



Grant Thornton

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Attention: Ms. Cheryl Blunden

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October 7, 2019

Dear Ms. Blunden,

**Re: Newfoundland and Labrador Hydro
2015 and 2016 Average Rate Base**

We have completed our review as requested in your letter dated August 23, 2019 relating to Newfoundland and Labrador Hydro's ("the Company's") ("Hydro") 2020 Capital Budget Application (Section I) as it pertains to the computation of the 2015 and 2016 average rate base for which the Company requests Board approval.

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.

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 and component data to supporting documentation;
- checking clerical accuracy of the continuity of the average rate base; and
- reviewing the methodology used in determining average rate base to ensure it is in accordance with established practice and Board Orders.

The table below summarizes the differences between the 2020 Capital Budget Application and Grant Thornton's 2015 and 2016 Annual Financial Review reports:

Table 1: Comparison of 2015 and 2016 Average Rate Base

(000's)	<u>2015</u>	<u>2016</u>
2020 Capital Budget Application	\$ 1,747,308	\$ 1,885,849
Grant Thornton Annual Financial Review	<u>1,747,243</u>	<u>1,886,283</u>
Difference	<u>\$ 65</u>	<u>\$ (434)</u>

2015 Average Rate Base Calculation

We noted that the 2015 average rate base of \$1,747,308,000 presented in the 2020 Capital Budget Application differs from our 2015 Annual Financial Review of \$1,747,243,000 by \$65,000. The difference is made up of a \$2,000 rounding adjustment presented in Grant Thornton's 2015 Annual Financial Review report and a \$63,000 formula error within the Company's original 2020 Capital Budget Application filing. The Company has provided a revised average rate base of \$1,747,245,000 which includes the \$2,000 rounding adjustment and for the \$63,000 error noted during our work. Please refer below for the revised table prepared by the Company.

2016 Average Rate Base Calculation

We noted that the 2016 average rate base of \$1,885,849,000 presented in the 2020 Capital Budget Application differs from our 2016 Annual Financial Review of \$1,886,283,000 by (\$434,000). In Order No. P.U. 13 (2016) the Board approved the Company's deferral of Phase II Hearing Costs. The difference presented above is due to the Company excluding actual hearing costs of \$869,000 incurred in 2016 (average of \$434,000) from average rate base. Phase II Hearing costs are subject to recoverability in a separate Order by the Board at a later date. As a result of the uncertainty of the recoverability we agree with Hydro that the Phase II Hearing costs should be excluded from average rate base.

The table below prepared by Hydro presents the updated average rate base for the above revision:

Table 2: Hydro's Revised Average Rate Base

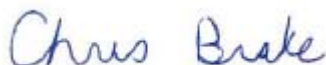
	<u>2015</u>	<u>2016</u>
Total Capital Assets	1,671,550	1,788,401
<u>Deduct Items Excluded from Rate Base</u>		
Work in Process	(29,171)	(89,698)
Asset Retirement Obligations (net of amortization)	<u>(14,381)</u>	<u>465</u>
Net Capital Assets	1,627,998	1,699,168
Net Capital Assets, Previous Year	<u>1,468,388</u>	<u>1,627,998</u>
Unadjusted Average Capital Assets	1,548,193	1,663,583
<u>Deduct</u>		
Average Net Capital Assets Excluded from Rate Base	<u>(10,730)</u>	<u>(16,676)</u>
Average Capital Assets	1,537,463	1,646,907
Cash Working Capital Allowance - Return 8	6,995	5,304
Fuel Inventory - Return 10	44,052	35,473
Supplies Inventory - Return 10	29,279	32,146
Average Deferred Charges - Return 11*	<u>129,456</u>	<u>166,019</u>
Average Rate Base at Year-End - Return 12	<u>1,747,245</u>	<u>1,885,849</u>

* Updated to reflect the Board's approval of the Amended 2013 Prudence Compliance Application in P.U. 49 (2016) and the 2017 General Rate Application in P.U. 16 (2019) resulting in an increase in average deferred charges of \$98.3 million in 2019 and \$61.1 million in 2018. The increase relating to the Amended 2013 Prudence Compliance Application in P.U. 49 (2016) is primarily due to the final approval of the 2014-2016 Cost Deferrals. The increase relating to the 2017 General Rate Application in P.U. 16 (2019) is due to the approval of the 2015-2017 Supply Deferrals.

Based on the results of our procedures and after correction of the \$63,000 formula error in the 2015 average rate base, we did not note any discrepancies or unusual items in the calculation of the 2015 and 2016 average rate base, and therefore conclude that the 2015 and 2016 average rate base in Table 2 above is in accordance with established practice and Board Orders.

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

Yours sincerely,
Grant Thornton LLP



Chris Brake, CPA, CA
 Partner