

2019 and 2020 Comparative Financial Forecasts

Newfoundland Power Inc.
Comparative Financial Forecasts
2019 - 2020
Statements of Income
(\$000s)

	2019		2020	
	Existing	Proposed	Existing	Proposed
1 Revenue from rates	672,286	672,254	673,937	673,846
2 Transfers from (to) the RSA	(6,032)	3,818	(6,448)	5,912
3	666,254	676,072	667,489	679,758
4				
5 Purchased power expense	447,307	447,307	447,324	447,324
6 Demand management incentive account adjustments	-	-	-	-
7	447,307	447,307	447,324	447,324
8				
9 Contribution	218,947	228,765	220,165	232,434
10				
11 Other revenue ¹	5,584	5,612	5,375	5,594
12				
13 Other expenses:				
14 Operating expenses ²	64,682	62,679	66,571	64,610
15 Employee future benefit costs	9,080	9,080	7,566	7,566
16 Deferred cost recoveries and amortizations	-	1,752	-	(876)
17 Depreciation	62,314	62,350	64,797	64,908
18 Finance charges	35,944	36,164	37,055	37,390
19	172,020	172,025	175,989	173,598
20				
21 Income Before Income Taxes	52,511	62,352	49,551	64,430
22 Income taxes ²	15,835	18,102	15,005	18,798
23				
24 Net Income	36,676	44,250	34,546	45,632
25 Preferred Dividends	552	552	552	552
26				
27 Earnings Applicable to Common Shares ²	36,124	43,698	33,994	45,080
28				
29 Rate of Return and Credit Metrics				
30 Rate of Return on Rate Base (%)	6.35	7.01	6.09	7.04
31 Regulated Return on Book Equity (%)	7.05	8.50	6.45	8.50
32 Interest Coverage (times)	2.2	2.4	2.0	2.4
33 CFO Pre-W/C + Interest / Interest (times)	3.7	3.9	3.7	3.9
34 CFO Pre-W/C / Debt (%)	15.8	17.0	15.4	16.9

¹ Other revenue for proposed excludes interest on the RSA.

² Shown after adjustment for non-regulated expenses.

Revision note: Existing forecast for 2019 and 2020 updated to reflect the July 1, 2018 rate change. Proposed forecast for 2019 and 2020 updated to reflect the July 1, 2018 rate change and the Settlement Agreement.

Newfoundland Power Inc.

**Comparative Financial Forecasts
2019 - 2020
Statements of Retained Earnings
(\$000s)**

	2019		2020	
	Existing	Proposed	Existing	Proposed
Balance - Beginning	430,876	430,876	453,022	456,675
Net income for the period	34,537	42,111	32,324	43,410
Allocation of Part VI.1 Tax	752	752	752	752
	466,165	473,739	486,098	500,837
 Dividends				
Preference shares	552	552	552	552
Common shares	12,591	16,512	24,562	36,947
	13,143	17,064	25,114	37,499
Balance - End of Period	453,022	456,675	460,984	463,338

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Newfoundland Power Inc.

Comparative Financial Forecasts
2019 - 2020
Balance Sheets
(\$000s)

	2019		2020	
	Existing	Proposed	Existing	Proposed
1 Assets				
2 Current assets				
3 Accounts receivable	89,755	86,249	92,271	85,763
4 Materials and supplies	1,527	1,527	1,556	1,556
5 Prepaid expenses	2,108	2,108	2,148	2,148
6 Regulatory assets	1,090	8,236	1,532	13,390
7	94,480	98,120	97,507	102,857
8				
9 Property, plant and equipment	1,190,603	1,192,714	1,227,804	1,232,007
10 Intangible assets	26,800	26,929	27,955	28,184
11 Regulatory assets	315,022	314,577	307,654	307,779
12 Defined benefit pension plans	26,153	26,153	33,640	33,640
13 Other assets	1,613	1,613	1,614	1,614
14	1,654,671	1,660,106	1,696,174	1,706,081
15				
16				
17 Liabilities and Shareholders' Equity				
18 Current Liabilities				
19 Accounts payable and accrued charges	79,117	82,090	78,505	81,384
20 Interest payable	6,536	6,536	6,606	6,606
21 Defined benefit pension plans	225	225	218	218
22 Other post employment benefits	3,709	3,709	4,165	4,165
23 Current installments of long-term debt	63,567	63,071	80,314	85,582
24 Deferred income taxes	-	-	-	-
25	153,154	155,631	169,808	177,955
26				
27 Regulatory liabilities	168,499	168,258	177,436	176,969
29 Other post employment benefits	80,805	80,805	81,892	81,892
30 Other liabilities	1,066	1,066	1,066	1,066
31 Deferred income taxes	156,550	156,096	155,922	155,795
32 Long-term debt	562,337	562,337	569,828	569,828
33				
34 Shareholders' Equity				
35 Common shares	70,321	70,321	70,321	70,321
36 Preference shares	8,917	8,917	8,917	8,917
37 Retained earnings	453,022	456,675	460,984	463,338
38	532,260	535,913	540,222	542,576
39	1,654,671	1,660,106	1,696,174	1,706,081

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Newfoundland Power Inc.

Comparative Financial Forecasts
2019 - 2020
Statements of Cash Flows
(\$000s)

	2019		2020	
	Existing	Proposed	Existing	Proposed
1 Cash From (Used In) Operating Activities				
2 Net Earnings	34,537	42,111	32,324	43,410
3				
4 Items not affecting cash:				
5 Amortization of property, plant and equipment	64,614	64,647	67,011	67,112
6 Amortization of intangible assets and other	3,806	3,812	4,128	4,147
7 Change in long-term regulatory assets and liabilities	4,464	4,909	8,600	8,029
8 Deferred income taxes	630	176	(628)	(301)
9 Employee future benefits	(6,374)	(6,374)	(8,194)	(8,194)
10 Other	293	282	284	273
11	<u>101,970</u>	<u>109,563</u>	<u>103,525</u>	<u>114,476</u>
12				
13 Change in non-cash working capital	5,172	4,503	(2,555)	(4,358)
14	<u>107,142</u>	<u>114,066</u>	<u>100,970</u>	<u>110,118</u>
15				
16 Investing Activities				
17 Capital expenditures	(95,825)	(98,199)	(98,308)	(100,715)
18 Intangible asset expenditures	(5,750)	(5,885)	(5,092)	(5,211)
19 Contributions from customers and security deposits	3,509	3,509	3,499	3,499
20	<u>(98,066)</u>	<u>(100,575)</u>	<u>(99,901)</u>	<u>(102,427)</u>
21				
22 Financing Activities				
23 Net proceeds (repayment) of committed credit facility	10,667	10,173	(13,605)	(7,842)
24 Proceeds from long-term debt	-	-	75,000	75,000
25 Repayment of long-term debt	(6,600)	(6,600)	(36,950)	(36,950)
26 Payment of debt financing costs	0	0	(400)	(400)
27 Dividends				
28 Preference Shares	(552)	(552)	(552)	(552)
29 Common Shares	(12,591)	(16,512)	(24,562)	(36,947)
30	<u>(9,076)</u>	<u>(13,491)</u>	<u>(1,069)</u>	<u>(7,691)</u>
31				
32 Change in Cash	-	-	-	-
33 Cash (Bank Indebtedness), Beginning of Year	-	-	-	-
34 Cash (Bank Indebtedness), End of Year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Revision note: Existing forecast for 2019 and 2020 updated to reflect the July 1, 2018 rate change. Proposed forecast for 2019 and 2020 updated to reflect the July 1, 2018 rate change and the Settlement Agreement.

Newfoundland Power Inc.
Comparative Financial Forecasts
2019 - 2020
Average Rate Base¹
(\$000s)

	2019		2020	
	Existing	Proposed	Existing	Proposed
Plant Investment	1,091,011	1,092,182	1,123,671	1,127,189
Additions to Rate Base				
Defined Benefit Pension Costs	91,210	91,210	95,350	95,350
Deferred Credit Facility Costs	68	42	39	-
Cost Recovery Deferral - Hearing Costs	-	353	-	530
Cost Recovery Deferral - Conservation	16,993	16,993	17,219	17,219
Customer Finance Programs	1,545	1,545	1,575	1,575
	<u>109,816</u>	<u>110,143</u>	<u>114,183</u>	<u>114,674</u>
Deductions from Rate Base				
Weather Normalization Reserve	136	136	-	-
Other Post Employee Benefits	57,846	57,846	61,415	61,415
Customer Security Deposits	1,066	1,066	1,066	1,066
Accrued Pension Obligation	5,174	5,174	5,469	5,469
Accumulated Deferred Income Taxes	6,977	6,977	9,808	9,808
2019 Revenue Surplus	-	613	-	920
	<u>71,199</u>	<u>71,812</u>	<u>77,758</u>	<u>78,678</u>
Average Rate Base Before Allowances	1,129,628	1,130,513	1,160,096	1,163,185
Cash Working Capital Allowance	8,438	9,995	8,395	10,095
Materials and Supplies Allowance	<u>5,925</u>	<u>5,668</u>	<u>6,037</u>	<u>5,775</u>
Average Rate Base At Year End	<u><u>1,143,991</u></u>	<u><u>1,146,176</u></u>	<u><u>1,174,528</u></u>	<u><u>1,179,055</u></u>

All amounts shown are averages.

Revision note: Existing forecast for 2019 and 2020 updated to reflect the July 1, 2018 rate change. Proposed forecast for 2019 and 2020 updated to reflect the Settlement Agreement.

Newfoundland Power Inc.

Comparative Financial Forecasts
2019 - 2020
Weighted Average Cost of Capital
(\$000s)

	2019		2020	
	Existing	Proposed	Existing	Proposed
1 Average Capitalization				
2 Debt	623,704	623,456	637,984	640,370
3 Preference Shares	8,917	8,917	8,917	8,917
4 Common Equity	512,270	514,097	527,323	530,327
5	<u>1,144,891</u>	<u>1,146,470</u>	<u>1,174,224</u>	<u>1,179,614</u>
6				
7 Average Capital Structure (%)				
8 Debt	54.48	54.38	54.33	54.28
9 Preference Shares	0.78	0.78	0.76	0.76
10 Common Equity	44.74	44.84	44.91	44.96
11	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>
12				
13				
14 Cost of Capital (%)				
15 Debt	5.76	5.80	5.81	5.84
16 Preference Shares	6.19	6.19	6.19	6.19
17 Common Equity	7.05	8.50	6.45	8.50
18				
19				
20 Weighted Average Cost of Capital (%)				
21 Debt	3.14	3.15	3.15	3.17
22 Preference Shares	0.05	0.05	0.05	0.05
23 Common Equity	3.16	3.81	2.89	3.82
24	<u>6.35</u>	<u>7.01</u>	<u>6.09</u>	<u>7.04</u>

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Newfoundland Power Inc.

Comparative Financial Forecasts
2019 - 2020
Rate of Return on Rate Base
(\$000s)

	2019		2020	
	Existing	Proposed	Existing	Proposed
1 Regulated Return on Equity	36,124	43,698	33,994	45,080
2 Return on Preferred Equity	552	552	552	552
3	36,676	44,250	34,546	45,632
4				
5 Finance Charges				
6 Interest on Long-term Debt	35,374	35,374	37,080	37,080
7 Other Interest	1,349	1,593	777	1,139
8 Amortization of Bond Issue Expenses	224	224	219	219
9 AFUDC	(1,021)	(1,046)	(1,039)	(1,070)
10	35,926	36,145	37,037	37,368
11				
12 Return on Rate Base	72,602	80,395	71,583	83,000
13				
14 Average Rate Base	1,143,991	1,146,176	1,174,528	1,179,055
15				
16 Rate of Return on Rate Base (%)	6.35	7.01	6.09	7.04

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Newfoundland Power Inc.

Comparative Financial Forecasts
2019 - 2020
Inputs and Assumptions

1	Energy Forecasts :	Energy forecasts are based on economic indicators taken from the Conference Board of
2		Canada, Provincial Outlook, Long Term Economic Forecast, dated January 19, 2018.
3		
4	Revenue Forecast :	The revenue forecast is based on the Customer, Energy and Demand forecast dated April 6, 2018.
5		
6		Forecast revenues based on Existing Rates for 2019 and 2020 reflect, (i) recovery through the RSA for
7		amounts associated with the Energy Supply Cost Variance Adjustment Clause
8		(ii) recovery through the RSA of amounts associated with variances in employee future benefit costs,
9		(iii) recovery through the RSA of amounts associated with the Weather Normalization reserve; and
10		(iv) recovery through the RSA of certain costs related to the implementation of the CDM program
11		portfolio; all of which were approved by the Board in Order Nos. P.U. 32 (2007), P.U. 43 (2009),
12		P.U. 31 (2010), P.U. 8 (2011), P.U. 13 (2013) and, P.U. 18 (2015) and P.U. 23 (2017).
13		
14		Forecast revenues for 2019 and 2020 also reflect the July 1, 2018 rate change approved in
15		Order No. P.U. 20 (2018).
16	Purchased Power Expense :	Purchased power expense reflects Newfoundland & Labrador Hydro's rates approved by the Board
17		and the Customer, Energy and Demand Forecast dated April 6, 2018.
18		
19		Purchased power expense for the Existing forecasts reflects the operation of the Demand
20		Management Incentive Account approved by the Board in Order No. P.U. 32 (2007). This mechanism
20		provides for recovery of demand costs that are in excess of unit cost demand costs included in the most
20		recent test year.
20		
20		Variances in demand costs under the Proposed forecasts are reflected in the 2019 and 2020
23		revenue requirements.
24		
25		Forecast purchased power costs for 2019 and 2020 also reflect the July 1, 2018 rate change approved
26		in Order No. P.U. 20 (2018).
27		
28	Employee Future Benefit	Pension funding is based on the actuarial valuation dated as at December 31, 2017.
29	Costs :	
30		Pension expense and OPEBs expense discount rate is 3.60% for 2019 and 2020.
31		
32		Forecast return on pension assets is assumed to be 5.25% for 2019 and 2020.
33		
34	Cost Recovery Deferrals:	The 2019 and 2020 forecasts include the deferred recovery over a 7-year period
35		of certain conservation program costs as reflected in the Application.
36		
37		The 2019 and 2020 forecasts include the amortization over a 34 month period
38		of \$2.482 million related to the March 1, 2019 rate implementation date.
39		
40	Depreciation Rates :	Depreciation costs for 2019 and 2020 include an approximately \$0.6 million reserve
41		variance adjustment resulting from the 2014 Depreciation Study.
42		
43	Operating Costs :	Operating forecasts for 2019 and 2020 reflect most recent management estimates.
44		
45		The 2019 and 2020 forecasts include the deferred recovery over a 34 month period
46		of \$1.0 million in external costs related to the 2019/2020 General Rate Application .

Newfoundland Power Inc.

**Comparative Financial Forecasts
2019 - 2020
Inputs and Assumptions**

1	Capital Expenditure :	Capital expenditures for 2019 and 2020 are based on the 2018 Capital Budget approved on
2		November 6, 2017.
3		
4	Short-Term Interest Rates :	Average short-term interest rates are assumed to be 3.27% for 2019 and 3.60% for 2020.
5		
6	Long-Term Debt :	A \$75.0 million long-term debt issue is forecast to be completed in March 2020. The debt is forecast for
7		30 years at a coupon rate of 5.25%. Debt repayments will be in accordance with the normal sinking
8		fund provisions for existing outstanding debt.
9		
10	Dividends :	Common dividend payouts are forecast based on maintaining a target common equity
11		component of 45%.
12		
13	Income Tax :	Income tax expense reflects a statutory income tax rate of 30% for 2019 and 2020.

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