

WHENEVER. WHEREVER.  
We'll be there.



DELIVERED BY HAND

November 10, 2017

Board of Commissioners  
of Public Utilities  
P.O. Box 21040  
120 Torbay Road  
St. John's, NL A1A 5B2

Attention: G. Cheryl Blundon  
Director of Corporate Services  
and Board Secretary

Ladies & Gentlemen:

**Re: 2018 Rate of Return on Rate Base Application**

**A. General:**

***The 2018 Rate of Return on Rate Base Application***

In Order No. P.U. 18 (2016) (the “2016/2017 General Rate Order”), the Board of Commissioners of Public Utilities (the “Board”) ordered, amongst other things, that Newfoundland Power file an application on or before November 15, 2017 for approval of its 2018 forecast average rate base and rate of return on rate base maintaining the ratemaking common equity ratio and return on common equity established in the 2016/2017 General Rate Order.

Enclosed please find the original and 9 copies of an application made in compliance with the direction of the Board contained in the 2016/2017 General Rate Order (the “Application”).

***Customer Rate Impacts***

The Application does not propose any change in customer rates as a result of the 2018 forecast average rate base and rate of return on rate base. It proposes that existing customer rates continue in 2018 as approved by the Board in Order No. P.U. 23 (2017).

**B. Contents of the Application:**

Newfoundland Power’s evidence in support of the Application is contained in Schedule 1 to the Application.

**Newfoundland Power Inc.**

55 Kenmount Road • P.O. Box 8910 • St. John’s, NL A1B 3P6

PHONE (709) 737-5609 • FAX (709) 737-2974 • [ghayes@newfoundlandpower.com](mailto:ghayes@newfoundlandpower.com)

Schedule 1 presents a revised calculation of Newfoundland Power's 2018 forecast average rate base and rate of return on rate base in accordance with determinations made by the Board in the 2016/2017 General Rate Order.

**C. Concluding:**

We trust that the foregoing and enclosed are found to be in order. A draft order in respect of the Application is enclosed for the Board's convenience.

A copy of this letter, together with a copy of the enclosures, has been forwarded directly to Tracey Pennell of Newfoundland and Labrador Hydro and Dennis Browne, Consumer Advocate.

If you have any questions regarding the enclosed, please contact the undersigned at your convenience.

Yours very truly,



Gerard M. Hayes  
Senior Counsel

Enclosures

c. Tracey Pennell  
Newfoundland and Labrador Hydro

Dennis Browne, QC  
Browne Fitzgerald Morgan & Avis

**IN THE MATTER OF** the *Public Utilities Act*, R.S.N. 1990, Chapter P-47 (the "Act"); and

**IN THE MATTER OF** an application by Newfoundland Power Inc. ("Newfoundland Power") to approve a 2018 forecast average rate base and a 2018 rate of return on rate base as required by Order No. P.U. 18 (2016).

**TO:** The Board of Commissioners of Public Utilities (the "Board")

**THE APPLICATION OF** Newfoundland Power Inc. ("Newfoundland Power") **SAYS THAT:**

1. Newfoundland Power is a corporation duly organized and existing under the laws of the Province of Newfoundland and Labrador, is a public utility within the meaning of the Act and is subject to the provisions of the *Electrical Power Control Act, 1994*.
2. By Order No. P.U. 18 (2016) (the "2016/2017 General Rate Order"), the Board ordered, amongst other things, that Newfoundland Power file an application on or before November 15, 2017 for approval of the 2018 forecast average rate base and rate of return on rate base maintaining the ratemaking common equity ratio and return on common equity established by the 2016/2017 General Rate Order.
3. By Order No. P.U. 25 (2016), the Board approved rates, tolls and charges ("customer rates") for Newfoundland Power that reflected the Board's determinations in the 2016/2017 General Rate Order.
4. By Order No. P.U. 23 (2017), the Board approved, amongst other things, a revision to customer rates for a change in costs payable to Newfoundland and Labrador Hydro ("Hydro") for the supply of power as a result of a revised utility rate effective July 1, 2017.
5. Current customer rates approved by the Board in Order No. P.U. 23 (2017) continue to reflect the Board's determinations in the 2016/2017 General Rate Order, revised for the change in purchased power costs approved in Order No. P.U. 23 (2017).
6. Schedule 1 to this Application shows the calculation of Newfoundland Power's
  - a) 2018 forecast average rate base; and
  - b) 2018 forecast rate of return on rate base

which reflect the Board's determinations in the 2016/2017 General Rate Order.

which reflect the Board's determinations in the 2016/2017 General Rate Order.

7. Newfoundland Power requests, pursuant to Sections 70 and 80 of the Act and the 2016/2017 General Rate Order, that the Board make an Order approving:
  - a) a 2018 forecast average rate base for Newfoundland Power of \$1,115,997,000;
  - b) a just and reasonable 2018 rate of return on rate base for Newfoundland Power of 7.04% in a range of 6.86% to 7.22%; and
  - c) continuation in 2018 of the existing rates, tolls and charges approved by the Board in Order No. P.U. 23 (2017).
8. The Board should grant the Order requested because it gives effect to the requirements of the 2016/2017 General Rate Order in a manner consistent with longstanding regulatory practice.
9. Communications with respect to this Application should be forwarded to the attention of Liam P. O'Brien and Gerard M. Hayes, Counsel to Newfoundland Power.

**DATED** at St. John's, Newfoundland and Labrador, this 10<sup>th</sup> day of November, 2017.

**NEWFOUNDLAND POWER INC.**



Liam P. O'Brien and Gerard M. Hayes  
Counsel to Newfoundland Power Inc.  
P.O. Box 8910  
55 Kenmount Road  
St. John's, NL A1B 3P6

Telephone: (709) 737-5609  
Telecopier: (709) 737-2974

**IN THE MATTER OF** the *Public Utilities Act*, R.S.N. 1990, Chapter P-47 (the "Act"); and

**IN THE MATTER OF** an application by Newfoundland Power Inc. ("Newfoundland Power") to approve a 2018 forecast average rate base and a 2018 rate of return on rate base as required by Order No. P.U. 18 (2016).

**AFFIDAVIT**

I, Peter Alteen, QC of St. John's in the Province of Newfoundland and Labrador, make oath and say as follows:

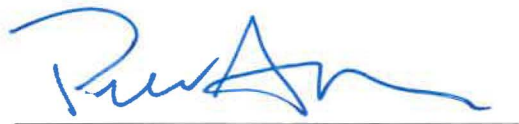
1. That I am Vice-President, Regulation and Planning of Newfoundland Power Inc.
2. To the best of my knowledge, information and belief, all matters, facts and things set out in this Application are true.

**SWORN** to before me at St. John's  
in the Province of Newfoundland and  
Labrador this 10<sup>th</sup> day of November, 2017:



A handwritten signature in blue ink, appearing to be 'Quayle', written over a horizontal line.

Barrister



A handwritten signature in blue ink, appearing to be 'Peter Alteen', written over a horizontal line.

Peter Alteen

NEWFOUNDLAND AND LABRADOR

AN ORDER OF THE BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

NO. P.U. \_\_ (2017)

**IN THE MATTER OF** the *Public Utilities Act*, R.S.N. 1990, Chapter P-47 (the "Act"); and

**IN THE MATTER OF** an application by Newfoundland Power Inc. ("Newfoundland Power") to approve a 2018 forecast average rate base and a 2018 rate of return on rate base as required by Order No. P.U. 18 (2016).

**WHEREAS** Newfoundland Power filed its 2016/2017 General Rate Application with the Board of Commissioners of Public Utilities (the "Board") on October 16, 2015 for an Order of the Board approving, *inter alia*, proposed rates for the various customers of Newfoundland Power, to be effective July 1, 2016; and

**WHEREAS** on June 8, 2016, after holding a public hearing, the Board issued Order No. P.U. 18 (2016) (the "2016/2017 General Rate Order") directing Newfoundland Power, *inter alia*, to file an application on or before November 15, 2017 for approval of its 2018 forecast average rate base and rate of return on rate base maintaining the ratemaking common equity ratio of 45% and an 8.50% return on common equity established in the 2016/2017 General Rate Order; and

**WHEREAS** on November 10, 2017, Newfoundland Power submitted an application in compliance with the 2016/2017 General Rate Order seeking an Order of the Board approving:

- (i) a 2018 forecast average rate base of \$1,115,997,000; (ii) a just and reasonable forecast rate of return on average rate base for 2018 of 7.04% in a range of 6.86% to 7.22%; and
- (iii) continuation of the existing customer rates approved by the Board in Order No.

P.U. 23 (2017); and

**WHEREAS** the Board has reviewed the Application and supporting evidence, and is satisfied that Newfoundland Power's forecast average rate base for 2018 of \$1,115,997,000 is calculated in accordance with and reflects prior Orders of the Board, that Newfoundland Power's proposed rate of return on rate base for 2018 of 7.04% in a range of 6.86% to 7.22%, as proposed in the Application, is just and reasonable and properly reflects the determinations of the Board in the 2016/2017 General Rate Order, and that continuation of the existing customer rates approved by the Board in Order No. P.U. 23 (2017) is consistent with regulatory practice of the Board.

**IT IS THEREFORE ORDERED THAT:**

1. Pursuant to Section 78 of the Act, the Board hereby approves Newfoundland Power's forecast average rate base for 2018 of \$1,115,997,000.
2. Pursuant to Section 80 of the Act, the Board hereby approves a just and reasonable rate of return on average rate base for 2018 for Newfoundland Power of 7.04% in a range of 6.86% to 7.22%.
3. Pursuant to Section 70 of the Act, the Board hereby approves continuation in 2018 of the rates, tolls and charges approved by the Board in Order No. P.U. 23 (2017).

DATED at St. John's, Newfoundland and Labrador, this    day of                    , 2017.

---

G. Cheryl Blundon  
Director of Corporate Services  
and Board Secretary

**IN THE MATTER OF** the *Public Utilities Act*, R.S.N. 1990, Chapter P-47 (the "Act"); and

**IN THE MATTER OF** an application by Newfoundland Power Inc. ("Newfoundland Power") to approve a 2018 forecast average rate base and a 2018 rate of return on rate base as required by Order No. P.U. 18 (2016).

---

**2018 Rate of Return on Rate Base**  
*(filed in compliance with Order No. P.U. 18 (2016))*

---



Table of Contents

|                                                         | <b>Page</b> |
|---------------------------------------------------------|-------------|
| 1.0 Introduction.....                                   | 1           |
| 2.0 Regulatory Practice.....                            | 1           |
| 2.1 Determining Annual Returns .....                    | 1           |
| 2.2 Application Context .....                           | 2           |
| 3.0 2018 Forecast Average Rate Base .....               | 3           |
| 4.0 2018 Rate of Return on Rate Base.....               | 3           |
| 4.1 2018 Forecast Rate of Return on Rate Base .....     | 3           |
| 4.2 Assessment of 2018 Rate of Return on Rate Base..... | 4           |
| 4.3 2018 Rate of Return on Rate Base .....              | 5           |
| 5.0 Customer Rates .....                                | 6           |
|                                                         |             |
| Appendix A: 2018 Forecast Average Rate Base             |             |
| Appendix B: 2018 Pro Forma Return on Rate Base          |             |
| Appendix C: 2018 Forecast Return on Rate Base           |             |
| Appendix D: 2018 Forecast Earnings                      |             |

## 1.0 Introduction

In Order No. P.U. 18 (2016) (the “2016/2017 General Rate Order”), the Board of Commissioners of Public Utilities (the “Board”) ordered, amongst other things, that Newfoundland Power Inc. (“Newfoundland Power” or the “Company”) file an application on or before November 15, 2017 for approval of the Company’s 2018 forecast average rate base and rate of return on rate base.<sup>1</sup>

This application is filed in compliance with the 2016/2017 General Rate Order.

This application shows Newfoundland Power’s 2018 forecast average rate base is \$1,115,997,000. In addition, this application shows that a just and reasonable rate of return on rate base for the Company for 2018 is 7.04% in a range of 6.86% to 7.22%. Finally, this application shows that a change in Newfoundland Power’s customer rates is not required in 2018 for the Company to have an opportunity to earn the just and reasonable return determined by the Board in the 2016/2017 General Rate Order.

## 2.0 Regulatory Practice

### 2.1 Determining Annual Returns

Section 80 of the *Public Utilities Act* (the “Act”) provides, in effect, that a public utility is entitled to a reasonable opportunity to earn a just and reasonable return on its rate base in each year.<sup>2</sup> Since 1998, the Board has determined a just and reasonable return on rate base for Newfoundland Power on an annual basis.

The Board’s determinations of a just and reasonable return on rate base for Newfoundland Power for those years which are considered *test years* for ratemaking purposes are found in general rate orders.<sup>3</sup> For most years that were not test years, the Board determined a just and reasonable return on rate base for the Company based upon the operation of the automatic adjustment formula (the “Formula”).<sup>4</sup> Following suspension of the Formula in 2011, the Board determined a just and reasonable return on rate base for years that were not test years following an application by Newfoundland Power.<sup>5</sup> For example, following the Company’s 2013/2014 general rate

---

<sup>1</sup> See Order No. P.U. 18 (2016), page 49, lines 15-18.

<sup>2</sup> See Section 80 of the Act and the 1998 opinion of the Newfoundland and Labrador Court of Appeal in a stated case (June 15<sup>th</sup>, 1998, Docket: 96/141).

<sup>3</sup> See Order Nos. P.U. 36 (1998-99), P.U. 19 (2003), P.U. 32 (2007), P.U. 43 (2009), P.U. 13 (2013) and P.U. 18 (2016).

<sup>4</sup> See Order Nos. P.U. 20 (1999-2000), P.U. 30 (2000-2001), P.U. 28 (2001-2002), P.U. 50 (2004), P.U. 3 (2006), P.U. 40 (2006), P.U. 35 (2008) and P.U. 32 (2010).

<sup>5</sup> See Order Nos. P.U. 25 (2011) and P.U. 13 (2013) for the Board’s decision to suspend operation of the Formula. See Order Nos. P.U. 17 (2012) and P.U. 51 (2014) for establishment of a just and reasonable return for 2012 and 2015, respectively.

1 application, Order No. P.U. 13 (2013) required that Newfoundland Power file an application for  
2 approval of (i) a forecast average rate base and (ii) a rate of return on rate base for 2015.<sup>6</sup> The  
3 Board approved the Company's application in Order No. P.U. 51 (2014).  
4

5 In the 2016/2017 General Rate Order, the Board ordered the continued suspension of the  
6 Formula for setting the allowed rate of return on average rate base for Newfoundland Power in  
7 years subsequent to 2017.<sup>7</sup> Further, the Board ordered that Newfoundland Power file an  
8 application for approval of (i) a forecast average rate base and (ii) a rate of return on rate base for  
9 2018 which maintains the ratemaking common equity ratio of 45% and an 8.50% return on  
10 common equity.<sup>8</sup>

11  
12 Newfoundland Power's application for a just and reasonable return on rate base for 2018 is  
13 substantially the same in context as the application approved by the Board in  
14 Order No. P.U. 51 (2014).  
15

## 16 **2.2 Application Context**

17

18 The primary differences in Newfoundland Power's 2018 forecast average rate base when  
19 compared to the 2017 forecast average rate base used to establish existing customer rates are due  
20 to changes in plant investment and depreciation. Changes in plant investment reflect capital  
21 expenditures specifically approved by the Board since the 2016/2017 General Rate Order.  
22 Similarly, changes in depreciation reflect depreciation rates specifically approved by the Board  
23 in the 2016/2017 General Rate Order.  
24

25 Changes in additions to, and deductions from, rate base also affect the calculation of 2018  
26 forecast average rate base. These items include a combination of specific Board orders,  
27 operation of approved regulatory mechanisms and longstanding regulatory practice.<sup>9</sup>

---

<sup>6</sup> See Order No. P.U. 13 (2013), page 57, lines 36-38.

<sup>7</sup> See Order No. P.U. 18 (2016), page 10, line 15, *et seq.*

<sup>8</sup> See Order No. P.U. 18 (2016), page 49, lines 7-18.

<sup>9</sup> For example, 2018 forecast changes in employee future benefits balances result in a reduction of approximately \$8.6 million in 2018 average rate base compared to the 2017 forecast average rate base used to establish existing customer rates. The inclusion of employee future benefits in rate base was approved by the Board in Order Nos. P.U. 19 (2003) and P.U. 31 (2010). Similarly, Board approved regulatory mechanisms, such as the Demand Management Incentive, can impact the annual calculation of rate base. These changes are reflected in the calculation of the 2018 forecast average rate base. Smaller items, such as customer finance programs and customer security deposits, are determined in accordance with longstanding regulatory practice.

1 Newfoundland Power's 2018 forecast rate of return on rate base is lower than the 2017 rate of  
 2 return on rate base used to establish existing customer rates. This primarily reflects a lower  
 3 forecast cost of debt for 2018. This lower cost of debt is the result of financing arrangements  
 4 which were specifically approved by the Board under Section 91 of the Act.<sup>10</sup>

### 6 **3.0 2018 Forecast Average Rate Base**

8 Appendix A shows the calculation of Newfoundland Power's 2018 forecast average rate base of  
 9 \$1,115,997,000.

11 The 2018 forecast average rate base reflects: (i) the Company's approved 2016 average rate base  
 12 and (ii) forecast changes to the Company's average rate base for each of 2017 and 2018.<sup>11</sup>  
 13 Forecast changes to the Company's average rate base principally reflect changes in (i) annual  
 14 capital expenditures and (ii) depreciation expense.<sup>12</sup>

### 16 **4.0 2018 Rate of Return on Rate Base**

#### 18 **4.1 2018 Forecast Rate of Return on Rate Base**

20 Appendix B shows a pro forma calculation of Newfoundland Power's 2018 rate of return on rate  
 21 base. The pro forma 2018 rate of return on rate base of 7.04% reflects the specific requirements  
 22 of the 2016/2017 General Rate Order of a common equity ratio not to exceed 45% and a rate of  
 23 return on common equity of 8.50%.<sup>13</sup>

25 Appendix C shows Newfoundland Power's current 2018 *forecast* rate of return on rate base  
 26 based upon existing customer rates. With revenues based upon existing customer rates,  
 27 Newfoundland Power forecasts its 2018 rate of return on rate base will be 6.99%.

29 The forecast 2018 rate of return on rate base is 0.05% less than the 7.04% 2018 pro forma return  
 30 on rate base calculated in the manner required by the 2016/2017 General Rate Order. This  
 31 0.05% difference reflects the difference between the 2018 rate of return on common equity of

---

<sup>10</sup> In Order No. P.U. 4 (2017), the Board approved the Company's issue of 3.815% First Mortgage Bonds in an amount of \$75 million. In Order No. P.U. 22 (2008), the Board approved the Company's current committed short-term credit facility. Under this facility, the Company is forecasting 2018 short-term debt costs of approximately 2.3%. Both of these approved financing arrangements serve to reduce the Company's forecast cost of debt in 2018 when compared to the 2017 test year used to establish existing customer rates.

<sup>11</sup> In Order No. P.U. 37 (2017), the Board approved the Company's 2016 average rate base of \$1,061.0 million.

<sup>12</sup> 2017 capital expenditures of \$89.4 million were approved in Order No. P.U. 39 (2016). 2017 supplemental capital expenditures of \$5.2 million (net of a contribution in aid of construction) were approved by the Board in Order Nos. P.U. 6 (2017) and P.U. 19 (2017). 2018 capital expenditures of \$83.9 million were approved in Order No. P.U. 37 (2017).

<sup>13</sup> In addition, the pro forma 2018 7.04% rate of return on rate base reflects the lower cost of debt for 2018 described at 2.2 *Application Context*, page 3, lines 2-4.

1 8.50% approved by the Board in the 2016/2017 General Rate Order and the Company's 2018  
2 forecast rate of return on common equity.

3  
4 Appendix D shows Newfoundland Power's 2018 forecast earnings based upon existing customer  
5 rates. With revenues based upon existing customer rates, Newfoundland Power forecasts its  
6 2018 rate of return on common equity will be 8.38%. This is 0.12% less than the 8.50% rate of  
7 return on common equity approved in the 2016/2017 General Rate Order.

#### 8 9 **4.2 Assessment of 2018 Rate of Return on Rate Base**

10  
11 Table 1 shows a comparison of financial metrics associated with Newfoundland Power's rate of  
12 return on rate base for (i) the 2017 test year used to establish existing customer rates and (ii) the  
13 Company's 2018 forecast.<sup>14</sup>

14  
15  
**Table 1**  
**Rate of Return on Rate Base**  
**Comparative Financial Metrics**  
**2017 Test Year and 2018 Forecast**

|                                 | <b>2017T</b> | <b>2018F</b> |
|---------------------------------|--------------|--------------|
| Average Rate Base (\$000s)      | 1,104,702    | 1,115,997    |
| Return on Rate Base (\$000s)    | 79,440       | 77,955       |
| Rate of Return on Rate Base     | 7.19%        | 6.99%        |
| Rate of Return on Common Equity | 8.50%        | 8.38%        |

16  
17  
18 Newfoundland Power's 2017 test year rate base used to establish existing customer rates was  
19 \$1,104.7 million. The Company's 2018 forecast average rate base is \$1,116.0 million. As  
20 indicated above, the increase in the Company's rate base relates primarily to changes in (i) plant  
21 investment as a result of increased capital expenditures not reflected in the 2017 test year and  
22 (ii) depreciation expense. Both Newfoundland Power's additional capital expenditures and  
23 depreciation rates have been specifically approved by the Board.

24  
25 Newfoundland Power's 2017 return on rate base used to establish existing customer rates was  
26 \$79.4 million. The Company's 2018 forecast return on rate base is \$78.0 million. The  
27 difference is due to a lower forecast return on debt and a lower forecast return on common  
28 equity.

<sup>14</sup> 2017 test year data are taken from Newfoundland Power's June 17<sup>th</sup>, 2016 Application Filed in Compliance with Order No. P.U. 18 (2016). 2018 forecast data are provided in Appendices A, C and D.

1 Newfoundland Power's 2017 rate of return on rate base used to establish existing customer rates  
2 was 7.19%. The Company's 2018 forecast rate of return on rate base is 6.99%. As indicated  
3 above, the lower forecast rate of return on rate base primarily reflects a lower forecast cost of  
4 debt for 2018 when compared to that used to establish existing customer rates. The sources of  
5 this lower cost debt have been specifically approved by the Board.<sup>15</sup>  
6

7 Newfoundland Power's 2017 rate of return on common equity used to establish existing  
8 customer rates was 8.50%. The 2016/2017 General Rate Order approved this 8.50% rate of  
9 return on common equity for 2018. The Company's 2018 forecast rate of return on common  
10 equity is 8.38%. The lower forecast rate of return on common equity for 2018 is the result of a  
11 variety of differences between the Company's 2017 test year forecast and its 2018 forecast. This  
12 0.12% difference in rate of return on common equity is, however, within the longstanding  
13 implied range of  $\pm 0.40\%$  reflected by the Board's traditional range of rate of return on rate base  
14 of  $\pm 0.18\%$ .<sup>16</sup>  
15

#### 16 **4.3 2018 Rate of Return on Rate Base**

17

18 A pro forma Newfoundland Power rate of return on rate base for 2018 which reflects the  
19 common equity ratio and return on common equity approved in the 2016/2017 General Rate  
20 Order is 7.04%. Applying the range of rate of return on rate base of 36 basis points ( $\pm 0.18\%$ )  
21 maintained in the 2016/2017 General Rate Order indicates a 2018 range of rate of return on rate  
22 base of 6.86% to 7.22%.<sup>17</sup>  
23

24 The Company's 2018 *forecast* rate of return on rate base is 6.99%. This rate of return on rate  
25 base reflects a forecast rate of return on common equity of 8.38%.  
26

27 The 2018 forecast rate of return on rate base of 6.99% is within the range of Newfoundland  
28 Power's 2018 pro forma rate of return on rate base of 6.86% to 7.22%. In addition, the forecast  
29 2018 rate of return on common equity of 8.38% is within the longstanding implied range of 80  
30 basis points ( $\pm 0.40\%$ ) used by the Board to assess the reasonableness of forecast common equity  
31 returns between test years.

---

<sup>15</sup> See footnote 10.

<sup>16</sup> This implied range in rate of return on common equity has been stable over time. See, for example, Order No. P.U. 19 (2003), page 76, where the Board noted that the implied range of return on regulated common equity was 81 basis points for 2003. Further, see Newfoundland Power's *2015 Return on Rate Base Application*, Schedule 1, Appendix A which shows the implied range was 80 basis points based on 2014 test year data. This observed stability is substantially a reflection of the stable capital structure of Newfoundland Power over time.

<sup>17</sup> See Order No. P.U. 18 (2016), page 47, lines 27 – 31.

1 **5.0 Customer Rates**

2

3 Existing customer rates are forecast to yield 2018 rates of return on rate base and common equity  
4 which are within ranges historically used by the Board to assess the reasonableness of  
5 Newfoundland Power's returns between test years. Continuing existing customer rates is  
6 consistent with the Board's regulatory practice.

**Newfoundland Power Inc.**  
**2018 Forecast Average Rate Base**  
**(\$000s)**

|                                               | 2018 <sup>1</sup> | 2017 <sup>1</sup> |
|-----------------------------------------------|-------------------|-------------------|
| <b>1 Net Plant Investment</b>                 |                   |                   |
| 2 Plant Investment                            | 1,881,850         | 1,809,636         |
| 3 Accumulated Depreciation                    | (766,327)         | (728,753)         |
| 4 Contributions in Aid of Construction        | (39,901)          | (38,503)          |
| 5                                             | 1,075,622         | 1,042,380         |
| 6                                             |                   |                   |
| <b>7 Additions to Rate Base</b>               |                   |                   |
| 8 Deferred Pension Costs                      | 91,169            | 91,973            |
| 9 Deferred Credit Facility Costs              | 82                | 110               |
| 10 Cost Recovery Deferral - Hearing Costs     | -                 | 342               |
| 11 Cost Recovery Deferral - Conservation      | 15,739            | 14,106            |
| 12 Customer Finance Programs                  | 1,136             | 1,136             |
| 13                                            | 108,126           | 107,667           |
| 14                                            |                   |                   |
| <b>15 Deductions from Rate Base</b>           |                   |                   |
| 16 Weather Normalization Reserve              | -                 | (244)             |
| 17 Other Post Employment Benefits             | 56,988            | 52,061            |
| 18 Customer Security Deposits                 | 700               | 700               |
| 19 Accrued Pension Obligation                 | 5,944             | 5,631             |
| 20 Accumulated Deferred Income Taxes          | 5,683             | 4,099             |
| 21 Demand Management Incentive Account        | -                 | (1,175)           |
| 22 2016 Cost Recovery Deferral                | -                 | 722               |
| 23                                            | 69,315            | 61,794            |
| 24                                            |                   |                   |
| <b>25 Year End Rate Base</b>                  | 1,114,433         | 1,088,253         |
| 26                                            |                   |                   |
| <b>27 Average Rate Base Before Allowances</b> | 1,101,343         | 1,076,320         |
| 28                                            |                   |                   |
| <b>29 Rate Base Allowances</b>                |                   |                   |
| 30 Materials and Supplies Allowance           | 6,312             | 6,223             |
| 31 Cash Working Capital Allowance             | 8,342             | 8,318             |
| 32                                            |                   |                   |
| <b>33 Average Rate Base at Year End</b>       | 1,115,997         | 1,090,861         |

---

<sup>1</sup> Forecast figures.



**Newfoundland Power Inc.  
2018 Pro Forma Return on Rate Base**

|    |                                         |                  |              |
|----|-----------------------------------------|------------------|--------------|
| 1  |                                         |                  |              |
| 2  | <b>Average Capitalization (\$000s)</b>  |                  |              |
| 3  | Debt                                    | 608,893          |              |
| 4  | Preference Shares                       | 8,912            |              |
| 5  | Common Equity                           | 495,510          |              |
| 6  |                                         | <u>1,113,315</u> |              |
| 7  |                                         |                  |              |
| 8  | <b>Average Capital Structure</b>        |                  |              |
| 9  | Debt                                    | 54.69%           |              |
| 10 | Preference Shares                       | 0.80%            |              |
| 11 | Common Equity                           | 44.51%           | <sup>1</sup> |
| 12 |                                         | <u>100.00%</u>   |              |
| 13 |                                         |                  |              |
| 14 | <b>Cost of Capital</b>                  |                  |              |
| 15 | Debt                                    | 5.89%            | <sup>2</sup> |
| 16 | Preference Shares                       | 6.19%            |              |
| 17 | Common Equity                           | 8.50%            | <sup>3</sup> |
| 18 |                                         |                  |              |
| 19 | <b>Weighted Average Cost of Capital</b> |                  |              |
| 20 | Debt                                    | 3.22%            |              |
| 21 | Preference Shares                       | 0.05%            |              |
| 22 | Common Equity                           | 3.78%            |              |
| 23 |                                         | <u>7.05%</u>     | <sup>4</sup> |
| 24 |                                         |                  |              |
| 25 | <b>Return on Rate Base (\$000s)</b>     |                  |              |
| 26 | Return on Debt                          | 35,883           | <sup>5</sup> |
| 27 | Return on Preference Shares             | 552              | <sup>5</sup> |
| 28 | Return on Common Equity                 | 42,142           | <sup>6</sup> |
| 29 |                                         | <u>78,577</u>    |              |
| 30 |                                         |                  |              |
| 31 | <b>Average Rate Base (\$000s)</b>       | 1,115,997        | <sup>7</sup> |
| 32 |                                         |                  |              |
| 33 | <b>Rate of Return on Rate Base</b>      | 7.04%            | <sup>4</sup> |

<sup>1</sup> Newfoundland Power finances its rate base maintaining a capital structure of 55% debt and preference equity and 45% common equity.

<sup>2</sup> Cost of Debt shown is net of AFUDC.

<sup>3</sup> Order No. P.U. 18 (2016) requires the rate of return on rate base to be calculated maintaining the ratemaking common equity of 8.50%.

<sup>4</sup> Under the Asset Rate Base Method, differences between average invested capital and average rate base exist for the cash working capital allowance, the materials and supplies allowance and construction work in progress. For 2018, these differences result in the pro forma weighted average cost of capital of 7.05% differing by 0.01% from the pro forma rate of return on rate base of 7.04%.

<sup>5</sup> From Appendix C.

<sup>6</sup> The return on common equity is calculated as follows (\$000s):

|                                                                           |               |
|---------------------------------------------------------------------------|---------------|
| Return on Common Equity from Appendix C                                   | 41,520        |
| Add: Revenue Shortfall Net of Income Taxes (at 8.50% ROE) from Appendix D | <u>622</u>    |
| Return on Common Equity (at 8.50% ROE)                                    | <u>42,142</u> |

<sup>7</sup> From Appendix A.

**Newfoundland Power Inc.**  
**2018 Forecast Return on Rate Base**  
**(\$000s)**

|    |                                              |                            |
|----|----------------------------------------------|----------------------------|
| 1  | Return on Common Equity (from Appendix D)    | 41,520                     |
| 2  | Return on Preferred Equity (from Appendix D) | <u>552</u>                 |
| 3  |                                              | <u>42,072</u>              |
| 4  |                                              |                            |
| 5  | Return on Debt                               |                            |
| 6  | Interest on Long-term Debt                   | 35,789                     |
| 7  | Other Interest                               | 791                        |
| 8  | Amortization of Bond Issue Expenses          | 230                        |
| 9  | AFUDC                                        | <u>(927)</u>               |
| 10 |                                              | <u>35,883</u> <sup>1</sup> |
| 11 |                                              |                            |
| 12 | Return on Rate Base                          | <u>77,955</u>              |
| 13 |                                              |                            |
| 14 | Average Rate Base (from Appendix A)          | <u>1,115,997</u>           |
| 15 |                                              |                            |
| 16 | Rate of Return on Rate Base                  | 6.99%                      |

<sup>1</sup> Total financing costs for 2018 forecast presented in Appendix D are as follows (\$000s):

|                                         |               |
|-----------------------------------------|---------------|
| Return on debt from above               | 35,883        |
| Add: Interest on security deposits      | <u>24</u>     |
| Finance charges presented in Appendix D | <u>35,907</u> |

**Newfoundland Power Inc.**  
**2018 Forecast Earnings**  
**(\$000s)**

|    |                                                                                          |                |
|----|------------------------------------------------------------------------------------------|----------------|
| 1  | Revenue                                                                                  | 664,207        |
| 2  | Purchased Power Expense                                                                  | 438,864        |
| 3  | Contribution                                                                             | <u>225,343</u> |
| 4  |                                                                                          |                |
| 5  | Other Revenue                                                                            | <u>5,686</u>   |
| 6  |                                                                                          |                |
| 7  | Other Expenses:                                                                          |                |
| 8  | Operating Expenses                                                                       | 61,355         |
| 9  | Employee Future Benefit Costs                                                            | 14,292         |
| 10 | Deferred Cost Recoveries and Amortizations                                               | (1,032)        |
| 11 | Depreciation and Amortization                                                            | 60,213         |
| 12 | Finance Charges                                                                          | <u>35,907</u>  |
| 13 |                                                                                          | <u>170,735</u> |
| 14 |                                                                                          |                |
| 15 | Income Before Income Taxes                                                               | 60,294         |
| 16 | Income Taxes                                                                             | <u>18,222</u>  |
| 17 |                                                                                          |                |
| 18 | Net Income                                                                               | 42,072         |
| 19 | Preferred Dividends                                                                      | <u>552</u>     |
| 20 |                                                                                          |                |
| 21 | Regulated Earnings                                                                       | <u>41,520</u>  |
| 22 |                                                                                          |                |
| 23 |                                                                                          |                |
| 24 | <b>Regulated Return on Equity (percentage)</b>                                           | 8.38%          |
| 25 |                                                                                          |                |
| 26 | Revenue Shortfall Net of Income Taxes (at 8.50% Regulated Return on Equity) <sup>1</sup> | 622            |

<sup>1</sup> Revenue Shortfall Net of Income Taxes (at 8.50% Regulated Return on Equity) is calculated as follows (\$000s):

|                                                         |              |
|---------------------------------------------------------|--------------|
| Revenue shortfall (at 8.50% regulated return on equity) | 889          |
| Less: Income taxes at 30%                               | <u>(267)</u> |
| Revenue shortfall net of income taxes                   | <u>622</u>   |