

Undertaking 55

Please provide Hydro's most recent forecast of its 2015 costs, together with explanations of significant variances (a) between Hydro's 2014 test year and actual costs; and (b) between Hydro's 2015 test year forecast as filed and its most recent forecast of 2015 costs.

Please see Undertaking 55 for 2014 (Attachment 1) and 2015 (Attachment 2). The information requested for 2014 has already been provided by Grant Thornton in their Financial Consultants Report to the Board dated June 12, 2015 ("the Grant Thornton Report"). As such, the variance explanations provided for 2014 reference the Grant Thornton Report.

Appendix A
Newfoundland and Labrador Hydro
2014 Actual vs. 2014 Test Year

| Line No. | 2014 Actual | 2014 Test Year | Variance | Grant Thornton Report Reference ¹ |
|---|---------------|----------------|---------------|--|
| 1 REVENUE | | | | |
| 2 ENERGY SALES | 499.1 | 514.6 | (15.5) | |
| 3 OTHER REVENUE | 2.1 | 2.3 | (0.3) | |
| | <u>501.2</u> | <u>516.9</u> | <u>(15.7)</u> | Page 9, Lines 6-8 |
| 4 EXPENSES | | | | |
| 5 OPERATING EXPENSES | | | | |
| 6 Salaries and benefits | 83.5 | 81.5 | 2.0 | Page 64, Table 40 and Page 65, Table 42 |
| 7 System equipment maintenance | 28.6 | 23.0 | 5.6 | Page 76, Table 57; Page 77, Table 59, line 7 and Page 78 Table 61, lines 10-16 |
| 8 Office supplies and expenses | 2.4 | 2.6 | (0.2) | Page 85, Table 74 |
| 9 Professional services | 12.6 | 12.2 | 0.4 | Page 80, Table 65 and Page 81, Table 67, lines 11-14 |
| 10 Insurance | 2.6 | 2.7 | (0.1) | Page 85, Table 74 |
| 11 Equipment rentals | 2.0 | 1.9 | 0.1 | Page 85, Table 74 |
| 12 Travel | 3.2 | 3.7 | (0.5) | Page 85, Table 74 and lines 14-19 |
| 13 Miscellaneous expenses | 6.7 | 6.5 | 0.2 | Page 83, Table 70 |
| 14 Building rental and maintenance | 1.2 | 1.1 | 0.1 | |
| 15 Transportation | 2.3 | 2.4 | (0.1) | Page 85, Table 74 |
| 16 Other - IOCC | (1.9) | (1.9) | - | |
| 17 Cost recoveries | (10.9) | (9.6) | (1.3) | Page 86, lines 11-14, Page 87, Lines 7-11 |
| 18 NET OPERATING EXPENSES | <u>132.3</u> | <u>126.1</u> | <u>6.2</u> | |
| 19 OTHER INCOME AND EXPENSE (LOSS ON DISPOSAL OF PPE) | 1.7 | 2.1 | (0.4) | Page 84, Table 72 |
| 20 Total Other Costs | 134.0 | 128.2 | 5.8 | |
| 21 FUELS & FUEL SUPPLY DEFERRAL | 185.5 | 191.8 | (6.2) | Page 48, lines 1-7 |
| 22 POWER PURCHASED | 63.7 | 66.7 | (2.9) | Page 52, lines 13-15; Page 53, Table 31 |
| 23 AMORTIZATION | 55.3 | 55.2 | 0.1 | Page 45, lines 8-11 |
| 24 ACCRETION OF ASSET RETIREMENT OBLIGATION | 0.8 | 0.8 | - | |
| 25 INTEREST | 90.1 | 89.7 | 0.4 | Page 58, Table 35 |
| | <u>529.5</u> | <u>532.3</u> | <u>(2.9)</u> | |
| 26 NET LOSS BEFORE REGULATORY ADJUSTMENTS | (28.3) | (15.4) | (12.9) | |
| 27 2014 Revenue Deficiency Per P.U. (58) 2014 | 45.9 | 45.9 | - | Page 38 |
| 28 NET (LOSS)/INCOME WITH APPROVED 2014 REVENUE DEFICIENCY | 17.6 | 30.5 | (12.9) | |

⁽¹⁾ Please see Grant Thornton's Financial Consultants Report Newfoundland and Labrador Hydro, dated June 12, 2015.

Appendix B
Newfoundland and Labrador Hydro
2015 Forecast vs. 2015 Test Year

| Line No. | Actuals to August 2015 Forecast | 2015 Test Year | Variance | Forecast Return on Rate Base ⁽²⁾ | Note |
|---|------------------------------------|--------------------|----------------------|--|-----------|
| 1 REVENUE | | | | | |
| 2 ENERGY SALES | 545.5 | 660.1 | (114.6) | | 1 |
| 3 OTHER REVENUE | 2.1 | 2.4 | (0.3) | | |
| | <u>547.6</u> | <u>662.5</u> | <u>(114.9)</u> | | |
| 4 EXPENSES | | | | | |
| 5 OPERATING EXPENSES | | | | | |
| 6 Salaries and benefits | 91.2 | 88.9 | 2.3 | | 2 |
| 7 System equipment maintenance | 28.2 | 26.8 | 1.4 | | 3 |
| 8 Office supplies and expenses | 2.8 | 2.8 | - | | |
| 9 Professional services | 11.9 | 9.5 | 2.4 | | 4 |
| 10 Insurance | 2.6 | 2.6 | - | | |
| 11 Equipment rentals | 3.5 | 3.1 | 0.4 | | 5 |
| 12 Travel | 3.9 | 3.7 | 0.2 | | |
| 13 Miscellaneous expenses | 6.0 | 5.7 | 0.3 | | |
| 14 Building rental and maintenance | 1.3 | 1.2 | 0.1 | | |
| 15 Transportation | 1.7 | 2.3 | (0.6) | | 6 |
| 16 Cost recoveries | (8.9) | (8.4) | (0.5) | | 7 |
| 17 NET OPERATING EXPENSES | <u>144.2</u> | <u>138.2</u> | <u>6.0</u> | | |
| 18 LOSS ON DISPOSAL OF PPE | 6.0 | 4.1 | 1.9 | | 8 |
| 19 OTHER EXPENSE | 2.0 | 2.2 | (0.1) | | |
| 20 FUELS | 209.2 | 269.8 | (60.6) | | 9 |
| 21 POWER PURCHASED | 61.5 | 63.3 | (1.8) | | 10 |
| 22 AMORTIZATION | 63.2 | 64.7 | (1.5) | | 11 |
| 23 INTEREST | 92.3 | 87.1 | 5.2 | | 12 |
| | <u>578.4</u> | <u>629.2</u> | <u>(50.8)</u> | | |
| 24 NET (LOSS)/INCOME WITHOUT REGULATORY ADJUSTMENTS | <u>(30.8)</u> | <u>33.2</u> | <u>(64.1)</u> | 3.56% | |
| 25 2015 Delayed Rate Implementation Deferral | 36.8 | - | 36.8 | | |
| 26 NET INCOME WITH PROPOSED 2015 TEST YEAR RATES | <u>6.0</u> | <u>33.2</u> | <u>(27.3)</u> | 5.69% | |
| 27 Isolated Systems Supply Cost Deferral Account | (1.0) | - | (1.0) | | |
| 28 Energy Supply Cost Variance Deferral Account | 7.1 | - | 7.1 | | |
| 29 Holyrood Conversion Rate Deferral Account | 2.4 | - | 2.4 | | |
| 30 Change in Test Year Holyrood Fuel Conversion Rate | 4.2 | - | 4.2 | | |
| 31 NET INCOME WITH TY RATES & SUPPLY COST RECOVERY | <u>18.7</u> | <u>33.2</u> | <u>(14.6)</u> | 5.98% | |
| 32 RSP Interest Adjustment | 7.6 | - | 7.6 | | |
| 33 Employee Future Benefits Actuarial Loss ⁽¹⁾ | 1.6 | - | 1.6 | | |
| 34 CDM Cost Deferral ⁽¹⁾ | 1.2 | - | 1.2 | | |
| 35 GRA Cost Deferral | 1.2 | - | 1.2 | | |
| 36 ARO Adjustment per Settlement Agreement ⁽¹⁾ | (0.6) | (0.6) | - | | |
| 37 NET INCOME WITH PROPOSED 2015 COST DEFERRAL | <u>29.7</u> | <u>32.6</u> | <u>(3.0)</u> | 6.62% | |

⁽¹⁾ August 14, 2015 Settlement Agreement.

⁽²⁾ Hydro's 2015 Test Year Average Rate Base \$1,802.0 million per Hydro's Amended Application, Finance Schedule I, Page 5 of 11, Line 21 less an opening Rate Base adjustment of \$148.0 million (average of \$74.0 million) per PUB-NLH-487.

⁽³⁾ Totals may vary due to rounding differences.

| Note | Description | Variance Explanation |
|------|------------------------------|---|
| 1 | Energy sales | Revenue from energy sales have decreased by \$114.6 million from the 2015 Test Year primarily due to delayed implementation of 2015 Test Year rates. |
| 2 | Salaries and benefits | Salaries and benefits have increased by \$2.3 million from the 2015 Test Year. The primary driver is an increase in employee future benefits expense of \$1.1 million and an increase of \$0.7 million associated with new union agreement and other benefit costs. |
| 3 | System equipment maintenance | System equipment maintenance has increased by \$1.4 million from the 2015 Test Year to the 2015 Forecast due to increased maintenance on Holyrood units 1, 2 and 3. |
| 4 | Professional services | Professional services increased by \$2.4 million from the 2015 Test Year to the 2015 Forecast primarily due to an increase in regulatory activity of \$2.0 million and CDM program costs of \$0.5 million. |
| 5 | Equipment rentals | Equipment rental costs have increased by \$0.4 million from the 2015 Test Year to the 2015 Forecast primarily due to rental of backup diesel generation in TRO Central and Northern. |
| 6 | Transportation | Transportation costs have decreased by \$0.6 million from the 2015 Test Year to the 2015 Forecast primarily due to fuel price savings of \$0.2 million, an increase in charges to capital of \$0.2 million and lower aircraft costs of \$0.1 million due to new a contract in place. |
| 7 | Cost recoveries | Cost recoveries have increased by \$0.5 million from the 2015 Test Year to the 2015 Forecast primarily due to additional administration fee recovery. |
| 8 | Loss on Disposal of PPE | Loss on disposal costs have increased by \$1.9 million from 2015 Test Year to the 2015 Forecast primarily due to a \$1.2 million increase in costs associated with asset disposals, as well as an increase in removal costs of \$0.7 million. The disposals relate to a supplemental capital application for Hardwoods Engine Overhaul resulting in an unbudgeted \$0.7 million asset disposal, combined with disposals related to capital work carried over from 2014. |
| 9 | Fuels | Fuel costs have decreased by \$60.6 million from the 2015 Test Year primarily due to delay in implementation of customer rates to reflect the 2015 Test Year fuel price, partially offset by additional supply costs at the Holyrood Thermal Generating Station as well as the Holyrood Combustion Turbine. |
| 10 | Power Purchased | Power Purchased has decreased by \$1.8 million from 2015 Test Year to the 2015 Forecast primarily due to \$1.4 million in lower production at Exploits, Star Lake and Rattle Brook as well as \$0.4 million in lower wind production from St. Lawrence. |
| 11 | Amortization | Amortization costs have decreased by \$1.5 million from 2015 Test Year to the 2015 Forecast primarily due to delay in the Holyrood CT coming into service and capital work carried over from 2014. |
| 12 | Interest | Interest costs have increased by \$5.2 million from 2015 Test Year to the 2015 Forecast primarily due to an increase in RSP interest of \$7.6 million, a decrease of \$7.3 million in capitalized interest primarily due to postponement of LabWest capital project, and higher short term interest costs of \$1.7 million related to delay in long term borrowing. These amounts are partially offset by interest savings of \$10.8 million due to a delay in debt issue from April 1, 2015 to December 1, 2015. |