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September 6, 2019

Dear Ms. Blundon,

Re: Newfoundland Power Inc.
2020 Capital Budget Application

We have completed our review as requested in your letter dated July 9, 2019 relating to Newfoundland Power Inc.'s (the "Company's") 2020 Capital Budget Application as it pertains to the calculation of the 2018 actual average rate base and the calculations of the 2019 and 2020 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:

2018 AVERAGE RATE BASE CALCULATION

Pursuant to Order No. 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 2018 as calculated by the Company under the ARBM and provided in Schedule D of its Application is $1,117,341,000 which is an increase of $25,087,000 (2.3%) over the average rate base for 2017 of $1,092,254,000.

The net change in the Company's average rate base from 2017 to 2018 can be summarized as follows:

(000's)	2018	2017
Average rate base - opening balance	$ 1,092,254	$ 1,061,044
Change in average deferred charges and deferred regulatory costs	139	(268)
Average change in:		
Plant in service	61,539	69,399
Accumulated depreciation	(29,045)	(28,243)
Contributions in aid of construction	(1,241)	(2,068)
Weather normalization reserve	(102)	180
Other post-employment benefits	(5,515)	(6,688)
Future income taxes	(1,351)	(1,324)
Rate base allowances	110	(492)
Customer Finance Programs	559	142
Demand Management Incentive Acct	-	745
Other rate base components (net)	(6)	(173)
Average rate base - ending balance	$ 1,117,341	$ 1,092,254

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 2018; 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 2018 average rate base, and therefore conclude that the 2018 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 Order No. 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 2019 and 2020 in its 2020 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 2019 and 2020 forecast rate base additions, deductions and allowances are consistent with the calculation of the Company's 2019 and 2020 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 2019 and 2020 and the actual additions in 2017 and 2018 as presented by the Company are as follows:

($000's)	**Actual 2017**	**Actual 2018**	**Forecast 2019**	**Forecast 2020**
Deferred Pension Costs	$ 92,017	$ 89,678	$ 91,797	$ 93,457
Credit Facility Issue Costs	110	120	29	21
Cost Recovery Deferral – Hearing Costs	341	-	494	247
Cost Recovery Deferral – Conservation	14,116	15,889	17,026	16,016
Weather Normalization Reserve	4,771	1,517	936	-
Customer Finance Programs	1,496	2,460	1,517	1,551
Demand Management Incentive Account	1,490	-	1,521	-
Total Additions	$ 114,341	$ 109,664	$ 113,320	$ 111,292

Source: Newfoundland Power Inc. - 2020 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 2019 and 2020 is $2,770,000 and $2,673,000 and the forecast pension plan expense is $651,000 and $1,013,000 for 2019 and 2020 respectively. The difference between the funding and the expense, as indicated below, represents the decrease or increase in deferred pension costs forecast for 2019 and 2020.

($000's)	Actual 2017	Actual 2018	Forecast 2019	Forecast 2020
Deferred Pension Costs, January 1	$94,775	$92,017	$89,678	$91,797
Pension Plan Funding	3,378	2,793	2,770	2,673
Pension Plan Expense	(6,136)	(5,132)	(651)	(1,013)
Increase/(decrease) in Deferred Pension Costs	(2,758)	(2,339)	2,119	1,660
Deferred Pension costs, December 31	$92,017	$89,678	$ 91,797	$ 93,457

Source: Newfoundland Power Inc. - 2020 Capital Budget Application
Report on *Rate Base: Additions, Deductions & Allowance*s - Table 2

The forecast pension expense for 2019 and 2020 is $651,000 and $1,013,000 respectively compared to an actual expense in 2018 of $5,132,000. According to the Company, the decrease in pension expense for 2019 and 2020 versus 2018 is primarily due to lower current service costs due to a new actuarial valuation completed as at December 31, 2017 and an increase in the discount rate.

The forecast pension funding for 2019 and 2020 per Table 2 of the Rate Base: Additions, Deductions & Allowances report is $2,770,000 and $2,673,000 respectively, compared to actual funding in 2018 of $2,793,000. The forecast funding amounts have been agreed to schedules provided by the Company's actuary.

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 at a cost of $101,000. In August 2017 and August 2018, the committed short term credit facility was extended to August 2022 and August 2023, respectively, at a cost of $40,000 for each year. The costs were being amortized over the 5 year life of the agreements. 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 for 2016 and 2017 test years.

In the 2019 forecast the unamortized costs relating to the 2016 and 2017 amendments discussed above were removed from the calculation of average rate base as these costs were included in the 2019 test year cost of capital. As the costs associated with the 2018 credit facility amendment were not included in the 2019 test year cost of capital, they are included in the 2019 average rate base calculation and are being amortized over 5 years.

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 – Hearing Costs

In Order No. P.U. 2 (2019), the Board approved hearing costs of up to $1.0 million related to the 2019/2020 General Rate Application to be recovered in customer rates over the period March 1, 2019 through December 31, 2021. The deferred hearing cost balances included in forecast rate base for 2019 and 2020 are included on an after-tax basis consistent with the treatment of the 2019 revenue surplus in the 2019/2020 General Rate Application. According to the Company, the actual hearing costs for the 2019/2020 General Rate Application were $329,728. The Company transferred $670,272 to the RSA on March 31, 2019 representing the difference between actual of $329,728 and estimated costs of $1,000,000 as directed by the Board in P.U. 2 (2019) instead of a reduction in rate base in 2019.

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 Order No. 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

The disposition of the December 31, 2018 balance to the Rate Stabilization Account as of March 31, 2019 was approved in Order No. P.U. 13 (2019).

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. According to the Company, in 2018 there were several large customer conservation drives that resulted in higher than normal uptake and related financing by Newfoundland Power's customers. The Company has forecasted 2019 and 2020 to return to the level of customer financing plans to more closely follow prior historical patterns.

Demand Management Incentive Account

In Order No. P.U. 32 (2007) the Board approved the Company's proposal to establish the Demand Management Incentive Account ("DMI").

In Order No. P.U. 10 (2018) the Board approved a debit transfer of $2,128,000 equal to the balance in the 2017 DMI account of $1,490,000 plus related income tax effects of $638,000 to the Rate Stabilization Account as at March 31, 2018.

The 2018 DMI was $Nil as there was no supply cost variance outside the Deadband of $728,000.

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.

RATE BASE DEDUCTIONS

The forecast deductions to rate base for 2019 and 2020 and the actual figures for 2018 and 2017 as presented by the Company are as follows:

($000's)	Actual 2017	Actual 2018	Forecast 2019	Forecast 2020
Other Post-Employment Benefits ("OPEBs")	$ 52,584	$ 57,112	$ 60,572	$ 64,151
Customer Security Deposits	1,066	1,071	1,066	1,066
Accrued Pension Liabilities	5,572	5,016	5,218	5,460
Accumulated Deferred Income Taxes	3,915	4,887	7,162	9,367
Cost Over Recovery – 2016 and 2019 Revenue Surplus	723	-	1,226	613
Total Deductions	$ 63,860	$ 68,086	$ 75,244	$ 80,657

Source: Newfoundland Power Inc. - 2020 Capital Budget Application
Report on *Rate Base: Additions, Deductions & Allowance*s - Table 9

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

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, Order No. 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 2018 is $57,112,000 with $60,572,000 and $64,151,000 forecast for 2019 and 2020 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 2019 and 2020 forecast Customer Security Deposits balance is fairly comparable with 2018.

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 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 2019 and 2020 forecast over 2018 actuals is primarily due to the result of an increase in the deferred income tax associated with the difference between depreciation and capital cost allowance resulting from the continued investment in the electricity system. 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.

Cost Over Recovery – 2016 and 2019 Revenue Surplus

As a result of the Board's decisions included in Order No. 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.

As a result of the Board's decisions included in Order No. P.U. 2 (2019) the Company's 2019 revenue surplus was $2,500,000 ($1,700,000 after tax). The Board order provided for a credit of the 2019 revenue surplus through a regulatory amortization beginning March 1, 2019 and concluding on December 31, 2021.

Based on our review of the forecast cost over recovery – 2016 and 2019 revenue surplus, we confirm that we have not noted any discrepancies or unusual items.

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 2019 and 2020 forecast CWC and the Materials and Supplies allowance are based on the method used to calculate the 2019/2020 average rate base as approved by the Board in Order No. P.U. 2 (2019).

According to the Company, the CWC allowance is higher for forecast 2019 and 2020 from 2018 primarily due to higher cash working capital factors for 2019 and 2020 based on 2019/2020 General Rate Application and higher gross operating costs in 2019 and 2020 due to normal salary escalation and inflation, and higher purchased power costs, primarily due to higher sales and demand costs. Average materials and supplies for rate base purposes in 2019 and 2020 forecast years are fairly comparable with 2018.

Based on our review of the Rate Base Allowances, we have not noted any discrepancies or unusual items and the forecast for 2019 and 2020 is consistent with 2019/2020 test year data.

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

Yours sincerely,
Grant Thornton LLP

Chris Brake

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Partner
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