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Dear Ms. Blundon,

Re: Newfoundland Power Inc.
2018 Capital Budget Application

We have completed our review as requested in your letter dated July 17, 2017 relating to Newfoundland Power Inc.'s (the "Company's") 2018 Capital Budget Application as it pertains to the calculation of the 2016 actual average rate base and the calculations of the 2017 and 2018 forecast rate base additions, deductions and allowances.

The procedures undertaken in the course of our financial analysis do not constitute an audit of the Company's financial information and consequently, we do not express an opinion on the financial information.

The results of our review for each required task are noted below:

2016 AVERAGE RATE BASE CALCULATION

Pursuant to P.U. 32 (2007), the Board of Commissioners of Public Utilities (the "Board") approved the Company's proposal to complete its transition to the Asset Rate Base Method ("ARBM") commencing January 1, 2008. The actual average rate base for 2016 as calculated by the Company under the ARBM and provided in Schedule D of its Application is $1,061,044,000 which is an increase of $41,962,000 (4.1%) over the average rate base for 2015 of $1,019,082,000.

The net change in the Company's average rate base from 2015 to 2016 can be summarized as follows:

(000's)	2016	2015
Average rate base - opening balance	$ 1,019,082	$ 964,930
Change in average deferred charges and deferred regulatory costs	(3,375)	(1,614)
Average change in:		
Plant in service	74,289	82,016
Accumulated depreciation	(24,509)	(22,498)
Contributions in aid of construction	(1,197)	(1,164)
Weather normalization reserve	1,681	4,735
Other post-employment benefits	(6,824)	(7,847)
Future income taxes	172	302
Rate base allowances	1,763	996
Other rate base components (net)	(38)	(774)
Average rate base - ending balance	$ 1,061,044	$ 1,019,082

Our procedures with respect to verifying the calculation of the average rate base were directed towards the verification of the data incorporated in the calculations and the methodology used by the Company. Specifically, the procedures which we performed included the following:

- agreed all carry-forward data to supporting documentation including audited financial statements and internal accounting records, where applicable;
- agreed component data (capital expenditures; depreciation; etc.) to supporting documentation as noted under each section;
- checked the clerical accuracy of the continuity of the rate base for 2016; and
- agreed the methodology used in the calculation of the average rate base to the Public Utilities Act to ensure it is in accordance with Board Orders and established policy and procedure.

Based upon the results of the above procedures we did not note any discrepancies in the calculation of the 2016 average rate base, and therefore conclude that the 2016 average rate base included in Schedule D of the Company's Application is in accordance with established practice and Board Orders.

RATE BASE ADDITIONS, DEDUCTIONS AND ALLOWANCES

In compliance with P.U. 19 (2003), Newfoundland Power Inc. has filed evidence with the Board pertaining to its forecast deferred charges, including pension costs, to be included in the calculation of the forecast average rate base for 2017 and 2018 in its 2018 Capital Budget application. The report also provides a comprehensive review of all additions, deductions and allowances included in the rate base, with the exception of plant investment. The 2017 and 2018 forecast rate base additions, deductions and allowances are consistent with the calculation of the Company's 2017 and 2018 forecast average rate base reflected by the most recent forecast and estimates presented with year-end data. This is consistent with past evidence in compliance with Order No. P.U. 19 (2003). Each, in turn, is reviewed below.

RATE BASE ADDITIONS

The forecast additions to rate base for 2017 and 2018 and the actual additions in 2015 and 2016 as presented by the Company are as follows:

($000's)	Actual 2015	Actual 2016	Forecast 2017	Forecast 2018
Deferred Pension Costs	$ 98,829	$ 94,775	$ 92,003	$ 91,199
Credit Facility Issue Costs	56	94	74	54
Cost Recovery Deferral – Seasonal/TOD Rates	49	-	-	-
Cost Recovery Deferral – Hearing Costs	-	682	341	-
Cost Recovery Deferral – Conservation	7,463	11,304	14,744	16,286
Weather Normalization Reserve (Note 1)	4,411	1,721	807	-
Customer Finance Programs	1,211	1,341	1,136	1,136
Total Additions	$ 112,019	$ 109,917	$ 109,105	$ 108,675

Note 1: The 2015 Weather Normalization Reserve was grouped in Rate Base Deductions in the prior year report; the balance remains the same.

Source: Newfoundland Power Inc. - 2018 Capital Budget Application
Report on *Rate Base: Additions, Deductions & Allowance*s - Table 1

Our comments with respect to the additions to rate base are noted below:

Deferred Pension Costs

Deferred pension costs are the result of the pension funding exceeding the pension expense as determined in accordance with the recommendations of U.S. GAAP.

According to the table below, the forecast pension plan funding for 2017 and 2018 is $3,363,000 and $3,253,000 and the forecast pension plan expense is $6,135,000 and $4,057,000 for 2017 and 2018 respectively. The difference between the funding and the expense, as indicated below, represents the decrease in deferred pension costs forecast for 2017 and 2018.

($000's)	Actual 2015	Actual 2016	Forecast 2017	Forecast 2018
Deferred Pension Costs, January 1	$103,939	$98,829	$94,775	$92,003
Pension Plan Funding	10,213	3,249	3,363	3,253
Pension Plan Expense	(15,323)	(7,303)	(6,135)	(4,057)
Increase/(decrease) in Deferred Pension Costs	(5,110)	(4,054)	(2,772)	(804)
Deferred Pension costs, December 31	$98,829	$94,775	$ 92,003	$ 91,199

Source: Newfoundland Power Inc. - 2018 Capital Budget Application
Report on *Rate Base: Additions, Deductions & Allowance*s - Table 2

The forecast pension expense for 2017 and 2018 is $6,135,000 and $4,057,000 respectively compared to an actual expense in 2016 of $7,303,000. According to the Company, the decrease in forecast expense in 2017 and 2018 is primarily related to a decrease in amortization of net actuarial losses for those years. This is primarily due to a lower balance of actuarial losses to amortize as a result of amounts realized in 2016 and prior years, while being combined with an actuarial gain in 2016. The forecast pension expense included in the table above is consistent with calculations provided by the Company's actuary. Based on our review of information provided by the Company, the forecast pension expense is calculated in accordance with the recommendations of U.S. GAAP and relevant Board Orders.

The forecast pension funding for 2017 and 2018 per Table 2 of the *Rate Base: Additions, Deductions & Allowances* report is $3,363,000 and $3,253,000 respectively, compared to actual funding in 2016 of $3,249,000. The forecast funding amounts have been agreed to schedules provided by the Company's actuary. The pension funding for 2015 included special funding payments of $7.0 million. There were no special funding payments during 2016, and none forecast for 2017 and 2018.

Based on our review of forecast deferred pension costs, we confirm that we have not noted any discrepancies or unusual items.

Deferred Credit Facility Issue Costs

In August 2016, the committed credit facility of $100 million was renegotiated to extend its maturity date to August 2021. Costs related to the amendment totalled $101,000 and are being amortized over the 5-year life of the agreement, beginning in 2016. For 2016 to 2018, the unamortized credit facility costs are included in rate base as the costs did not make up part of the Company's revenue requirements.

In the 2016/2017 General Rate Application, the Company proposed the unamortized credit facility costs as of December 31, 2015 of $56,000 be included as a component of the Company's cost of capital. As these costs are to be reflected in revenue requirements for 2016 and 2017, they are not included in rate base for 2016 and 2017.

Based on our review of forecast deferred credit facility issue costs, we confirm that we have not noted any discrepancies or unusual items.

Cost Recovery Deferral – Seasonal/TOD Rates

On July 1, 2011 the Board approved the creation of the Optional Seasonal Rate Revenue and Cost Recovery Account by way of P.U. 8 (2011). This account is charged with: (i) the current year revenue impact of making the Domestic Seasonal – Optional Rate available to customers and (ii) the operating costs associated with implementing the Domestic Seasonal – Optional and the Time-of-Day Rate Study.

In the 2016/2017 General Rate Application, the Company did not propose that the Optional Seasonal Rate Revenue and Cost Recovery Account be maintained beyond 2015. Accordingly the December 31, 2015 balance was the final disposition to the RSA.

Cost Recovery Deferral – Hearing Costs

In P.U. 13 (2013), the Board approved a three year amortization period for the recovery of hearing costs related to the Company's 2013 General Rate Application "in the amount of $1,250,000" beginning in 2013. The actual external costs incurred for the 2013 General Rate Application were $965,000. These costs were fully amortized in 2015.

In P.U. 18 (2016), the Board approved hearing costs of up to $1.0 million related to the 2016/2017 General Rate Application to be recovered in customer rates over the period July 1, 2016 through December 31, 2018. According to the company, hearing costs related to the 2016/17 General Rate Application were approximately $854,000.

Based on our review of forecast deferred cost recovery relating to hearing costs, we confirm that we have not noted any discrepancies or unusual items, and it is consistent with approved Board Orders.

Cost Recovery Deferral – Conservation

On April 17, 2013, the Board issued P.U. 13 (2013) and approved the deferral of annual customer energy conservation program costs and the amortization of annual costs over seven years beginning in 2014 with recovery through the Rate Stabilization Account.

Based on our review of forecast deferred cost recovery relating to conservation and amortization of annual costs, we confirm that we have not noted any discrepancies or unusual items, and it is consistent with approved Board Orders.

Weather Normalization Reserve

In P.U. 13 (2013) the Board approved the disposition of the annual balance in the Weather Normalization Reserve Account through the Rate Stabilization Account. At this time the

Board also approved the amortization of the 2011 ending balance in the Weather Normalization Reserve of $5,020,000 over three years beginning in 2013. The 2011 ending balance was fully amortized during 2015.

The disposition of the December 31, 2016 balance to the Rate Stabilization Account as of March 31, 2017 was approved in P.U. 12 (2017).

Based on our review of the forecast weather normalization reserve, we confirm that we have not noted any discrepancies or unusual items.

Customer Finance Programs

As indicated by the Company, Customer Finance Programs are loans provided to customers for purchase and installation of products and services related to conservation programs and contributions in aid of construction.

As part of the Company's transition to Asset Rate Base Method (ARBM) in 2008, inclusion of certain other assets and liabilities was required, including Customer Finance Programs receivables. The 2017 and 2018 forecast Customer Finance Programs receivable balance is fairly comparable with 2016 and 2015 and therefore appears reasonable.

RATE BASE DEDUCTIONS

The forecast deductions to rate base for 2017 and 2018 and the actual figures for 2015 and 2016 as presented by the Company are as follows:

($000's)	**Actual 2015 (Note 1)**	**Actual 2016**	**Forecast 2017**	**Forecast 2018**
Cost Over Recovery – 2016 Revenue Surplus	$ -	$ 1,445	$ 722	$ -
Other Post-Employment Benefits	39,208	46,083	52,061	56,988
Customer Security Deposits	1,286	786	700	700
Accrued Pension Liabilities	4,955	5,285	5,603	5,886
Accumulated Deferred Income Taxes	1,268	2,186	4,130	5,824
Demand Management Incentive Account	-	-	(1,022)	-
Excess Earnings	49	-	-	-
Total Deductions	$ 46,766	$ 55,785	$ 62,194	$ 69,398

Note 1: The 2015 Weather Normalization Reserve was grouped in Rate Base Deductions in the prior year report; this balance has been presented in Rate Base Additions in the current report. The balance remains the same.

Source: Newfoundland Power Inc. - 2018 Capital Budget Application
Report on *Rate Base: Additions, Deductions & Allowances* - Table 9

Our comments with respect to the deductions to rate base are noted below:

Cost Over Recovery – 2016 Revenue Surplus

As a result of the Board's decisions included in P.U. 18 (2016) the 2016 revenue shortfall proposed by the Company shifted to a revenue surplus of $2,600,000 ($1,800,000 after tax). The Board order provided for a credit of the 2016 revenue surplus through a regulatory amortization beginning July 1, 2016 and concluding on December 31, 2018.

Based on our review of the forecast cost over recovery – 2016 revenue surplus, we confirm that we have not noted any discrepancies or unusual items.

OPEBs Liability

On June 30, 2010, the Company submitted an application to the Board requesting approval for the 2011 adoption of accrual accounting for OPEBs for regulatory purposes. Under the accrual basis, OPEBs costs are recognized as an expense as employees earn the benefits that they will receive after retirement. The application also addressed treatment of the projected OPEBs transitional balance as at January 1, 2011 and the creation of an OPEBs Cost Variance Deferral Account. On December 10, 2011, P.U. 31 (2010) approved the adoption of the accrual method of accounting for OPEBs costs and income tax related to OPEBs effective January 1, 2011 and the amortization using the straight line method over a 15-year period of the transitional balance estimated to be $52,400,000. The actual transitional balance was $52,560,000 resulting in annual amortization of $3,504,000.

The total amount of the deduction to rate base related to OPEBs for 2016 is $46,083,000 with $52,061,000 and $56,988,000 forecast for 2017 and 2018 respectively. The actual and forecast OPEBs are consistent with calculations provided by the Company's actuary.

Customer Security Deposits

Customer Security Deposits are provided by customers in accordance with the Schedule of Rates, Rules and Regulations.

As part of the transition to ARBM in 2008 the inclusion of Customer Security Deposits was required as a component of rate base. The 2015 balance of Customer Security Deposits is higher than 2016 and forecast 2017 and 2018 as a result of a new commercial customer that was required to pay a security deposit of approximately $600,000 in 2015. According to the Company deposits of this nature are not considered common and the 2017 and 2018 forecast are based on a historical average that generally do not include onetime occurrences such as this large deposit included in the 2015 balance.

Accrued Pension Liabilities

Accrued pension liabilities represent the executive and senior management supplemental pension benefits comprised of a defined benefit plan (Pension Uniformity Plan - PUP) and a defined contribution plan (Supplementary Employee Retirement Plan - SERP). The balance represents the cumulative costs of these unfunded plans, net of associated benefit payments.

As part of the transition to ARBM in 2008 the inclusion of accrued pension liabilities was required as a component of rate base. The 2017 and 2018 forecast accrued pension liabilities are increasing each year by a comparable amount as experienced in 2016. The actual and forecast PUP are consistent with calculations provided by the Company's actuary. The Company is the designated administrator responsible for the overall administration, interpretation and application of the SERP. The liability is determined by the Company in accordance with the terms of the SERP.

Accumulated Deferred Income Taxes

Deferred Income Taxes arise due to the Board's approval of the Company's use of tax accrual accounting related to plant investment, pension costs and other employee future benefit costs.

According to the Company, the increase in deferred income taxes for 2017 and 2018 forecast is primarily due to accelerated write offs for tax purposes (i.e. capital cost allowance (CCA)) on certain large capital projects. Based on our review of Future Income Tax balances, we confirm that we have not noted any material discrepancies or unusual items, and it is consistent with approved Board Orders.

Demand Management Incentive Account

In P.U. 32 (2007) the Board approved the Company's proposal to establish the Demand Management Incentive Account ("DMI").

In P.U. 8 (2015) the Board approved a credit transfer of $628,000 equal to the balance in the 2014 DMI account plus related income tax effects to the Rate Stabilization Account as at March 31, 2015.

The 2015 and 2016 DMI was $Nil as there was no supply cost variance outside the Deadband.

Based on our review of forecast DMI, we confirm that we have not noted any discrepancies or unusual items, and it is consistent with approved Board Orders.

Excess Earnings

In P.U. 23 (2013) the Board approved the definition of the Excess Earnings Account. In 2013, Newfoundland Power's regulated earnings exceeded the upper limit of allowed regulated earnings by $49,000 after tax.

In P.U. 25(2016) the Board approved the 2017 and 2018 revenue requirements which included the excess earnings amount. The balance of the excess earnings account is zero as of December 31, 2016.

RATE BASE ALLOWANCES

The Rate Base allowances included in the Company's rate base are the Cash Working Capital ("CWC") allowance and the Materials and Supplies allowance. These represent the average amount of investor-supplied working capital necessary to provide service. The 2017 and 2018 forecast CWC and the Materials and Supplies allowance are based the method used to calculate the 2016/17 average rate base as approved by the Board in P.U. 18 (2016).

Based on our review of the Rate Base Allowances, we have not noted any discrepancies or unusual items and the forecast for 2017 and 2018 is consistent with 2016/17 test year data.

I trust this is the information you requested. If you have any questions, please contact me.

Yours sincerely,
Grant Thornton LLP

Steve Power, CPA, CA
Partner