

Board of Commissioners of Public Utilities

Newfoundland and Labrador Hydro

July 1, 2024 Utility Rate Adjustments Application – Schedule 2

Report date: June 12, 2024

Table of contents

1. Introduction	1
2. Analysis	2
3. Conclusion	7
Appendix A – Documents relied upon	A

1. Introduction

1.1. Project overview

Grant Thornton LLP (“we”, “us”, “our” or “Grant Thornton”) has been engaged by the Newfoundland and Labrador Board of Commissioners of Public Utilities (the “Board”) to review Schedule 2 of the Newfoundland and Labrador Hydro (the “Company” or “Hydro”) July 1, 2024 Utility Rate Adjustments Application¹ (the “Application”) as filed by Newfoundland and Labrador Hydro, dated May 28, 2024. This report is provided for the Board’s use in evaluating the Application submitted by the Company. Specifically, we understand that Schedule 2 of the Application includes a calculation of average end-customer billing impacts by Newfoundland Power Inc. (“Newfoundland Power”).

1.2. Scope of work

Our report outlines the results of our procedures to review Schedule 2 of the Application and documents our findings and observations. Specifically, we have undertaken the following procedures:

- Conducted a walkthrough of the schedule with the Company and Newfoundland Power.
- Completed an analysis and reperformance of calculations and other analytical procedures with respect to the information included in Schedule 2, including assessing the reasonableness of explanations and compliance with Board orders; and
- Prepared a report on our findings.

1.3. Restrictions and limitations

Our scope of work is as set out throughout this report. The procedures undertaken in the course of our review do not constitute an audit of the Company’s, or Newfoundland Power’s, information and consequently, we do not express an audit opinion on the financial information provided by the Company or Newfoundland Power. Our opinions on other matters are outlined throughout this report.

We acknowledge that our report will be communicated to the parties to the matter and may become a public document accessible through the Board’s website. We have given the Board our consent to use our report for this purpose. Our report is not to be reproduced or used for any purpose other than that outlined above without prior written permission in each specific instance. Grant Thornton LLP recognizes no responsibility to any third party who may rely on this report or other material provided to the Board. Unless stated otherwise in this report, Grant Thornton LLP has relied on information provided by the Company, Newfoundland Power, or the Board’s website and third-party sources in preparing this report, whom Grant Thornton LLP believes is reliable. We are not guarantors of the information upon which we have relied in preparing the report and, except as stated, we have not audited or otherwise attempted to verify any of the underlying information or data contained in this report. We have made efforts to ensure a conservative, realistic and transparent approach, however, some of the analysis depends on the input from third parties whose opinions may influence the conclusions. All analysis, information and recommendations contained herein are based on the information available to Grant Thornton LLP as of this report’s date.

¹ Newfoundland and Labrador Hydro – Application for July 1, 2024 Utility Rate Adjustments - [From NLH - Application for July 1 2024 Utility Rate Adjustments - 2024-05-28.PDF \(pub.nl.ca\)](#)

2. Analysis

2.1. Background

The Newfoundland and Labrador Government has finalized a rate mitigation plan and issued Order in Council OC2024-062² that directs Hydro to target retail rate increases to domestic rate class customers attributable to Hydro at 2.25 per cent per year. This directive is for all applications submitted by the Company up to 2030, for customers subject to Island Interconnected rates. Further, the rate mitigation plan requires the Company to source any additional funding required to reduce the Supply Cost Variance Deferral Account balance and achieve the targeted 2.25 per cent rate increase. The Company has proposed an increase in the Project Cost Recovery Rider, approved in Order No. P.U.19 (2022)³, from 0.798 cents per kWh to 1.124 cents per kWh, which is to increase the recovery of Project costs and domestic rates attributable to the Company's costs by the target of 2.25%. Detailed calculations performed by Newfoundland Power allowed the Company to calculate the rider required to meet the targeted domestic rate increase of 2.25 per cent, as outlined in Schedule 2 of the Application.

The Company's Application includes the following proposals:

- A revised Rate Stabilization Plan ("RSP") Current Plan Adjustment to 0.461 cents per kWh for the Utility Rate to become effective July 1, 2024;
- A revised Conservation and Demand Management ("CDM") Cost Recovery Adjustment of 0.017 cents per kWh for the Utility Rate to become effective July 1, 2024;
- A revised Project Cost Recovery Rider of 1.124 cents per kWh for the Utility Rate to become effective July 1, 2024; and
- Approval of the Utility Rate Sheet, attached as Schedule 3 of the Company's Application.

2.2. Rate Stabilization Adjustment

The Board approves the rules and regulations pertaining to the Rate Stabilization Adjustment ("RSA") each year, a component of Newfoundland Power's customer rates. This adjustment reflects the accumulated balance for the 12 month period ended March 31 in Newfoundland Power's Rate Stabilization Account and any change in the rates charged to Newfoundland Power by Hydro as a result of its Rate Stabilization Plan, CDM Cost Recovery Adjustment, and the Project Cost Recovery Rider.⁴ Schedule 2 Page 2 of the Application illustrates the revised RSA based on the proposed RSP, CDM and Project Cost Recovery Rider.

² Government of Newfoundland and Labrador – Order in Council OC2024-062 - [Orders in Council | Cabinet Secretariat \(gov.nl.ca\)](#)

³ Newfoundland and Labrador Board of Commissioners of Public Utilities – Order No. P.U. 19 (2022) - [http://www.pub.nl.ca/PU/orders/2022/P.U.%2019\(2022\).PDF](http://www.pub.nl.ca/PU/orders/2022/P.U.%2019(2022).PDF)

⁴ Newfoundland Power Inc. – Schedule of Rates Rules & Regulations Effective July 1, 2023 - 03337A8CF44D47FAB71E64890F7DE86A.ashx (newfoundlandpower.com)

Newfoundland and Labrador – Board of Commissioners of Public Utilities
 Newfoundland and Labrador Hydro
 July 1, 2024 Utility Rate Adjustments Application – Schedule 2

1 As detailed in the Rate Stabilization Clause⁵, the Rate Stabilization Adjustment (“A”) is calculated
 2 by the following:

$$\frac{B1 + B2 + B3 + C}{D}$$

3
 4 Where:

5 B1 = the annual plan recovery amount designated to be billed by Hydro during the next twelve (12)
 6 months commencing July 1 as a result of the operation of Hydro’s RSP.

7 B2 = the annual plan recovery amount designated to be billed by Hydro during the
 8 next twelve (12) months commencing July 1 as a result of the operation of
 9 Hydro’s CDM Cost Recovery Adjustment.

10 B3 = the Muskrat Falls Project Cost Recovery Rider.

11 C = the balance of the Company’s RSA as of March 31st of the current year.

12 D = the total kilowatt-hours sold by the Company for the 12 months ending March 31st of the
 13 current year.

14 The Rate Stabilization Adjustment calculated in the Application on Page 2 of Schedule 2 is summarized in
 15 the table below:

Newfoundland Power Inc. Calculation of the Rate Stabilization Adjustment - July 1 , 2024			
Recovery adjustment factor	mills/kWh	kWh	
RSP			
B1 = Amount billed by Hydro	4.61	5,862,562,543	\$ 27,026,413
CDM			
B2 = Amount billed by Hydro	0.17	5,858,252,958	\$ 995,903
Muskrat Falls Project Cost Recovery Rider			
B3 = Amount billed by Hydro	11.24	5,858,252,958	\$ 65,846,763
C = Balance in Newfoundland Power’s RSA at March 31, 2023 ¹			\$ (5,082,749)
D = Total energy sales by Newfoundland Power from April 1, 2023 to March 31, 2024 (kWh)		5,946,357,000	
Recovery adjustment factor (B1+B2+B3+C)/D			0.01493
Rate stabilization adjustment (cents/kWh)			1.493

16 **Note 1:** As defined above, the RSA formula defines C as the balance of Newfoundland Power’s RSA as of March 31st
 17 of the current year. We understand that March 31st of the prior year was used by Newfoundland Power for this
 18 calculation given the context of its use to determine the adjustment for Hydro’s required 2.25% target domestic rate
 19 increase. Newfoundland Power’s RSA and MTA updates will be filed in a subsequent July 1, 2024 rate adjustment
 20 application where the RSA as of March 31st of the current year will be used in accordance with the Rate Stabilization
 21 Clause.

22 During our analysis, we assessed the RSA inputs illustrated above through recalculations, inquiries with
 23 Hydro and Newfoundland Power, and compliance with relevant Board Orders. Our procedures and
 24 conclusions by input are summarized in the following table.

⁵ Newfoundland Power Inc. – Schedule of Rates Rules & Regulations Effective July 1, 2023 - [03337A8CF44D47FAB71E64890F7DE86A.ashx \(newfoundlandpower.com\)](https://www.newfoundlandpower.com/03337A8CF44D47FAB71E64890F7DE86A.ashx)

Newfoundland and Labrador – Board of Commissioners of Public Utilities
 Newfoundland and Labrador Hydro
 July 1, 2024 Utility Rate Adjustments Application – Schedule 2

Newfoundland Power Inc. Calculation of the Rate Stabilization Adjustment - July 1, 2024 Summary of inputs			
Cell	Inputs	Procedures	Findings
B1 - RSP Adjustment	4.61 mills/kWh; 5,862,562,543 kWh	Review and recalculate the RSP Current Plan Adjustment for Utility Customer's detailed in Schedule 1, Appendix C, Page 1 of the Application. Specifically: <ul style="list-style-type: none"> • Agree the formula to Hydro's Schedule of Rates, Rules and Regulations.⁶ • Agree the March balance to Hydro's Q1 2024 Report.⁷ • Recalculate the Forecast Financing Costs to June 30, 2025 and Recovery to June 30, 2024. • Agree the 12 Months-to-Date Newfoundland Power Inc. Sales to Hydro's 2023 Q4 and 2024 Q1 Reports. 	Reperformance of calculation produced no issues or discrepancies.
B2 - CDM	0.17 mills/kWh; 5,858,252,958 kWh	Review and recalculate the CDM Cost Recovery Adjustment detailed in Schedule 1, Appendix D, Page 2 of the Application. Specifically: <ul style="list-style-type: none"> • Agree the formula to Hydro's Schedule of Rates, Rules and Regulations.⁸ • Agree Newfoundland Power's allocation percentage of rural CDM balance to the 2019 Test Year Compliance Cost of Service Study included in Hydro's 2017 General Rate Application Compliance Application.⁹ • Agree the 2023 Newfoundland Power energy sales to Hydro's 2023 Q4 Report. • Agree Newfoundland Power's historical CDM Cost Recovery Adjustments to Schedule 1 of Hydro's July 1, 2023 Utility Rates Application¹⁰ and related Board Order No. P.U. 37 (2022).¹¹ 	Reperformance of calculation produced no issues or discrepancies.

⁶ Newfoundland and Labrador Hydro – Schedule of Rates, Rules and Regulations – Effective January 1, 2023 - [Schedule-of-Rates-Rules-and-Regulations_Jan-2023.pdf \(nlhydro.com\)](#)

⁷ Newfoundland and Labrador Hydro – Quarterly Regulatory Report for the Quarter Ended March 31, 2024 - [From NLH - \(To Parties\) - 1st Quarter Report for period ending March 31, 2024 - 2024-05-21.PDF \(pub.nl.ca\)](#)

⁸ Newfoundland and Labrador Hydro – Schedule of Rates, Rules and Regulations – Effective January 1, 2023 - [Schedule-of-Rates-Rules-and-Regulations_Jan-2023.pdf \(nlhydro.com\)](#)

⁹ Newfoundland and Labrador Hydro – 2017 General Rate Application Compliance Application - [NLH 2017 GRA Compliance Application - 2019-07-11.PDF \(pub.nl.ca\)](#)

¹⁰ Newfoundland and Labrador Hydro – Application for July 1, 2023 Utility Rate Adjustments - [From NLH - 2023 - Application for July 1, 2023 Utility Rate Adjustments - 2023-04-17.PDF \(pub.nl.ca\)](#)

¹¹ Newfoundland and Labrador Board of Commissioners of Public Utilities – Order No. P.U. 37 (2022) - [P.U. 37\(2022\).PDF \(pub.nl.ca\)](#)

Newfoundland and Labrador – Board of Commissioners of Public Utilities
 Newfoundland and Labrador Hydro
 July 1, 2024 Utility Rate Adjustments Application – Schedule 2

Newfoundland Power Inc. Calculation of the Rate Stabilization Adjustment - July 1, 2024 Summary of inputs			
Cell	Inputs	Procedures	Findings
B3 - Muskrat Falls Project Cost Recovery Rider	11.24 mills/kWh; 5,858,252,958 kWh	<ul style="list-style-type: none"> Review Order No. P.U. 19 (2022) approval of the Project Cost Recovery Rider.¹² Agree the 2023 Newfoundland Power energy sales to Hydro's 2023 Q4 Report. Based on our discussions with Newfoundland Power and Hydro, we understand that the 11.24mills/kWh was calculated as a reconciling amount to increase the recovery of project costs and domestic rates attributable to the Company costs by the target of 2.25%. 	The input 11.24 mills/kWh project cost recovery rider meets the target of a domestic rate increase of 2.25%.
C - Balance in Newfoundland Power's RSA at March 31, 2023	\$ (5,082,749)	<ul style="list-style-type: none"> Agree to Return 16 of Newfoundland Power's 2023 Annual Report.¹³ 	No discrepancies found.
D - Total Energy Sales by Newfoundland Power from April 1, 2023 to March 31, 2024	5,946,357,000 kWh	<ul style="list-style-type: none"> Agree to support provided by Newfoundland Power. 	No discrepancies found.

1 Based on our procedures noted in the above table, we found no discrepancies in the calculation of the
 2 Rate Stabilization Adjustment of **1.493 cents/kWh** illustrated in Schedule 2, Page 2 of the Application.

3 **2.3. Average billing impacts**

4 Schedule 2, Page 1 of the Application provides a summary of Newfoundland Power’s proposed average
 5 billing impacts on customer rates. To review this schedule, we participated in a walkthrough of the
 6 calculation with Newfoundland Power, recalculated the average impacts, and confirmed Newfoundland
 7 Power’s methodology with their rules and regulations. The table below summarizes the average impacts as
 8 presented on Schedule 2, Page 1 of the Application.

¹² Newfoundland and Labrador Board of Commissioners of Public Utilities – Order No. P.U. 19 (2022) - [http://www.pub.nl.ca/PU/orders/2022/P.U.%2019\(2022\).PDF](http://www.pub.nl.ca/PU/orders/2022/P.U.%2019(2022).PDF)

¹³ Newfoundland and Labrador Power Inc. – 2023 Annual Report - [From NP - 2023 Annual Report - 2024-03-28.PDF \(pub.nl.ca\)](#)

Newfoundland and Labrador – Board of Commissioners of Public Utilities
 Newfoundland and Labrador Hydro
 July 1, 2024 Utility Rate Adjustments Application – Schedule 2

Newfoundland Power Inc. Average Billing Impacts - Customer Rates - July 1, 2024 Newfoundland and Labrador Hydro's ("Hydro") Impact Only (\$000s)				
Category	Revenue under existing rates (A)	Revenue under proposed rates (B)	Change (C) = B - A	Average impacts (D) = C / A
1.1 Domestic	522,206	533,947	11,741	2.25%
1.1S Domestic seasonal	1,714	1,751	37	2.16%
Total domestic	523,920	535,698	11,778	2.25%
2.1 General service 0-100 kW (110 kVA)	109,270	111,824	2,554	2.34%
2.3 General service 110-1000 kVA	127,233	130,661	3,428	2.69%
2.4 General service over 1000 kVA	45,779	47,136	1,357	2.96%
Total general service	282,282	289,621	7,339	2.60%
4.1 Street and area lighting	17,039	17,112	73	0.43%
Forfeited discounts	2,953	2,953	-	0.00%
Total	826,194	845,384	19,190	2.32%

1 To recalculate the revenue under proposed rates (B), we obtained supporting documentation for the
 2 calendar revenue under existing March 1, 2022 Base Rates. We understand that the RSA and Municipal
 3 Tax Adjustment ("MTA") are applied to the calendar revenue which results in total revenue under proposed
 4 rates of **\$845,384,000**. The table below provides a breakdown of the calculation.

Newfoundland Power Inc. Revenue under proposed rates breakdown (\$000s)						
Category	Calendar revenue (E)	RSA ¹ (F)	MTA ² (G)	Calculated revenue under proposed rates (B) = E + F + G	Revenue under proposed rates as stated in the Application	Difference ³
1.1 Domestic	466,331	54,721	12,880	533,933	533,947	(14)
1.1S Domestic seasonal	1,537	172	42	1,751	1,751	-
Total domestic	467,868	54,893	12,923	535,684	535,698	(14)
2.1 General service 0-100 kW (110 kVA)	97,265	11,859	2,698	111,821	111,824	(3)
2.3 General service 110-1000 kVA	111,564	15,942	3,152	130,658	130,661	(3)
2.4 General service over 1000 kVA	39,695	6,303	1,137	47,136	47,136	-
Total general service	248,524	34,105	6,987	289,615	289,621	(6)
4.1 Street and area lighting	16,359	340	413	17,112	17,112	-
Forfeited discounts	2,953	-	-	2,953	2,953	-
Total	735,704	89,338	20,322	845,364	845,384	(20)

Newfoundland and Labrador – Board of Commissioners of Public Utilities
Newfoundland and Labrador Hydro
July 1, 2024 Utility Rate Adjustments Application – Schedule 2

Note 1: RSA

- Newfoundland Power Inc.'s formula for RSA is calculated as follows, per the Schedule of Rates, Rules, and Regulations Effective July 1, 2023:¹⁴

$$(L \times A) / 100$$

Where:

L = the total kilowatt-hours sold by the Newfoundland Power during the month.

A = the Rate Stabilization Adjustment in effect during the month expressed in cents per kilowatt hour.

- In reperforming the RSA calculation, we confirmed the total kilowatt-hours sold by Newfoundland Power during the year (L) with supporting documents provided by Newfoundland Power and used the Rate Stabilization Adjustment (A) of 1.493 cents/kWh as calculated on Schedule 2 Page 2 of the Application.

Note 2: MTA

- We understand that to calculate the revenue under proposed rates, an MTA factor was applied to the customer revenue (inclusive of the RSA). Newfoundland Power's formula for calculating the MTA factor is as follows, per the Schedule of Rates, Rules, and Regulations Effective July 1, 2023:¹⁵

$$(X / Y) + 1.00000$$

X = the amount of all municipal taxes paid by the Company in the previous calendar year.

Y = the amount of revenue earned by the Company in the previous calendar year less the amount collected by the Company under the Municipal Tax Clause in that year.

- We understand that the MTA factor of 1.02472, as approved in Order No. P.U. 17 (2023)¹⁶ was used in Newfoundland Power's calculation.

Note 3: Difference

- In reperforming the calculations provided by Newfoundland Power, we recalculated the revenue under proposed rates to be \$845,364,000 (approximately \$20,000 lower than the \$845,384,000 reported in Schedule 2 of the Application). We understood this to be a rounding error and as it did not result in a discrepancy of the 2.25% domestic rate increase, no further procedures were completed.

Ultimately, we have concluded that the RSA and MTA calculations provided by Newfoundland Power are in accordance with their rules and regulations.

3. Conclusion

Based upon the results of our procedures, we advise that we did not note any discrepancies in the calculations used within Schedule 2 of the Application. Further, we have found that the Project Cost Recovery Rider of 1.124 cents per kWh is based on the target domestic rate increase of 2.25% from the Order in Council OC2024-062.

¹⁴ Newfoundland Power Inc. – Schedule of Rates Rules & Regulations Effective July 1, 2023 - [03337A8CF44D47FAB71E64890F7DE86A.ashx \(newfoundlandpower.com\)](https://www.newfoundlandpower.com/03337A8CF44D47FAB71E64890F7DE86A.ashx)

¹⁵ Newfoundland Power Inc. – Schedule of Rates Rules & Regulations Effective July 1, 2023 - [03337A8CF44D47FAB71E64890F7DE86A.ashx \(newfoundlandpower.com\)](https://www.newfoundlandpower.com/03337A8CF44D47FAB71E64890F7DE86A.ashx)

¹⁶ Newfoundland and Labrador Board of Commissioners of Public Utilities – Order No. P.U. 17(2023) - [P.U. 17\(2023\).PDF \(pub.nl.ca\)](https://pub.nl.ca/17(2023).PDF)

Appendix A – Documents relied upon

1	Newfoundland and Labrador Hydro – Application for July 1, 2024 Utility Rate Adjustments - From NLH - Application for July 1 2024 Utility Rate Adjustments - 2024-05-28.PDF (pub.nl.ca)
2	Government of Newfoundland and Labrador – Order in Council OC2024-062 - Orders in Council Cabinet Secretariat (gov.nl.ca)
3	Newfoundland and Labrador Board of Commissioners of Public Utilities – Order No. P.U. 19 (2022) - http://www.pub.nl.ca/PU/orders/2022/P.U.%2019(2022).PDF
4	Newfoundland Power Inc. – Schedule of Rates Rules & Regulations Effective July 1, 2023 - 03337A8CF44D47FAB71E64890F7DE86A.ashx (newfoundlandpower.com)
5	Newfoundland and Labrador Hydro – Schedule of Rates, Rules and Regulations – Effective January 1, 2023 - Schedule-of-Rates-Rules-and-Regulations_Jan-2023.pdf (nlhydro.com)
6	Newfoundland and Labrador Hydro – Quarterly Regulatory Report for the Quarter Ended March 31, 2024 - From NLH - (To Parties) - 1st Quarter Report for period ending March 31, 2024 - 2024-05-21.PDF (pub.nl.ca)
7	Newfoundland and Labrador Hydro – 2017 General Rate Application Compliance Application - NLH 2017 GRA Compliance Application - 2019-07-11.PDF (pub.nl.ca)
8	Newfoundland and Labrador Hydro – Application for July 1, 2023 Utility Rate Adjustments - From NLH - 2023 - Application for July 1, 2023 Utility Rate Adjustments - 2023-04-17.PDF (pub.nl.ca)
9	Newfoundland and Labrador Board of Commissioners of Public Utilities – Order No. P.U. 37 (2022) - P.U. 37(2022).PDF (pub.nl.ca)
10	Newfoundland and Labrador Power Inc. – 2023 Annual Report - From NP - 2023 Annual Report - 2024-03-28.PDF (pub.nl.ca)
11	Newfoundland and Labrador Board of Commissioners of Public Utilities – Order No. P.U. 17(2023) - P.U. 17(2023).PDF (pub.nl.ca)

Newfoundland and Labrador – Board of Commissioners of Public Utilities
Newfoundland and Labrador Hydro
July 1, 2024 Utility Rate Adjustments Application – Schedule 2



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