating expenses, the last one over, plan 2005. You're saying that the 44,643,000 includes \$400,000 relating to the deferred regulatory costs? 20 MR. MEYERS: 21 A. Yes. 22 A. Yes. 23 Q. Okay. So bust with that in mind then, deferred regulatory costs? 24 MR. MEYERS: 25 Q. Right. That's the \$400,000 that was in your line 25 ms. MEYERS: 26 A. Yes. 27 A. Yes. Shart Set Set Set Set Set Set Set Set Set Se	supposed to lower the overall cost to the	10 A. Ye	es.
13 A. Yes. 14 Q. That increase would be offset by a 14 MR. MEYERS: 15 A. Thaf's correct. 16 MR. MEYERS: 16 Q. Now would that number, if I may, on an apples- 17 A. In later years, yes. 16 Q. Now would that number, if I may, on an apples- 18 Q. Right, in later years, correct. Now the core 19 number then, the 49,499,000, if we could just 20 keep that in mind and then just look at PUB- 21 15, Attachment A. Do you have that before you 22 there now? 23 MR. MEYERS: 24 A. Yes. 25 Q. There's a line there, lineI'm looking at the 25 Q. Right. That's the \$400,000 that was in your 2000but that's in your 2000it's below that 2 line in your PUB-5, Attachment A? 3 MR. MEYERS: 3 A. Yes. 4 A. Yes, but I believe that \$400,000 expense for 5 2005 would be included in that operating 6 expenses line. 7 Q. Okay. So the amortization also continued in 8 2005? 9 MR. MEYERS: 10 A. Yes. 10 Q. The regulatory expense from the 2003 hearing? 11 two? 12 MR. MEYERS: 13 A. Yes. 14 Q. Okay. So there's 400,000 in that, so let's go 15 back to the one that we have on the screen 16 there, line 5, operating expenses, the last qneeding of the production of the production 18 A. 74,643,000 includes \$400,000 relating to the deferred regulatory costs? 19 (A. Yes. I'm not sure if it's exactly 400,000 but 18 A. Fight of the production 19 A. Yes.	11 Company?	11 Q. A1	nd so if we take the operating expenses, line
14 Q. That increase would be offset by a 15 corresponding decrease somewhere? 15 A. That's correct. 16 Q. Now would that number, if I may, on an apples-to-apple basis, is that number comparable to the operating expense figure we looked at on line 25 on Attachment A. Do you have that before you there now? 21 MR. MEYERS: 22 A. I think about the only thing that would be different would be the deferred regulatory cost line. 25 Q. Right. That's the \$400,000 that was in your 2000-bit that's in your 2000-bit's below that 2 line in your PUB-5. Attachment A? 2 line in your PUB-5. Attachment A? 2 MR. MEYERS: 3 A. Yes. 4 A. Yes, but I believe that \$400,000 expense for 2005 would be included in that operating expense figure we looked at on line 25 on Attachment A on PUB-5. the 49,499,000? 21 MK. MEYERS: 2 A. I think about the only thing that would be different would be the deferred regulatory cost line. 2 Q. Right. That's the \$400,000 that was in your 2000-but that's in your 2000-it's below that 2 line in your PUB-5. Attachment A? 2 MR. MEYERS: 3 A. Yes. 4 Q. Okay. So the amortization also continued in 2 A. Yes, but I believe that \$400,000 expense for 2 MR. MEYERS: 3 A. Yes. 4 Q. Okay. So the amortization also continued in 8 2005? 3 MR. MEYERS: 9 A. That's correct, yes. 10 Q. Okay. So there's 400,000 in that, so let's go 1 A. Yes. 1 Q. Now your forecast for 2006 is then 49,499,000? 1 MR. MEYERS: 1 A. Yes. 1 MR. MEYERS: 1 A. Yes. 1 MR. MEYERS: 1 M	12 MR. MEYERS:	12 5,	from this attachment for plan for 2005 is
15 corresponding decrease somewhere? 16 MR.MEYERS: 17 A. In later years, yes. 18 Q. Right, in later years, correct. Now the core number then, the 49,499,000, if we could just 20 keep that in mind and then just look at PUB-21 15, Attachment A. Do you have that before you there now? 21 IS, Attachment A. Do you have that before you there now? 22 MR.MEYERS: 23 MR.MEYERS: 24 A. Yes. 25 Q. There's a line there, lineI'm looking at the 26 Ine in your PUB-5, Attachment A? 27 Ine in your PUB-5, Attachment A? 28 Inine in your PUB-5, Attachment A? 29 In ine in your PUB-5, Attachment A? 2005 would be included in that operating expenses line. 2007 Q. Okay. So the amortization also continued in a 2005? 21 MR. MEYERS: 22 A. Yes, Later and the sequence of the properties of	13 A. Yes.		_
16 MR. MEYERS: 17 A. In later years, yes. 18 Q. Right, in later years, correct. Now the core 19 number then, the 49,499,000, if we could just 20 keep that in mind and then just look at PUB- 21 15, Attachment A. Do you have that before you 22 there now? 23 MR. MEYERS: 24 A. Yes. 25 Q. There's a line there, lineI'm looking at the Page 135 1 2000but that's in your 2000it's below that 2 line in your PUB-5, Attachment A? 3 MR. MEYERS: 4 A. Yes, but I believe that \$400,000 expense for 5 2005 would be included in that operating 6 expenses line. 7 Q. Okay. So the amortization also continued in 8 2005? 9 MR. MEYERS: 10 A. Yes. 11 Q. The regulatory expense from the 2003 hearing? 12 MR. MEYERS: 13 A. Yes. 14 Q. Okay. So there's 400,000 in that, so let's go 15 back to the one that we have on the screen 16 there, line 5, operating expenses, the last 17 one over, plan 2005. You're saying that the 18 47,643,000 includes \$400,000 relating to the 46ferred regulatory costs? 20 MR. MEYERS: 3 A. Yes. 4 Q. Okay. So there's 400,000 relating to the 47,643,000 includes \$400,000 relating to the 48 47,643,000 includes \$400,000 relating to the 49,499,000? 21 MR. MEYERS: 22 A. I think about the only thing that number comparable to 49,499,000? 22 MR. MEYERS: 23 A. Yes. 4 A. Yes, but I believe that \$400,000 expense for 25 Q. Right. That's the \$400,000 that was in your 26 MR. MEYERS: 3 A. Yes. 4 Q. Okay. So the amortization also continued in 27 Q. Now your forecast for 2005 is then 49,499,000? 28 MR. MEYERS: 3 A. Yes. 4 Q. Okay. So there's 400,000 in that, so let's go 19 MR. MEYERS: 10 A. Yes. 11 Q. The regulatory expense from the 2003 hearing? 12 MR. MEYERS: 13 A. Yes. 14 Q. Okay. So there's 400,000 in that, so let's go 15 back to the one that we have on the screen 16 there, line 5, operating expenses, the last 17 one over, plan 2005. You're saying that the 18 47,643,000 includes \$400,000 relating to the 40 deferred regulatory costs? 20 MR. MEYERS: 21 A. Yes. In not sure if it's exactly 400,000 but 22 it's in that vicinity. 23 Q. Ok	14 Q. That increase would be offset by a	14 MR. ME	YERS:
17	corresponding decrease somewhere?	15 A. Tł	nat's correct.
18 Q. Right, in later years, correct. Now the core number then, the 49,499,000, if we could just 20 keep that in mind and then just look at PUB-21 15, Attachment A. Do you have that before you there now? 22 there now? 23 MR. MEYERS: 25 Q. There's a line there, lineI'm looking at the Page 135 1 2000but that's in your 2000it's below that 2 line in your PUB-5, Attachment A? 2 line in your PUB-5, Attachment A? 3 MR. MEYERS: 4 A. Yes, but I believe that \$400,000 expense for 5 2005 would be included in that operating expense figure we looked at on line 24 49,499,000? 21 MR. MEYERS: 22 A. I think about the only thing that would be different would be the deferred regulatory cost line. 25 Q. Right. That's the \$400,000 that was in your Page 135 1 \$47,243,000? 2 MR. MEYERS: 3 A. Yes. 4 A. Yes, but I believe that \$400,000 expense for 2005 would be included in that operating expense for 2005? 5 MR. MEYERS: 4 A. Yes, but I believe that \$400,000 expense for 2005 would be included in that operating expenses for 2005? 5 MR. MEYERS: 6 A. Yes, that's injut. 7 Q. Okay. So the amortization also continued in 8 2005? 9 MR. MEYERS: 10 A. Yes. 11 Q. The regulatory expense from the 2003 hearing? 12 MR. MEYERS: 10 A. Yes. 11 Q. The regulatory expense from the 2003 hearing? 12 MR. MEYERS: 13 A. Yes. 14 Q. Okay. So there's 400,000 in that, so let's go back to the one that we have on the screen there, line 5, operating expenses, the last 49,499,000? 11 MR. MEYERS: 12 A. I think about the only thing that would be different would be the deferred regulatory costs? 12 MR. MEYERS: 13 A. Yes. 14 Q. Okay. So the amortization also continued in 40, A yes, an operating expense for 2005? 15 MR. MEYERS: 16 A. Yes, I'm not sure if it's exactly 400,000 but it's in that vicinity. 17 Q. Okay. So just with that in mind then, 40, A yes, an operating expense for 2006 is then 49,499,000? 18 MR. MEYERS: 19 A. That's correct, yes. 10 Q. Okay. So just with that in mind then, 40, A yes, an operating expense for 2006 is then 49,499,000? 11 two? 12 MR. MEYERS	16 MR. MEYERS:	16 Q. No	ow would that number, if I may, on an apples-
19 number then, the 49,499,000, if we could just 20 keep that in mind and then just look at PUB-21 15, Attachment A. Do you have that before you 22 there now? 22 there now? 23 MR. MEYERS: 24 A. Yes. 25 Q. There's a line there, lineI'm looking at the 25 Q. Right. That's the \$400,000 that was in your 2000—it's below that 2 line in your PUB-5. Attachment A? 2 line in your PUB-5. Attachment A? 3 MR. MEYERS: 3 A. Yes, but I believe that \$400,000 expense for 2 2005 would be included in that operating expenses line. 3 A. Yes. 4 A. Yes. 5 Q. There's a line there, line-2005? 4 Q. Ayes. 5 Q. Ayes. 10 Q. The regulatory expense from the 2003 hearing? 15 MR. MEYERS: 16 Q. Okay. So there's 400,000 in that, so let's go back to the one that we have on the screen 16 there, line 5, operating expenses, the last 7 Q. Okay. So there's 400,000 relating to the 47,643,000 includes \$400,000 relating to the 47,643,000 includes \$400,000 relating to the 47,643,000 includes \$400,000 relating to the 22 A. I think about the only thing that would be different would be the deferred regulatory cost line. 25 Q. Right. That's the \$400,000? Page 135 Page 136 Page 135 Page 136 Page	17 A. In later years, yes.	17 to-	-apple basis, is that number comparable to
20 keep that in mind and then just look at PUB- 21 15, Attachment A. Do you have that before you there now? 22 there now? 23 MR. MEYERS: 24 A. Yes. 25 Q. There's a line there, lineI'm looking at the Page 135 Page 135 Page 135 Page 136 1 2000but that's in your 2000it's below that line in your PUB-5, Attachment A? 2 line in your PUB-5, Attachment A? 3 MR. MEYERS: 4 A. Yes, but I believe that \$400,000 expense for 5 2005 would be included in that operating expenses line. 7 Q. Okay. So the amortization also continued in 8 2005? 9 MR. MEYERS: 10 A. Yes. 11 Q. The regulatory expense from the 2003 hearing? 12 MR. MEYERS: 13 A. Yes. 14 Q. Okay. So there's 400,000 in that, so let's go 15 back to the one that we have on the screen 16 there, line 5, operating expenses, the last 17 one over, plan 2005. You're saying that the 47,643,000 includes \$400,000 relating to the deferred regulatory expenses, will an expenses for 2005? 20 MR. MEYERS: 21 A. Yes. I'm not sure if it's exactly 400,000 but it's in that vicinity. 22 basically if we netted that out then of 25 coughly 400,000, what we're dealing with is 20 49,499,000? 21 MR. MEYERS: 22 A. I think about the only thing that would be different would be the deferred regulatory cost line. 25 A. I think about the only thing that would be different would be the deferred regulatory cost line. 26 A. Yes, lat's the \$400,000? 28 MR. MEYERS: 3 A. Yes. 4 Q. Okay. So the amortization also continued in that operating expense for 2006 is then 49,499,000? 8 MR. MEYERS: 9 A. That's correct, yes. 10 Q. So roughly 2.2 million difference between the two? 11 two? 12 MR. MEYERS: 13 A. Yes. 14 Q. Okay. So there's 400,000 in that, so let's go 12 two? 15 Is there a reason why your forecast operating expenses for 2006 are, according to Attachment 17 A of PUB-5, going to come in at 2.2 million dollars higher than your expenses, similar expenses for 2005? 20 MR. MEYERS: 21 A. Yes. I'm not sure if it's exactly 400,000 but it's in that vicinity. 22 basically if we netted that out then of 24 then	Q. Right, in later years, correct. Now the core	18 the	e operating expense figure we looked at on
21 15, Attachment A. Do you have that before you there now? 22	number then, the 49,499,000, if we could just	19 lin	e 25 on Attachment A on PUB-5, the
22 there now? 23 MR. MEYERS: 24 A. Yes. 25 Q. There's a line there, line—I'm looking at the Page 135 1 2000—but that's in your 2000—it's below that line in your PUB-5, Attachment A? 3 MR. MEYERS: 4 A. Yes, but I believe that \$400,000 expense for 2005 would be included in that operating expenses line. 7 Q. Okay. So the amortization also continued in 2005? 9 MR. MEYERS: 10 A. Yes. 11 Q. The regulatory expense from the 2003 hearing? 12 MR. MEYERS: 13 A. Yes. 14 Q. Okay. So there's 400,000 in that, so let's go back to the one that we have on the screen ferthere, line 5, operating expenses, the last one over, plan 2005. You're saying that the deferred regulatory expense for 2 Q. Right. That's the \$400,000 that was in your Page 135 1 \$47,243,000? 2 MR. MEYERS: 3 A. Yes. 4 Q. As an operating expense for 2005? 5 MR. MEYERS: 6 A. Yes, that's right. 7 Q. Now your forecast for 2006 is then 49,499,000? 8 MR. MEYERS: 9 A. That's correct, yes. 10 Q. So roughly 2.2 million difference between the 11 two? 11 two? 12 MR. MEYERS: 13 A. Yes. 14 Q. Okay. So there's 400,000 in that, so let's go back to the one that we have on the screen ferthere, line 5, operating expenses, the last one over, plan 2005. You're saying that the 47,643,000 includes \$400,000 relating to the deferred regulatory costs? 15 MR. MEYERS: 16 A. Yes, that's right. 7 Q. Now your forecast for 2006 is then 49,499,000? 17 MR. MEYERS: 18 MR. MEYERS: 19 A. That's correct, yes. 10 Q. So roughly 2.2 million difference between the 11 two? 11 two? 12 MR. MEYERS: 13 A. Yes. 14 Q. Is there something driving that, Mr. Meyers? 15 Is there a reason why your forecast operating expenses for 2006 are, according to Attachment 17 A of PUB-5, going to come in at 2.2 million dollars higher than your expenses, similar expenses for 2005? 18 MR. MEYERS: 19 A. That's the \$400,000 are according to Attachment 17 A of PUB-5, going to come in at 2.2 million dollars higher than your expenses, similar expenses for 2005? 19 MR. MEYERS: 20 MR. MEYERS: 21 A. Yes, that's right. 21 Q. Is defen	20 keep that in mind and then just look at PUB-	20 49	,499,000?
23 MR. MEYERS: 24 A. Yes. 25 Q. There's a line there, lineI'm looking at the Page 135 Page 135 Page 136 1 2000but that's in your 2000it's below that 2 line in your PUB-5, Attachment A? 3 MR. MEYERS: 4 A. Yes, but I believe that \$400,000 expense for 5 2005 would be included in that operating 6 expenses line. 7 Q. Okay. So the amortization also continued in 8 2005? 9 MR. MEYERS: 10 A. Yes. 11 Q. The regulatory expense from the 2003 hearing? 12 MR. MEYERS: 13 A. Yes. 14 Q. Okay. So there's 400,000 in that, so let's go 15 back to the one that we have on the screen 16 there, line 5, operating expenses, the last 17 one over, plan 2005. You're saying that the 18 47,643,000 includes \$400,000 relating to the 19 deferred regulatory expense for 2 MR. MEYERS: 2 MR. MEYERS: 3 A. Yes. 4 Q. As an operating expense for 2005? 5 MR. MEYERS: 9 A. That's the \$400,000? 2 MR. MEYERS: 0 Q. As an operating expense for 2005? 5 MR. MEYERS: 9 A. That's right. 7 Q. Now your forecast for 2006 is then 49,499,000? 8 MR. MEYERS: 10 Q. So roughly 2.2 million difference between the 11 two? 12 MR. MEYERS: 13 A. Yes. 14 Q. Okay. So there's 400,000 in that, so let's go 15 back to the one that we have on the screen 16 there, line 5, operating expenses, the last 17 one over, plan 2005. You're saying that the 18 47,643,000 includes \$400,000 relating to the 19 deferred regulatory expenses, the last 10 one over, plan 2005. You're saying that the 11 deferred regulatory costs? 12 MR. MEYERS: 13 A. Yes. 14 Q. Is there something driving that, Mr. Meyers? 15 Is there a reason why your forecast operating 16 expenses for 2006 are, according to Attachment 17 A Of PUB-5, going to come in at 2.2 million 18 dollars higher than your expenses, similar 19 expenses for 2005? 19 MR. MEYERS: 20 MR. MEYERS: 21 A. Yes. I'm not sure if it's exactly 400,000 but 22 it's in that vicinity. 23 Q. Okay. So just with that in mind then, 24 basically if we netted that out then of 25 cup of the deferred regulatory of the deferred regulatory of the same of the deferred re	21 15, Attachment A. Do you have that before yo	ou 21 MR. ME	YERS:
24 A. Yes. 25 Q. There's a line there, lineI'm looking at the 26 Page 135 1 2000but that's in your 2000it's below that 2 line in your PUB-5, Attachment A? 3 MR. MEYERS: 4 A. Yes, but I believe that \$400,000 expense for 5 2005 would be included in that operating 6 expenses line. 7 Q. Okay. So the amortization also continued in 8 2005? 9 MR. MEYERS: 10 A. Yes. 11 Q. The regulatory expense from the 2003 hearing? 12 MR. MEYERS: 13 A. Yes. 14 Q. Okay. So there's 400,000 in that, so let's go 15 back to the one that we have on the screen 16 there, line 5, operating expenses, the last 17 one over, plan 2005. You're saying that the 18 47,643,000 includes \$400,000 relating to the 19 deferred regulatory costs? 20 MR. MEYERS: 21 A. Yes. I'm not sure if it's exactly 400,000 but 22 it's in that vicinity. 23 Q. Okay. So just with that in mind then, 24 basically if we netted that out then of 25 constitution at the self sign of a lot of operating expense categories? 24 cost line. 25 Q. Right. That's the \$400,000 that was in your 26 MR. MEYERS: 3 A. Yes. 4 Q. As an operating expense for 2005? 5 MR. MEYERS: 6 A. Yes, that's right. 7 Q. Now your forecast for 2006 is then 49,499,000? 8 MR. MEYERS: 9 A. That's correct, yes. 10 Q. So roughly 2.2 million difference between the 11 two? 12 MR. MEYERS: 13 A. Yes. 14 Q. Okay. So there's 400,000 in that, so let's go 15 Is there a reason why your forecast operating 16 expenses for 2006 are, according to Attachment 17 A of PUB-5, going to come in at 2.2 million 18 dollars higher than your expenses, similar 29 expenses for 2005? 20 MR. MEYERS: 20 MR. MEYERS: 21 A. I don't see any one particular item here, 22 based on what I'm looking at. 23 Q. Okay. So just with that in mind then, 24 basically if we netted that out then of 25 contact the \$400,000 what we're dealing with is 26 cost line. 27 A. Yes. 28 A. Yes. 30 A. Yes. 40 Q. As an operating expense for 2005? 5 MR. MEYERS: 5 A. That's correct, yes. 6 A. That's correct, yes. 9 A. That's correct, yes. 10 Q. So roughly 2.2 million differen	there now?	22 A. I t	hink about the only thing that would be
Page 135 1 2000but that's in your 2000it's below that line in your PUB-5. Attachment A? 3 MR. MEYERS: 4 A. Yes, but I believe that \$400,000 expense for 2005 would be included in that operating expenses line. 7 Q. Okay. So the amortization also continued in 2005? 9 MR. MEYERS: 10 A. Yes. 11 Q. The regulatory expense from the 2003 hearing? 12 MR. MEYERS: 13 A. Yes. 14 Q. Okay. So there's 400,000 in that, so let's go back to the one that we have on the screen the 47,643,000 includes \$400,000 relating to the deferred regulatory costs? 20 MR. MEYERS: 11 Q. Okay. So there's 400,000 in that, so let's go deferred regulatory costs? 21 MR. MEYERS: 22 MR. MEYERS: 34 A. Yes. 45 Q. Is there a reason why your forecast operating expenses for 2006 are, according to Attachment dollars higher than your expenses, similar expenses for 2005? 21 MR. MEYERS: 22 MR. MEYERS: 23 A. Yes. 24 Q. Okay. So othere's 400,000 in that, so let's go deferred regulatory costs? 25 MR. MEYERS: 26 A. Yes. 27 Q. Now your forecast for 2006 is then 49,499,000? 28 MR. MEYERS: 29 A. That's correct, yes. 20 Q. So roughly 2.2 million difference between the two? 21 two? 22 Is there something driving that, Mr. Meyers? 23 Is there a reason why your forecast operating expenses for 2006 are, according to Attachment dollars higher than your expenses, similar expenses for 2005? 20 MR. MEYERS: 21 A. Yes. 22 MR. MEYERS: 23 Q. Okay. So just with that in mind then, assed on what I'm looking at. 24 Dasically if we netted that out then of coughly 400,000, what we're dealing with is 25 Q. Okay. So just with that in mind then, assed on what I'm looking at. 26 Lit would be sort of awould it be fair to say then, kind of an across the Board increase in a lot of operating expense categories?	23 MR. MEYERS:	23 dit	fferent would be the deferred regulatory
Page 135 1 2000but that's in your 2000it's below that 2 line in your PUB-5, Attachment A? 3 MR. MEYERS: 4 A. Yes, but I believe that \$400,000 expense for 5 2005 would be included in that operating 6 expenses line. 7 Q. Okay. So the amortization also continued in 8 2005? 9 MR. MEYERS: 10 A. Yes. 11 Q. The regulatory expense from the 2003 hearing? 12 MR. MEYERS: 13 A. Yes. 14 Q. Okay. So there's 400,000 in that, so let's go 15 back to the one that we have on the screen 16 there, line 5, operating expenses, the last 17 one over, plan 2005. You're saying that the 18 47,643,000 includes \$400,000 relating to the 19 deferred regulatory costs? 20 MR. MEYERS: 21 A. Yes. I'm not sure if it's exactly 400,000 but 22 it's in that vicinity. 23 Q. Okay. So just with that in mind then, 24 basically if we netted that out then of 25 roughly 400,000, what we're dealing with is Page 136 1 \$47,243,000? 2 MR. MEYERS: 3 A. Yes. 4 Q. As an operating expense for 2005? 5 MR. MEYERS: 6 A. Yes. 4 Q. As an operating expense for 2005? 5 MR. MEYERS: 9 A. That's correct, yes. 10 Q. So roughly 2.2 million difference between the 11 two? 12 MR. MEYERS: 13 A. Yes. 14 Q. Is there something driving that, Mr. Meyers? 15 Is there a reason why your forecast operating expenses for 2006 are, according to Attachment 16 dollars higher than your expenses, similar expenses for 2005? 20 MR. MEYERS: 21 A. Yes. I'm not sure if it's exactly 400,000 but 22 it's in that vicinity. 23 Q. Okay. So just with that in mind then, 24 basically if we netted that out then of 25 roughly 400,000, what we're dealing with is	24 A. Yes.	24 co	st line.
1 2000but that's in your 2000it's below that 2 line in your PUB-5, Attachment A? 3 MR. MEYERS: 4 A. Yes, but I believe that \$400,000 expense for 5 2005 would be included in that operating 6 expenses line. 7 Q. Okay. So the amortization also continued in 8 2005? 9 MR. MEYERS: 10 A. Yes. 11 Q. The regulatory expense from the 2003 hearing? 12 MR. MEYERS: 13 A. Yes. 14 Q. Okay. So there's 400,000 in that, so let's go 15 back to the one that we have on the screen 16 there, line 5, operating expenses, the last 17 one over, plan 2005. You're saying that the 18 47,643,000 includes \$400,000 relating to the 19 deferred regulatory costs? 20 MR. MEYERS: 21 A. Yes. I'm not sure if it's exactly 400,000 but 22 it's in that vicinity. 23 Q. Okay. So just with that in mind then, 24 basically if we netted that out then of 25 roughly 400,000, what we're dealing with is 21 A. Yes, that's right. 27 Q. Now your forecast for 2006 is then 49,499,000? 3 MR. MEYERS: 9 A. That's correct, yes. 10 Q. So roughly 2.2 million difference between the 11 two? 12 MR. MEYERS: 13 A. Yes. 14 Q. Is there something driving that, Mr. Meyers? 15 Is there a reason why your forecast operating expenses for 2006 are, according to Attachment 17 A of PUB-5, going to come in at 2.2 million 18 dollars higher than your expenses, similar expenses for 2005? 20 MR. MEYERS: 21 A. Yes. 21 A. I don't see any one particular item here, 22 based on what I'm looking at. 23 Q. Okay. So just with that in mind then, 24 basically if we netted that out then of 25 roughly 400,000, what we're dealing with is	25 Q. There's a line there, lineI'm looking at the	25 Q. Ri	ght. That's the \$400,000 that was in your
1 2000but that's in your 2000it's below that 2 line in your PUB-5, Attachment A? 3 MR. MEYERS: 4 A. Yes, but I believe that \$400,000 expense for 5 2005 would be included in that operating 6 expenses line. 7 Q. Okay. So the amortization also continued in 8 2005? 9 MR. MEYERS: 10 A. Yes. 11 Q. The regulatory expense from the 2003 hearing? 12 MR. MEYERS: 13 A. Yes. 14 Q. Okay. So there's 400,000 in that, so let's go 15 back to the one that we have on the screen 16 there, line 5, operating expenses, the last 17 one over, plan 2005. You're saying that the 18 47,643,000 includes \$400,000 relating to the 19 deferred regulatory costs? 20 MR. MEYERS: 21 A. Yes. I'm not sure if it's exactly 400,000 but 22 it's in that vicinity. 23 Q. Okay. So just with that in mind then, 24 basically if we netted that out then of 25 roughly 400,000, what we're dealing with is 21 A. Yes, that's right. 27 Q. Now your forecast for 2006 is then 49,499,000? 3 MR. MEYERS: 9 A. That's correct, yes. 10 Q. So roughly 2.2 million difference between the 11 two? 12 MR. MEYERS: 13 A. Yes. 14 Q. Is there something driving that, Mr. Meyers? 15 Is there a reason why your forecast operating expenses for 2006 are, according to Attachment 17 A of PUB-5, going to come in at 2.2 million 18 dollars higher than your expenses, similar expenses for 2005? 20 MR. MEYERS: 21 A. Yes. 21 A. I don't see any one particular item here, 22 based on what I'm looking at. 23 Q. Okay. So just with that in mind then, 24 basically if we netted that out then of 25 roughly 400,000, what we're dealing with is	Pag	e 135	Page 136
3 MR. MEYERS: 4 A. Yes, but I believe that \$400,000 expense for 5 2005 would be included in that operating 6 expenses line. 7 Q. Okay. So the amortization also continued in 8 2005? 9 MR. MEYERS: 10 A. Yes. 11 Q. The regulatory expense from the 2003 hearing? 12 MR. MEYERS: 13 A. Yes. 14 Q. Okay. So there's 400,000 in that, so let's go 15 back to the one that we have on the screen 16 there, line 5, operating expenses, the last 17 one over, plan 2005. You're saying that the 18 47,643,000 includes \$400,000 relating to the 19 deferred regulatory costs? 20 MR. MEYERS: 21 A. Yes. I'm not sure if it's exactly 400,000 but 22 it's in that vicinity. 23 Q. Okay. So just with that in mind then, 24 basically if we netted that out then of 25 roughly 400,000, what we're dealing with is 2 A. Yes. 3 A. Yes. 4 Q. As an operating expense for 2005? 5 MR. MEYERS: 6 A. Yes, that's right. 7 Q. Now your forecast for 2006 is then 49,499,000? 8 MR. MEYERS: 9 A. That's correct, yes. 10 Q. So roughly 2.2 million difference between the 11 two? 12 MR. MEYERS: 13 A. Yes. 14 Q. Is there something driving that, Mr. Meyers? 15 Is there a reason why your forecast operating 16 expenses for 2006 are, according to Attachment 17 A of PUB-5, going to come in at 2.2 million 18 dollars higher than your expenses, similar 19 expenses for 2005? 20 MR. MEYERS: 21 A. Yes. 21 A. I don't see any one particular item here, 22 based on what I'm looking at. 23 Q. Okay. So just with that in mind then, 24 basically if we netted that out then of 25 roughly 400,000, what we're dealing with is	1		•
4 Q. As an operating expense for 2005? 5 2005 would be included in that operating expenses line. 7 Q. Okay. So the amortization also continued in 8 2005? 9 MR. MEYERS: 10 A. Yes. 11 Q. The regulatory expense from the 2003 hearing? 12 MR. MEYERS: 13 A. Yes. 14 Q. Okay. So there's 400,000 in that, so let's go back to the one that we have on the screen there, line 5, operating expenses, the last one over, plan 2005. You're saying that the 47,643,000 includes \$400,000 relating to the deferred regulatory costs? 14 Q. Okay. So just with that in mind then, 20 Okay. So just with that in mind then, 21 basically if we netted that out then of 25 roughly 400,000, what we're dealing with is 20 NR. MEYERS: 20 MR. MEYERS: 21 A. Yes. I'm not sure if it's exactly 400,000 but basically if we netted that out then of 25 roughly 400,000, what we're dealing with is 20 NR. MEYERS: 20 It would be sort of a-would it be fair to say then, kind of an across the Board increase in 2 lot of operating expense for 2005? 4 Q. As an operating expense for 2005? 5 MR. MEYERS: 6 A. Yes, that's right. 7 Q. Now your forecast for 2006 is then 49,499,000? 8 MR. MEYERS: 9 A. That's correct, yes. 10 Q. So roughly 2.2 million difference between the 11 two? 11 two? 12 MR. MEYERS: 13 A. Yes. 14 Q. Is there something driving that, Mr. Meyers? 15 Is there a reason why your forecast operating expenses for 2006 are, according to Attachment A of PUB-5, going to come in at 2.2 million dollars higher than your expenses, similar expenses for 2005? 20 MR. MEYERS: 21 A. Yes. 21 A. I don't see any one particular item here, based on what I'm looking at. 22 Lit would be sort of awould it be fair to say then, kind of an across the Board increase in a lot of operating expense categories?	2 line in your PUB-5, Attachment A?	2 MR. ME	YERS:
5 MR. MEYERS: 6 A. Yes, that's right. 7 Q. Okay. So the amortization also continued in 8 2005? 9 MR. MEYERS: 10 A. Yes. 11 Q. The regulatory expense from the 2003 hearing? 12 MR. MEYERS: 13 A. Yes. 14 Q. Okay. So there's 400,000 in that, so let's go 15 back to the one that we have on the screen 16 there, line 5, operating expenses, the last 17 one over, plan 2005. You're saying that the 18 47,643,000 includes \$400,000 relating to the 19 deferred regulatory costs? 20 MR. MEYERS: 21 A. Yes. I'm not sure if it's exactly 400,000 but 22 it's in that vicinity. 23 Q. Okay. So just with that in mind then, 24 basically if we netted that out then of 25 roughly 400,000, what we're dealing with is 20 Okay. So the amortization also continued in 3 MR. MEYERS: 4 A. Yes, that's right. 7 Q. Now your forecast for 2006 is then 49,499,000? 8 MR. MEYERS: 9 A. That's correct, yes. 10 Q. So roughly 2.2 million difference between the 11 two? 12 MR. MEYERS: 13 A. Yes. 14 Q. Is there something driving that, Mr. Meyers? 15 Is there a reason why your forecast operating 16 expenses for 2006 are, according to Attachment 17 A of PUB-5, going to come in at 2.2 million 18 dollars higher than your expenses, similar 19 expenses for 2005? 20 MR. MEYERS: 21 A. Yes. I'm not sure if it's exactly 400,000 but 22 it's in that vicinity. 23 Q. Okay. So just with that in mind then, 24 basically if we netted that out then of 25 roughly 400,000, what we're dealing with is	3 MR. MEYERS:	3 A. Ye	es.
6 expenses line. 7 Q. Okay. So the amortization also continued in 8 2005? 9 MR. MEYERS: 10 A. Yes. 11 Q. The regulatory expense from the 2003 hearing? 12 MR. MEYERS: 13 A. Yes. 14 Q. Okay. So there's 400,000 in that, so let's go 15 back to the one that we have on the screen 16 there, line 5, operating expenses, the last 17 one over, plan 2005. You're saying that the 18 47,643,000 includes \$400,000 relating to the 19 deferred regulatory costs? 20 MR. MEYERS: 21 A. Yes. I'm not sure if it's exactly 400,000 but 22 it's in that vicinity. 23 Q. Okay. So just with that in mind then, 24 basically if we netted that out then of 25 roughly 400,000, what we're dealing with is 20 Okay. So the amortization also continued in 20 A. Yes, that's right. 7 Q. Now your forecast for 2006 is then 49,499,000? 8 MR. MEYERS: 9 A. That's correct, yes. 10 Q. So roughly 2.2 million difference between the 11 two? 12 MR. MEYERS: 13 A. Yes. 14 Q. Is there something driving that, Mr. Meyers? 15 Is there a reason why your forecast operating expenses for 2006 are, according to Attachment 16 expenses for 2006 are, according to Attachment 17 A of PUB-5, going to come in at 2.2 million 18 dollars higher than your expenses, similar expenses for 2005? 20 MR. MEYERS: 21 A. Yes. I'm not sure if it's exactly 400,000 but 22 it's in that vicinity. 23 Q. Okay. So just with that in mind then, 24 basically if we netted that out then of 25 roughly 400,000, what we're dealing with is	4 A. Yes, but I believe that \$400,000 expense for	4 Q. As	s an operating expense for 2005?
7 Q. Okay. So the amortization also continued in 2005? 9 MR. MEYERS: 10 A. Yes. 11 Q. The regulatory expense from the 2003 hearing? 12 MR. MEYERS: 13 A. Yes. 14 Q. Okay. So there's 400,000 in that, so let's go back to the one that we have on the screen there, line 5, operating expenses, the last one over, plan 2005. You're saying that the 47,643,000 includes \$400,000 relating to the deferred regulatory costs? 14 Q. Okay. So just with that in mind then, 2000 MR. MEYERS: 21 A. Yes. I'm not sure if it's exactly 400,000 but it's in that vicinity. 22 Days of the amortization also continued in 2005. You're saying that the 1200 MR. MEYERS: 13 MR. MEYERS: 14 MR. MEYERS: 15 MR. MEYERS: 15 MR. MEYERS: 16 MR. MEYERS: 17 MR. MEYERS: 18 MR. MEYERS: 18 MR. MEYERS: 19 MR. MEYERS: 19 MR. MEYERS: 10 MR. MEYERS: 11 MEYERS: 11 MR. MEYERS: 12 MR. MEYERS: 12 MR. MEYERS: 13 MR. MEYERS: 14 MR. MEYERS: 15 MR. MEYERS: 15 MR. MEYERS: 16 MR. MEYERS: 17 MR. MEYERS: 18 MR. MEYERS: 18 MR. MEYERS: 19 MR. MEYERS: 19 MR. MEYERS: 10 MR. MEYERS: 11 MEYERS: 11 MR. MEYERS: 12 MR. MEYERS: 12 MR. MEYERS: 13 MR. MEYERS: 13 MR. MEYERS: 14 MR. MEYERS: 15 MEYERS: 15 MR. MEYERS: 16 MR. MEYERS: 16 MR. MEYERS: 17 MR. MEYERS: 18 MR. MEYERS: 18 MR. MEYERS: 19 MR. MEYERS: 19 MR. MEYERS: 10 MR.	5 2005 would be included in that operating	5 MR. ME	YERS:
8 MR. MEYERS: 9 MR. MEYERS: 10 A. Yes. 11 Q. The regulatory expense from the 2003 hearing? 12 MR. MEYERS: 13 A. Yes. 14 Q. Okay. So there's 400,000 in that, so let's go 15 back to the one that we have on the screen 16 there, line 5, operating expenses, the last 17 one over, plan 2005. You're saying that the 18 47,643,000 includes \$400,000 relating to the 19 deferred regulatory costs? 20 MR. MEYERS: 21 A. Yes. I'm not sure if it's exactly 400,000 but 22 it's in that vicinity. 23 Q. Okay. So just with that in mind then, 24 basically if we netted that out then of 25 roughly 400,000, what we're dealing with is 20 Okay. So just with that in mind then, 21 contact the sure of the 2003 hearing? 24 basically if we netted that out then of 25 roughly 400,000, what we're dealing with is 20 Okay. So just with that in mind then, 21 contact the sure of two particular item here, 22 then, kind of an across the Board increase in 25 a lot of operating expense categories?	6 expenses line.	6 A. Ye	es, that's right.
9 MR. MEYERS: 10 A. Yes. 11 Q. The regulatory expense from the 2003 hearing? 12 MR. MEYERS: 13 A. Yes. 14 Q. Okay. So there's 400,000 in that, so let's go 15 back to the one that we have on the screen 16 there, line 5, operating expenses, the last 17 one over, plan 2005. You're saying that the 18 47,643,000 includes \$400,000 relating to the 19 deferred regulatory costs? 20 MR. MEYERS: 21 A. Yes. I'm not sure if it's exactly 400,000 but 22 it's in that vicinity. 23 Q. Okay. So just with that in mind then, 24 basically if we netted that out then of 25 roughly 400,000, what we're dealing with is 20 So roughly 2.2 million difference between the 10 Q. So roughly 2.2 million difference between the 11 two? 12 MR. MEYERS: 13 A. Yes. 14 Q. Is there something driving that, Mr. Meyers? 15 Is there a reason why your forecast operating expenses for 2006 are, according to Attachment 17 A of PUB-5, going to come in at 2.2 million 18 dollars higher than your expenses, similar expenses for 2005? 20 MR. MEYERS: 21 A. I don't see any one particular item here, 22 based on what I'm looking at. 23 Q. It would be sort of awould it be fair to say 24 then, kind of an across the Board increase in 25 roughly 400,000, what we're dealing with is	7 Q. Okay. So the amortization also continued in	7 Q. No	ow your forecast for 2006 is then 49,499,000?
10 A. Yes. 11 Q. The regulatory expense from the 2003 hearing? 12 MR. MEYERS: 13 A. Yes. 14 Q. Okay. So there's 400,000 in that, so let's go 15 back to the one that we have on the screen 16 there, line 5, operating expenses, the last 17 one over, plan 2005. You're saying that the 18 47,643,000 includes \$400,000 relating to the 19 deferred regulatory costs? 20 MR. MEYERS: 21 A. Yes. I'm not sure if it's exactly 400,000 but 22 it's in that vicinity. 23 Q. Okay. So just with that in mind then, 24 basically if we netted that out then of 25 roughly 400,000, what we're dealing with is 20 MR. Meyers? 21 A. Yes. I'm looking at. 22 it of operating expenses for 2006 are, according to Attachment 25 a lot of operating expense between the 16 two? 17 two? 18 dMR. MEYERS: 18 MR. MEYERS: 19 expenses for 2006 are, according to Attachment 19 dollars higher than your expenses, similar expenses for 2005? 20 MR. MEYERS: 21 A. I don't see any one particular item here, 22 based on what I'm looking at. 23 Q. It would be sort of awould it be fair to say 24 then, kind of an across the Board increase in 25 roughly 400,000, what we're dealing with is 26 A. Yes. 27 In two of the content of two? 28 In the regulatory costs of a lot of operating expense categories?	8 2005?	8 MR. ME	YERS:
11 Q. The regulatory expense from the 2003 hearing? 12 MR. MEYERS: 13 A. Yes. 14 Q. Okay. So there's 400,000 in that, so let's go 15 back to the one that we have on the screen 16 there, line 5, operating expenses, the last 17 one over, plan 2005. You're saying that the 18 47,643,000 includes \$400,000 relating to the 19 deferred regulatory costs? 20 MR. MEYERS: 21 A. Yes. I'm not sure if it's exactly 400,000 but 22 it's in that vicinity. 23 Q. Okay. So just with that in mind then, 24 basically if we netted that out then of 25 roughly 400,000, what we're dealing with is 26 WR. MEYERS: 27 A. Yes. I'm contained the part of a sure in the part of a sure in the part of a lot of operating expense categories?	9 MR. MEYERS:	9 A. Th	nat's correct, yes.
12 MR. MEYERS: 13 A. Yes. 14 Q. Okay. So there's 400,000 in that, so let's go 15 back to the one that we have on the screen 16 there, line 5, operating expenses, the last 17 one over, plan 2005. You're saying that the 18 47,643,000 includes \$400,000 relating to the 19 deferred regulatory costs? 20 MR. MEYERS: 21 A. Yes. I'm not sure if it's exactly 400,000 but 22 it's in that vicinity. 23 Q. Okay. So just with that in mind then, 24 basically if we netted that out then of 25 roughly 400,000, what we're dealing with is 20 Okay. So there's 400,000 in that, so let's go 14 Q. Is there something driving that, Mr. Meyers? 15 Is there a reason why your forecast operating 16 expenses for 2006 are, according to Attachment 17 A of PUB-5, going to come in at 2.2 million 18 dollars higher than your expenses, similar 19 expenses for 2005? 20 MR. MEYERS: 21 A. I don't see any one particular item here, 22 based on what I'm looking at. 23 Q. It would be sort of awould it be fair to say 24 then, kind of an across the Board increase in 25 a lot of operating expense categories?	10 A. Yes.	10 Q. Sc	roughly 2.2 million difference between the
13 A. Yes. 14 Q. Okay. So there's 400,000 in that, so let's go 15 back to the one that we have on the screen 16 there, line 5, operating expenses, the last 17 one over, plan 2005. You're saying that the 18 47,643,000 includes \$400,000 relating to the 19 deferred regulatory costs? 20 MR. MEYERS: 21 A. Yes. I'm not sure if it's exactly 400,000 but 22 it's in that vicinity. 23 Q. Okay. So just with that in mind then, 24 basically if we netted that out then of 25 roughly 400,000, what we're dealing with is 26 Value of the screen 17 A. Yes. 18 there a reason why your forecast operating expenses for 2006 are, according to Attachment 19 expenses for 2006 are, according to Attachment 19 expenses for 2005? 20 MR. MEYERS: 21 A. I don't see any one particular item here, 22 based on what I'm looking at. 23 Q. It would be sort of awould it be fair to say 24 then, kind of an across the Board increase in 25 a lot of operating expense categories?	11 Q. The regulatory expense from the 2003 hearing	g? 11 tw	ro?
14 Q. Okay. So there's 400,000 in that, so let's go 15 back to the one that we have on the screen 16 there, line 5, operating expenses, the last 17 one over, plan 2005. You're saying that the 18 47,643,000 includes \$400,000 relating to the 19 deferred regulatory costs? 20 MR. MEYERS: 21 A. Yes. I'm not sure if it's exactly 400,000 but 22 it's in that vicinity. 23 Q. Okay. So just with that in mind then, 24 basically if we netted that out then of 25 roughly 400,000, what we're dealing with is 26 Is there something driving that, Mr. Meyers? 15 Is there a reason why your forecast operating 16 expenses for 2006 are, according to Attachment 17 A of PUB-5, going to come in at 2.2 million 18 dollars higher than your expenses, similar 19 expenses for 2005? 20 MR. MEYERS: 21 A. I don't see any one particular item here, 22 based on what I'm looking at. 23 Q. It would be sort of awould it be fair to say 24 then, kind of an across the Board increase in 25 a lot of operating expense categories?	12 MR. MEYERS:	12 MR. ME	YERS:
back to the one that we have on the screen there, line 5, operating expenses, the last one over, plan 2005. You're saying that the 47,643,000 includes \$400,000 relating to the deferred regulatory costs? MR. MEYERS: A. Yes. I'm not sure if it's exactly 400,000 but it's in that vicinity. Q. Okay. So just with that in mind then, basically if we netted that out then of roughly 400,000, what we're dealing with is Is there a reason why your forecast operating expenses for 2006 are, according to Attachment A of PUB-5, going to come in at 2.2 million dollars higher than your expenses, similar expenses for 2005? MR. MEYERS: A. I don't see any one particular item here, based on what I'm looking at. Q. It would be sort of awould it be fair to say then, kind of an across the Board increase in a lot of operating expense categories?	13 A. Yes.	13 A. Ye	es.
there, line 5, operating expenses, the last one over, plan 2005. You're saying that the 47,643,000 includes \$400,000 relating to the deferred regulatory costs? MR. MEYERS: A. Yes. I'm not sure if it's exactly 400,000 but it's in that vicinity. Q. Okay. So just with that in mind then, basically if we netted that out then of roughly 400,000, what we're dealing with is 16 expenses for 2006 are, according to Attachment A of PUB-5, going to come in at 2.2 million dollars higher than your expenses, similar expenses for 2005? 20 MR. MEYERS: 21 A. I don't see any one particular item here, based on what I'm looking at. 23 Q. It would be sort of awould it be fair to say then, kind of an across the Board increase in a lot of operating expense categories?	14 Q. Okay. So there's 400,000 in that, so let's go	14 Q. Is	there something driving that, Mr. Meyers?
one over, plan 2005. You're saying that the 47,643,000 includes \$400,000 relating to the deferred regulatory costs? MR. MEYERS: A. Yes. I'm not sure if it's exactly 400,000 but it's in that vicinity. Q. Okay. So just with that in mind then, basically if we netted that out then of roughly 400,000, what we're dealing with is A of PUB-5, going to come in at 2.2 million dollars higher than your expenses, similar expenses for 2005? MR. MEYERS: A. I don't see any one particular item here, based on what I'm looking at. Q. It would be sort of awould it be fair to say then, kind of an across the Board increase in a lot of operating expense categories?			* * · · · · · · · · · · · · · · · · · ·
47,643,000 includes \$400,000 relating to the deferred regulatory costs? MR. MEYERS: A. Yes. I'm not sure if it's exactly 400,000 but it's in that vicinity. Q. Okay. So just with that in mind then, basically if we netted that out then of roughly 400,000, what we're dealing with is 18 dollars higher than your expenses, similar expenses for 2005? 20 MR. MEYERS: 21 A. I don't see any one particular item here, 22 based on what I'm looking at. 23 Q. It would be sort of awould it be fair to say 24 then, kind of an across the Board increase in 25 a lot of operating expense categories?			· · · · · · · · · · · · · · · · · · ·
deferred regulatory costs? MR. MEYERS: A. Yes. I'm not sure if it's exactly 400,000 but it's in that vicinity. Okay. So just with that in mind then, basically if we netted that out then of roughly 400,000, what we're dealing with is perpenses for 2005? A. I don't see any one particular item here, based on what I'm looking at. Okay. So just with that in mind then, and basically if we netted that out then of roughly 400,000, what we're dealing with is A. I don't see any one particular item here, based on what I'm looking at. Okay. So just with that in mind then, and basically if we netted that out then of the roughly 400,000, what we're dealing with is A. I don't see any one particular item here, based on what I'm looking at. A. I don't see any one particular item here, based on what I'm looking at. A. I don't see any one particular item here, based on what I'm looking at. A. I don't see any one particular item here, based on what I'm looking at. A. I don't see any one particular item here, based on what I'm looking at. A. I don't see any one particular item here, based on what I'm looking at. A. I don't see any one particular item here, based on what I'm looking at. A. I don't see any one particular item here, based on what I'm looking at. A. I don't see any one particular item here, based on what I'm looking at. A. I don't see any one particular item here, based on what I'm looking at. A. I don't see any one particular item here, based on what I'm looking at. A. I don't see any one particular item here, based on what I'm looking at. A. I don't see any one particular item here, based on what I'm looking at. A. I don't see any one particular item here, based on what I'm looking at. A. I don't see any one particular item here, based on what I'm looking at. A. I don't see any one particular item here, based on what I'm looking at. A. I don't see any one particular item here, based on what I'm looking at. A. I don't see any one particular item here, based on what I'm looking at. A. I don't			
20 MR. MEYERS: 21 A. Yes. I'm not sure if it's exactly 400,000 but 22 it's in that vicinity. 23 Q. Okay. So just with that in mind then, 24 basically if we netted that out then of 25 roughly 400,000, what we're dealing with is 20 MR. MEYERS: 21 A. I don't see any one particular item here, 22 based on what I'm looking at. 23 Q. It would be sort of awould it be fair to say 24 then, kind of an across the Board increase in 25 a lot of operating expense categories?	_		•
A. Yes. I'm not sure if it's exactly 400,000 but it's in that vicinity. Q. Okay. So just with that in mind then, basically if we netted that out then of roughly 400,000, what we're dealing with is 21 A. I don't see any one particular item here, based on what I'm looking at. 22 B. It would be sort of awould it be fair to say then, kind of an across the Board increase in a lot of operating expense categories?	1		-
it's in that vicinity. 22 based on what I'm looking at. 23 Q. Okay. So just with that in mind then, 24 basically if we netted that out then of 25 roughly 400,000, what we're dealing with is 26 based on what I'm looking at. 27 Q. It would be sort of awould it be fair to say 28 then, kind of an across the Board increase in 29 a lot of operating expense categories?			
Q. Okay. So just with that in mind then, basically if we netted that out then of roughly 400,000, what we're dealing with is 23 Q. It would be sort of awould it be fair to say then, kind of an across the Board increase in a lot of operating expense categories?	·		* *
basically if we netted that out then of roughly 400,000, what we're dealing with is 24 then, kind of an across the Board increase in a lot of operating expense categories?	·		
roughly 400,000, what we're dealing with is 25 a lot of operating expense categories?			•
	•		
	125 roughly 400 000 what we're dealing with is	125 9.1	of of operating expense categories?

De	ecember 7, 2005	Multi-l	Page	e TM NL Power's Accounting Policy
	Pay	ge 137		Page 138
1	MR. MEYERS:	-	1	to a new demand wholesale rate as between
2	A. I'm going to pop back toI'm sorry, I don't		2	itself and Hydro. Could you give us some
3		Ic	3	indication of your level of confidence about
4			4	the purchase power expense that Newfoundland
5			5	Power will see in 2006? And it being in the,
6			6	if you will, early days of the implementation
7			7	of that new wholesale demand rate.
8			•	R. MEYERS:
9			9	A. I guess I would say that the forecast that
10			10	we've presented would becertainly be our
11	2 2 2005		11	best estimate at this time, based on the fact
12			12	that the demand component of that rate will
13			13	change or is proposed to change on January
14			14	1st. So we have that factored that in to our
15			15	2006 forecast.
	MR. MEYERS:			Q. Okay. So the purchase power expense in your
17			l6 l7	2006 forecast, for the purposes of this
18	1 1		18	application, is being refactored to take into
19	2		19	account changes in the wholesale demand energy
20			20	rate that are expected in January?
	MR. MEYERS:			R. MEYERS:
22	1 1		22	A. Yes.
23	•	I	23	Q. Okay. So the sales forecast is slightly
24			24	refactored in the sense that it's been updated
25	utilities now, Newfoundland Power, is subject	t 2	25	as of March roughly of this year?
	Paş	ge 139		Page 140
1	MR. MEYERS:		1	raised a fifth alternative.
2	A. Yes, and that same forecast would be used to)	2	The four I had previously was a
3	generate the forecast for purchase power		3	settlementor a proposal to deal with the
4	expense as well, based on the updated rate.		4	unbilled revenue purely on the basis of the
5	Q. Right. Yes, one would be plugged into the		5	tax settlement itself, which would be
6	other virtually?		6	basically a three-year term. The second one
7	MR. MEYERS:		7	was an all-at-once, so in other words, taking
8	A. Yes, yeah.		8	all the 2005 unbilled revenue into a
9	Q. Okay. Okay. I'd just like to switch now to		9	particular year. One was spreading the
10	the discussion, if I may, with either of you	1	10	unbilled revenue over two years, that would be
11	on the alternatives that have been partially	1	11	the transition period. The fourth option was
12	explored through RFIs and I just wanted to see	e 1	12	the deferral of the depreciation expense. And
13	if we could get them nice and clear on the	1	13	as I understand it, and which is PUB-11, I
14		1	14	understand now you're putting forward a
15			15	possible further alternative or I guess these
16		1	16	aren't alternatives that the Boardor sorry,
17	(1:30 P.M.)	1	17	just to be clear, that the Company didn't put
١.,	A 1 . 1			former description of the Common box and

And the first one I wanted to look at 18 19 was--these are all very conveniently laid out

22

20 in PUB RFIs 7, 8, 9 and 11. So if we can line 21 them up. And just as a preamble, I had

initially identified four different

23 alternatives, as discussed throughout the

24 documentation. But as I understand it, 25

you've--in your direct testimony, you've

23 MR. MEYERS:

expense.

24 A. Yes.

18

19

20

21

22

25 Q. Right. And that being two distinctly

forward, so but that the Company has put

forward an alternative where it would be

deferral of the recovery of the costs, as

opposed to a deferral of the depreciation

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P	age 141	Page 142
1 MR. JOHNSON	1	say, was used to recover the cost when it was
2 different things.	2	finally recovered, is that the scenario that
3 MR. MEYERS:	3	the Company would see?
4 A. Yes.	4 MR.	MEYERS:
5 Q. All right. Now first of all, on that fifth	5 A	a. I guess for purposes of 2006, there wouldn't
one, on the one that you raised in your direc	t 6	be an accrual of unbilled revenue in 2006.
7 testimony, the deferral of the recovery of the	e 7	Whether or not it would be required in 2007
8 actual cost to take into account the	8	then would be tied up into the GRA for 2007,
9 depreciation expense and tax consequences,	is 9	which would look at all the costs.
there anything by way of RFI on the record	l 10 Q	e. I'm just trying to think, sogo ahead, Mr.
11 that would show how that would work?	11	Smith.
12 MR. MEYERS:	12 MR.	SMITH:
13 A. No, not to my knowledge, no.		a. I was just going to say, that would be one
14 Q. Okay. Let's just follow up on that then and		possible outcome absolutely.
make sure I understand it. As I understand	15 MR.	MEYERS:
it, that proposal would involve the Board	16 A	A. Yes.
recognizing the tax consequences and increa		SMITH:
depreciation expenses of loss of the true up	18 A	That theif it was ascertained that there was
in 2006, but defer the Utility's ability to	19	additional revenue required for 2007, it could
recover that expense until 2007 as part of th	e 20	come from one of two sources, rates or
21 GRA?	21	unbilled revenue. I think that'sis that the
22 MR. MEYERS:	22	gist of your question?
23 A. Yes.		y. Yes, absolutely.
24 Q. And the unbilledpresumably then that it		SMITH:
25 would still bethe unbilled revenue, let's	25 A	. Okay.
P	age 143	Page 144
1 Q. If it was recovered through rates, I guess a		e. And so would the Board need tounder that
2 complicating factor would be that if 2007 w	as 2	scenario, would the Board need to now, if you
3 the test year and then the rates approved	3	will, crystallize what the amount for 2006
4 included costs related to 2006, those same		needs to be covered off? In other words, can
5 rates then would be applied in 2008, so we'		it all be dealt with then in the GRA under
6 have that awkwardness, wouldn't we, where	*	that scenario? The Board would, at the same
7 would be recovering costs in 2008 related to		time as it sets out the recovery costs for
8 2006 in your rates?	8	2007 using unbilled revenue, also says "well,
9 MR. MEYERS:	9	how much of the recovery costs is to be
10 A. It would involve some complications, yes.	10	deferred?" That it would assess that amount
Q. Right. So the use of the unbilled revenues,	11	also as part of the GRA in 2006.
the likelyif I may, the likely source of		MEYERS:
making adjustments at the end of the day, it		The Board could determine the amount of cost
there's going to be a deferral of the recovery		recovery to be looked at for 2007, yes.
of the costs, it would still be unbilled		. Right.
revenue be used to fill that hole if you will?		MEYERS:
17 MR. MEYERS:		And that amount could vary. Let's say it
18 A. That would be the preferred option, yes, for		could include the 5.8 million dollar true up,
19 customers.	19	the 1.2 million dollar increase in
Q. And so what would be the advantage of doing	-	depreciation expense, and the 3.1 million
21 recovery of costs as you've described then		increase in tax effects.
Is it just so that it can be dealt with in the		P. Right. And if it dealt with it all as part of
23 context of a GRA?	23	the GRA, just say, in 2006, it would, at that
24 MR. MEYERS:	24	point, have some actuals for 2006, I guess,

before the Board, if the GRA took place in say

A. Generally speaking, yes.

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P	age 145	Page 146
1 MR. JOHNSON		1 A. The down side, I guess, is that it would only
the latter half of 2006, you'd at least have a	. 2	
quarter or two of actual results from 2006?	3	`
4 MR. MEYERS:	4	
5 A. You would have some actual results and yo		
6 still be dealing with a forecast for the year.	6	
7 Q. Sure, yes, okay. So let's just go through the		
8 other scenarios, if I could, the other	8	
9 alternatives, and the first one was PUB-7,	g	
yes, which is up there now on the screens, a		0 MR. MEYERS:
this is the alternative per the tax settlement	11	
and this is, as I understand it, just a	12	
straightforward taking 8,087,000 in as	13	
unbilled revenues, from the unbilled revenue		
in each year, 2006, 2007, 2008? Is that		5 MR. MEYERS:
16 correct?	16	
17 MR. MEYERS:	17	
18 A. Of the 2005 unbilled revenue, yes.	18	
19 Q. Right. Of the 2005 unbilled revenue.	19	
20 MR. MEYERS:	20	
21 A. Yes.		1 MR. MEYERS:
22 Q. And could you comment on whatdoes		
23 Company see a down side to that scenario, a		·
24 if so, what would be the down side?	24	-
25 MR. MEYERS:	25	
		-
	age 147	Page 148
difficult to fashion a number to what impact		, , , , , , , , , , , , , , , , , , , ,
2 there would be if you had the three-year		, , , , , , , , , , , , , , , , , , , ,
3 taken?	3	
4 MR. MEYERS:		4 MR. MEYERS:
5 A. Based on what we know right now, given to		
6 these increases in depreciation expense and		
7 on will carry on because the true up ends as		1 2
8 of this year, even as weeven if we	8	<i>C</i> ,
9 recognize, in accordance with this scenario		
for 2007 and 2008, there will likely be	10	
revenue shortfalls in those years as well, and		1 MR. MEYERS:
if we assume that those revenue shortfalls an		*
offset somehow by reductions in other costs		ξ ,
increases in customer rates or whatever, it		- 0 11
would appear that our return on rate base for		
2000 would come in at around 8.4 percent a		11
our return on rate base for 2008 would come		•
at around 8.25-26 percent, somewhere in th		
19 range.	19	ş
20 Q. And just to be clear, that's under what	20	, 1
21 scenario, sorry?	21	
22 MR. MEYERS:	22	1 00
A. That's the tax settlement scenario in PUB-7.	23	drop in the approved rate of return of the
24 O Dight alray And as I guass if in comparison	00 10	4 Company'

Company?

Q. Right, okay. And as I guess, if in comparison

to your present range that's below your--what

24

December 7, 2005	ulti-Pa	nge TM NL Power's Accounting Policy
Page 1	149	Page 150
1 MR. MEYERS:	1	were to recognize the entire amount of 2005
2 A. I don't know if I'd necessarily agree with you	2	unbilled revenue in one year, and I think it's
3 on that.	3	a given that that would result in over
4 Q. Okay. Well, we're kind of delving into areas	4	earnings by the Company, and as per PUB-8 the
of expertise which I know I don't have, so	5	Company calculates that for 2006, it would
6 we'll just leave that as it is. Let me	6	result in a over earnings of 11,815,000?
7 refashion it this way. The assumption that	7	MR. MEYERS:
8 the Company's making is that the rate of	8	A. That's right, yes.
9 return that it would be entitled to achieve in	9	Q. Okay. Now as I think you pointed out, that
2007, for instance, and 2008 will be in	10	doesn't ipso facto mean that that money goes
keeping with the rate of return that they're	11	back to consumers, that the Board then has to
currently entitled to achieve?	12	determine what's the fair and reasonable
13 MR. MEYERS:	13	disposition of those excess earnings, correct?
14 A. If we assume the same range and so on, yes.	14	MR. MEYERS:
15 Q. Right. And soright, okay. And that's why	15	A. That's right.
under the three-year tax settlement scenario,	16	Q. Let's just go with the hypothetical that the
the Company is indicating that not only would	17	Board decides to give it all back in one form
it under earn in 2006, it would also under	18	or another to consumers, the 11,815,000. How
earn in 2007 and under earn in 2008? That's	19	wouldand as you commented previously, these
what that statement is based upon?	20	are not cash amounts. These are notional
21 MR. MEYERS:	21	adjustments, if you will, to your financial
22 A. Yes.	22	statements borne from the changes in
23 Q. Okay. Let's just switch to the all-at-once	23	accounting policy. How would the Company
scenario, Mr. Meyers, which is PUB-8. And	24	actually come up with the 11,815,000, if you
25 this is the scenario that what if the Company	25	will, to pay back to customers if it wasif
Page 1	151	Page 152
it had to?	1	appropriate.
2 MR. MEYERS:	2	Q. Okay, the third scenario was the unbilled
3 A. It would have to either borrow that money	3	revenue over two years, which is addressed in
4 somehow orlikely would have to borrow that	4	PUB 9. I guess is itlet's start with this,
5 money.	5	under the current proposal that's before the
6 Q. And are you in a position to be able to	6	Board, the Company is asking for roughly ten
7 comment on whether the financial integrity of	7	million dollars of the unbilled revenue to be
8 Newfoundland Power would be materially	8	used in 2006, so less than this scenario in
9 impacted if it was to have to borrow money on	9	2006 and as a result, no excess earnings under
its short lines or what have you to pay back	10	your proposal, excess earnings under this
excess earnings in that range?	11	scenario that will equal application of the 24
12 MR. MEYERS:	12	million in unbilled revenue to the two years.
13 A. It would certainly put some pressure on our	13	Whatcan the Company indicate now what it
credit matrix that the rating agencies use to	14	expects the likely scenario to be for the
determine our credit rating.	15	remaining 14 million dollars of the unbilled
Q. Did you do anyfashion any debt to equity	16	revenue? Does it expect that all of that
ratio calculations of what that would come out	17	would be used to adjust rates for 2007? Have
to? Or interest coverage ratio, either one?	18	you got any visibility on that now? I know in
19 (1:45 P.M.)	19	your responses you've indicated that the 14

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be used up?

million is something to be left with in the

GRA related to a 2007 test year, that there

will still be money left over in the unbilled revenue account, or would all the 14 million

GRA, but do you expect that after that

A. Yes, I believe our interest coverage ratio in

A. Yeah, and the Board has always considered

something in the 2.4 to 2.7 range to be

2007 would drop to about 2.0 times.

Q. On the nose? 2.0 on the nose?

20 MR. MEYERS:

21

22

23

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	1 uge 1 to 1 t
Page 153	Page 154
1 MR. MEYERS:	scenario the Company has earned, right to the
2 A. I don't think we've gotten to that stage yet,	top of its range in 2006?
3 to be honest with you. There's a lot of	3 MR. MEYERS:
4 things that would have to come into play in	4 A. Yes.
5 2007.	5 Q. Right, and thus the excess earnings. But I
6 Q. So, similarly then, under the scenario here	guess for the reasons that you just discussed,
7 that we have before us in PUB 9.0, that one	there's no way to know what would shake out in
8 discussed there, which is the application, the	8 2007 under this scenario though?
9 unbilled revenue equally over the 2006/2007	9 MR. MEYERS:
years, and it ends up in an over earning in	10 A. No, not really.
2006, but am I fair to say that the amount of	Q. Right, don't know that there would still be an
over earning certainly wouldn't place any	over earning in 2007 or whether there would be
pressure on the Company's financial integrity?	an under earning in 2007?
14 MR. MEYERS:	14 MR. MEYERS:
15 A. That's correct, yes. One of the things though	15 A. Based on what we know right now, there would
about this scenario and the previous scenario	16 certainly be a revenue shortfall in 2007.
that we talked about, by pushing the company	17 Q. Even with 12 million of unbilled revenue
to the top of its allowed range, you reduce	18 applied to it?
the benefit to customers.	19 MR. MEYERS:
20 Q. Right.	20 A. A small revenue shortfall, yes, I believe.
21 MR. MEYERS:	21 Q. Okay. So based on that, you would expect to
22 A. Of the total 24 million dollars that's	need somewhere between 12 and 14 million
23 available, so I want to make sure that that's	dollars worth of the unbilled revenue in 2007?
24 clear.	24 MR. MEYERS:
25 Q. Yes, right, and for instance, under this	25 A. If we were going to use up all the unbilled at
Page 155	Page 156
Page 155	_
1 the one time?	1 Q. Right, sorry, yes.
the one time? Q. Right.	1 Q. Right, sorry, yes. 2 MR. MEYERS:
the one time?Q. Right.MR. MEYERS:	 Q. Right, sorry, yes. MR. MEYERS: A. Deferral of cost recovery.
 the one time? Q. Right. MR. MEYERS: A. Then you have a major - 	 Q. Right, sorry, yes. MR. MEYERS: A. Deferral of cost recovery. Q. Deferral of depreciation expense, right,
 the one time? Q. Right. MR. MEYERS: A. Then you have a major - Q. But then you'll have probably 2008, right. 	 Q. Right, sorry, yes. MR. MEYERS: A. Deferral of cost recovery. Q. Deferral of depreciation expense, right, sorry.
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the one time? Q. Right. MR. MEYERS: A. Then you have a major - Q. But then you'll have probably 2008, right. MR. MEYERS: A. You'll have a major impact in 2008, so, you know, in deciding how to - Q. You might blend it. MR. MEYERS: A avail of the 14 million dollars, it might be more balanced to do it over a couple of years or - Q. So, Mr. Meyers or Mr. Smith, just on the hypothetical that the Board isn't prepared to award the Company its proposal as filed, what would be the lesser of the evils presented in the form of these alternatives? In other words, is there an option here that the Company could live with? MR. SMITH: A. You haven't canvassed the deferral option yet. Q. Deferral and depreciation expense.	1 Q. Right, sorry, yes. 2 MR. MEYERS: 3 A. Deferral of cost recovery. 4 Q. Deferral of depreciation expense, right, 5 sorry. 6 MR. SMITH: 7 A. Yes. 8 MR. MEYERS: 9 A. Deferral of cost recovery. 10 Q. Yes, the deferral of the recovery of the cost, 11 I discussed that one at the very start. 12 MR. SMITH: 13 A. Okay then. 14 Q. So let's sayand that's the proposal the 15 Company has put forward as an alternative, so 16 presumably that's one that you prefer over the 17 other alternatives. 18 MR. SMITH: 19 A. Absolutely, absolutely. 20 Q. Okay, that's what I was getting at. Sometimes 21 the question is just so obvious, just appeared 22 to be a question. So just one clarification,

December 7, 2005	Multi-l	Page ''' NL Power's Accounting Policy
Pag	ige 157	Page 158
1 MR. SMITH	-	Q. Is there another decision besides that one
words, you indicated that the Company has a	a	which the Board has to make a decision on now?
3 right to earn a just and reasonable rate of		3 MR. MEYERS:
4 return, and I just wantwe're going to do		4 A. When you says "now" -
some semantics here today, but would you ag	gree	5 Q. Well, assuming that the other issues could be
6 that it's not a right to earn a just and	_	deferred by the Board for a subsequent GRA?
7 reasonable return, it is the right for an		7 In other words, under the scenario that we'll
8 opportunity to earn a just and reasonable rate	,	deal with all this, come what may, in 2006 and
9 of return?		9 as I understand it, Grant Thornton was
10 MR. MEYERS:		pointing out that while the Board has that as
11 A. Yes.	1	
12 Q. So it is indicated by Mr. Brushett in his		has to be decided now and that's whether the
report that one of the decisions that this	11	
Board has to make prior to the Company clos.		4 not. And I just want to make sure that is
out its 2005 financials is what regulatoryor	-	
sorry, what accounting treatment to provide		
the 2.1 million dollars worth of interest		
income that the Company has received from t		8 MR. SMITH:
tax settlement, that that decision hasa		
20 decision has to be made by the Board so that		• • • • • • • • • • • • • • • • • • • •
21 the Company knows whether to book that am		
in 2005 or no?		
	2	
23 MR. MEYERS:		
A. Mr. Brushett has indicated that in his report,	2	*
25 yes.	2.	<u> </u>
1	ige 159	Page 160
1 Asset Rate Base Model and also that it makes		1 MR. MEYERS:
2 sense for the Company tojust a second now	<i>v</i> ,	2 A. It doesn't absolutely have to be addressed
3 sorry, the obvious, that you would use the		3 right now.
4 accrual method of revenue recognition in		4 Q. That's all the questions I have Chair, Vice-
5 fashioning your application as well?		5 Chair, thank you gentlemen.
6 MR. SMITH:		6 CHAIRMAN:
7 A. Uh-hm.	,	7 Q. Thank you, Mr. Kennedy. Just a comment, I
8 MR. MEYERS:		guess Mr. Kelly, this may affect you more than
9 A. I think just to pick up on what Mr. Smith		anybody else, I'll speak for myself, I've been
said, there's nothing else in this application	11	used to, I guess, GRA's having rules and
that would impact 2005.	1	1
12 Q. Right.	1:	
13 MR. MEYERS:	1:	3 I'm used to having re-direct before Board
14 A. But there are some decisions, I guess, that	1.	4 questions and I prefer it that way.
have to be made by the Board going into 2006)6, 1:	5 KELLY, Q.C.:
in terms of, like you say, moving to the	1	6 Q. I'm certainly -
accrual method, the ARDM and using the	1	7 CHAIRMAN:
forecast values for rate base and invested	1	8 Q. Does anybodyand have Board questions and
capital for operation of the formula for next	15	9 then the opportunity for questions on matters
year, that sort of thing.	20	arising and re-direct after that. Is there
21 Q. Right, right, now the last piece is your	2	anybody who would have an objection to that
unbilled revenue increase reserve, the 295, is	s 2:	order?
that something that has to be decided now, or	r 2	3 KELLY, Q.C.:
los de la charta a marchina di la companya de la co	_	Monachian at this attention of the M

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Q. No problem at this stage. One point, Mr. Chairman, I'd like Mr. Meyers to have the

ahead to 2006?

is that something that can get also pushed

24

Dec	cember 7, 2005 N	Tulu-P	age	NL Power's Accounting Policy
	Page	161		Page 162
1	KELLY, Q.C.	1		Board's power to consider that 2.1 million
2	opportunity to just review some material with	2		dollar issue. There may be implicit in Mr.
3	respect to Mr. Kennedy's question about the	3		Johnson's question some suggestion that the
4	operating expense. And I could either deal	4		Board might have the power to deal with that
5	with a couple of other re-direct questions	5		or defer that interest, notwithstanding the
6	first or it might be more appropriate to just	6		fact that the Company will be at or near the
7	take the five minutes now, let Mr. Meyers do	7		lower end of its range of rate of return and
8	that and then resume for the re-direct and	8		that there will be no excess revenue or no
9	then the Board questions.	9		excess earnings. I just want to be clear with
10	CHAIRMAN:	10		you, I take it that your comment was not
11	Q. I'm fine, whatever you prefer.	11		intended to, in any sense, address any legal
12	KELLY, Q.C.:	12		issues arising with respect to the excess
13	Q. That would be preferable, I think.	13		earnings issue?
14	CHAIRMAN:	14	MR.	SMITH:
15	Q. Sure.	15	A	A. That is correct.
16	(RECESS - 1:57 P.M.)	16	Ç	2. Now, the secondanother area that Mr. Johnson
17	(RETURN - 2:06 P.M.)	17		addressed with you was with respect to the
18	CHAIRMAN:	18		costs in 1995 and 1996 and he pointed out to
19	Q. Mr. Kelly, when ready please.	19		you that the Company did not under earn its
20	KELLY, Q.C.:	20		range at that point in time, and you
21	Q. Thank you, Chair. Just a couple of short	21		acknowledge that. And you also responded that
22	areas on re-direct. Mr. Smith, Mr. Johnson	22		the interest revenue should be treated
23	asked you about the Company's position with	23		similarly. Now, in 2005, if the interest
24	respect to the 2.1 million dollar interest	24		revenue is removed or deferred from 2005, will
25	issue and you indicated and acknowledged the	25		the Company under earn its range of rate of
	Page	163		Page 164
1	return on rate base?	1		for you. Mr. Kennedy asked you some questions
2	MR. SMITH:	2		about operating expenses and looked at the
3	A. Yes, it will, based on our current forecast.	3		various schedules. Could we come back to that
4	Q. Okay, the third point I want to take you to is	4		and I wonder if you're now able to address Mr.
5	there might have been some suggestion in one	5		Kennedy's question about those numbers.
6	of Mr. Johnson's last questions, towards the	6	MR.	MEYERS:
7	end of his examination, that Grant Thornton	7	Α	Yes, one of those things that it's so obvious
8	may have questioned the appropriateness of	8		you overlook it, I guess. In PUB 15, the
9	this type of proceeding to deal with specific	9		operating expense number that Mr. Kennedy was
10	cost items. I want you to go to CA-39 PUB	10		referring to, which was the -
11	with me for a moment. Perhaps we can put that	11	Ç	o. Mr. Meyers, if we could just get that up on
12	up on the screen. The last paragraph of that	12		the screen here. There you go.
13	answer from Grant Thornton. Perhaps you can	13	MR.	MEYERS:
14	just read that, Mr. Smith.	14	A	A. The number for operating expenses, the 47.6
15	MR. SMITH:	15		million dollars, that number is actually net
16	A. "While a full review of revenue requirement is	16		of transfers to GEC and those transfers would
17	appropriate for a GRA, regulatory practice	17		be about 2.1 million dollars. So if you were
18	would permit the Board to hear evidence on	18		to compare like to like, in terms of the
19	specific issues, including individual cost	19		number here for 2005 and the number forecast
20	items outside of a full review and render a	20		for 2006 in attachment A to PUB 5, on a like-
21	decision based on its assessment of that	21		to-like basis, they would both be very
22	evidence, where it determines it is	22		similar. There'd be about \$200,000.00 in the
23	appropriate in the circumstances."	23		two numbers. If you look at attachment A to
1	- mi 1 N d e 1 d	1.		1 40.5 '11' 1 11 1 1 1

25

PUB 5, we have 49.5 million dollars, which is

before the transfers to GEC, which is shown on

Q. Thank you. Now the final area that I just want to touch on, Mr. Meyers, is a question

24

December 7, 2005	Muiti-1	age NL I ower's Accounting I only
	Page 165	Page 166
1 MR. MEYERS	1	F
line 31, so the 49.5 million less the 2.1,	2	ι ι υ
3 would give you a number of 47.4 million, whi	ch 3	, &
4 would be comparable to the 47.6 million in PU	В 4	for 2006 as well? That 7.02 percent that was
5 15 for 2005.	5	put to us this morning is the forecast range
6 Q. Thank you, Mr. Meyers. Those are my	6	rate of return on rate base?
7 questions, Mr. Chair.	7	7 MR. MEYERS:
8 CHAIRMAN:	8	3 A. Yes.
9 Q. Thank you, Mr. Kelly. Commissioner Whalen	, do 9	Q. And I guess, the only thing that comes to mind
10 you have -	10	for me is absent the tax settlement, whatand
11 VICE-CHAIR:	11	absent this application before the Board, that
12 Q. Suffering from empty head and empty stomac	h at 12	
this stage. I thought I had it, I'm not sure.	13	
Just to follow up on a question that Mr. Kelly	14	
just put to you in terms of your earning	15	
situation for 2005 and forecast 2006. And	16	· · ·
it's my understanding that absent the tax	17	MR. SMITH:
settlement, Newfoundland Power would actua		
be in an under earning situation for 2005 in	19	
20 respect of the range of rate of return on rate	20	
21 base?	21	
22 MR. MEYERS:	22	
23 A. Yes, our return on rate base would be below	23	
the range in 2005.	24	
25 Q. And absent the tax settlement, Newfoundland		
2.5 Q. 7 the dosent the tax settlement, 1 te wio and take	4 23	or operating cost is so minion. So I time
	D 167	D 100
	Page 167	Page 168
1 those are the two choices and we've be	en 1	Board for rate relief for that?
those are the two choices and we've be looking at that for a couple of years, I	een 1	Board for rate relief for that? 2 MR. SMITH:
those are the two choices and we've be looking at that for a couple of years, I guess, quite frankly, given the depreciation	een 1 2 2 on 3	Board for rate relief for that? MR. SMITH: A. I think that an application in front of the
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De	ecember 7, 2005 Mult	i-Pa	ige IM	NL Power's Accounting Policy
	Page 169			Page 170
1	MR. SMITH	1	the early years	of those, it takes a little
2	to make a conclusion one way or the other and	2	• •	the results to be seen and
3	that's where the forecast information comes	3		sion, the pension expense has
4	into play, and some judgment is involved,	4	_	nk due to factors beyond our
5	obviously, but I think the magnitude of the	5		frankly, because of the
6	shortfall and the amounts in question and	6	_	nterest rates. So it's a
7	everything else, provides the proper context	7		f all those things.
8	to make that decision, yes.	8		ll I have, Mr. Chairman.
9	Q. What's happened since 2003 and it only seems		CHAIRMAN:	
10	like, I won't even say years ago, it was weeks	10	Q. Thank you.	
11	ago that you were here even, what's happened		VICE-CHAIR:	
12	since you were here last for Newfoundland	12	Q. Thank you, gen	ntlemen.
13	Power to be in an under earning situation for	- 1	CHAIRMAN:	
14	2005? I mean, are there any extraordinary	14		ommissioner Whalen. I really
15	circumstances that have presented themselves?	15		st a couple ofdon't have very
	MR. SMITH:	16		couple of short questions, I
17	A. There's no one particular extraordinary	17	•	nan anything. You spent time
18	circumstance. As we've discussed a little	18	-	I guess it was CA-23, outlining
19	bit, on the surface anyway, the bigger picture	19		ner financial benefits. Would
20	of things, that there have been continued	20		that some of these things came
21	efforts to reduce and minimize cost and that	21	•	sult of good management and
22	has taken place. One of the things that	22		at of good luck and that in
23	happened is the Early Retirement Program and	23		a view to the tax rates
24	again, I mean, clearly on a longer term it's	24	•	example, and that thesethe
25	the right thing to do, in the early going, in	25		efited from this as well, I mean,
		-	Company cene	
١.	Page 171			Page 172
$\frac{1}{2}$	that these are not only customer financial	1		urn. What do you view that as,
$\frac{1}{2}$	benefits, but benefits to the Company as well?	2		range? Is it at some point
	MR. SMITH:	3	•	indeed you had a return that
4	A. I'm a firm believer in the expression that you	4		dpoint of the range now, would
5	have to be good to be lucky. So I think I	5		ing the application here that you
6	agree with your statement, but often times	6		number, a finite number, an
7	it's about positioning yourself to take the	7	• •	number that you would see as
8	maximum advantage of the luck that does come	8		ecipitating this, in that range?
9	your way.	9	I mean, -	
10	Q. Yes, I wasn't so much placing emphasis on the		MR. SMITH:	ot if we came within the man
11	luck, but placing an emphasis on the fact that	11		at if we earn within the range,
12	the Company benefited from these as well. The	12		fair, just and reasonable
13	way they're presented here is that, you know,	13	return.	and host I think I'm aging to
14	these were net benefits to the customer, but,	14		ore, but I think I'm going to
15	you know, the Company, I would think, shared	15		Are there any other questions
16	in that as a result of the decisions you made.	16	-	kay, thank you very much both of
- 1	MR. SMITH:	17	•	n and Mr. Meyers, I appreciated
18	A. Absolutely, absolutely, there's some benefit	18	•	, thank you. It is twenty after
19	to the Company, as well as to customers, no	19		s my opinion, anyway, it's a
20	question about that.	20	_	n with another witness, so if
21	Q. You made the comment, Mr. Smith, I guess that	21		lude today's proceedings and we
22	if it not were for the lower rate of return	22		morrow at 9:00 with Mr. Browne,
23	that you may indeed, I think Newfoundland	23	fair enough?	

24 KELLY, Q.C.:

25

Q. Thank you, Chair.

24

25

Power would not be requesting this adjustment

if they were earning an appropriate just and

December 7, 2005	Multi-Page TM	NL Power's Accounting Policy
1 CHAIRMAN: 2 Q. Thank you very much, thanks again. 3 MR. JOHNSON: 4 Q. Mr. Chairman, I'm sorry, on that poin think this morning you indicated that normal time would be 9:30 to 1:30. I'm 7 CHAIRMAN: 8 Q. Did I say that? 9 VICE-CHAIR: 10 Q. The normal time is 9 to 1:30. 11 CHAIRMAN: 12 Q. I said 9:30? Okay, it is 9 to 1:30, sorry about that. 14 Upon concluding at 2:21 p.m.	3 a to 4 according to the 5 cording to the 7 200 8 Uti 9 Ne 10 to to 11 app y 12 Da 13 thi	Page 174 CERTIFICATE fudy Moss, hereby certify that the foregoing is rue and correct transcript in the matter of the counting policy of Newfoundland Power Inc. Incerning revenue recognition and matters related ereto, heard on the 7th day of December, A.D., 205 before the Board of Commissioners of Public filtities, Prince Charles Building, St. John's, ewfoundland and Labrador and was transcribed by me the best of my ability by means of a sound paratus. Ited at St. John's, Newfoundland and Labrador is 7th day of December, A.D., 2005 by Moss The day of December, A.D., 2005 by Moss Newfoundland and Labrador is 7th day of December, A.D., 2005 by Moss
Discoveries Unlimited Inc., Ph: (709)437-5		Page 173 - Page 174