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HAND DELIVERED

November 23, 2018

Board of Commissioners
of Public Utilities
P.O. Box 21040
120 Torbay Road
St. John's, NL A1A 5B2

Attention: G. Cheryl Blundon
Director of Corporate Services
and Board Secretary

Dear Ms. Blundon:

Re: 2019/2020 General Rate Application (the "2019/2020 GRA") – Settlement Agreement – Further Information

A. Introductory

On November 19, 2018, Newfoundland Power Inc. ("Newfoundland Power" or the "Company") filed an Amended Application and revised Exhibits in support of a Settlement Agreement for matters pertaining to the Company's 2019/2020 GRA. On November 21, 2018, the Board requested further information relating to the Settlement Agreement and the Company's revised Exhibits. In particular, the Board requested the following:

- (i) An explanation of the difference between the numbers provided in clauses 10, 11 and 12 of the Settlement Agreement and the updated numbers in the revised exhibits which were filed to reflect the impacts of the Settlement Agreement; and
- (ii) A calculation of the forecast revenue surplus as provided in clause 16 of the Settlement Agreement and how the amounts on line 18 of Exhibit 6 are calculated.

The information requested by the Board is detailed below.

Newfoundland Power Inc.

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B. Requested Information

Paragraphs 10, 11, and 12 of the Settlement Agreement

The amounts included in paragraphs 10, 11 and 12 of the Settlement Agreement reflect customer rates that were in effect at the time Newfoundland Power's 2019/2020 GRA was filed on June 1, 2018. Since that time, Newfoundland Power's customer rates have changed.¹ This change affects the Company's 2019 and 2020 test year revenue requirements, average rate base, and rate of return on average rate base.

A modification to the amounts listed in paragraphs 10, 11 and 12 of the Settlement Agreement was anticipated to reflect this change in customer rates.² These modifications were reflected in the Amended Application and revised Exhibits filed with the Board on November 19, 2018. The modifications included:

- i. A change in 2019 and 2020 revenue requirements to reflect increased purchased power costs;³
- ii. A change in the cash working capital allowance included in average rate base for 2019 and 2020 resulting from the recovery of increased purchased power costs;⁴ and
- iii. A minor change in the return on average rate base for 2019 and 2020 resulting from the changes described above.⁵

In addition, the Company's proposed 2019 and 2020 revenue requirements were also modified to reflect the introduction of LED street and area lighting. Introducing LED street and area lighting, while maintaining existing rates for other customers, is consistent with paragraphs 13 and 21 of the Settlement Agreement. This results in a slight decrease in revenue requirement from customer rates in both 2019 and 2020.⁶

¹ On June 22, 2018, the Board issued Order No. P.U. 20 (2018). Order No. P.U. 20 (2018) approved a July 1, 2018 increase in Newfoundland Power's customer rates resulting from an interim increase in the wholesale electricity rate charged to the Company by Newfoundland and Labrador Hydro. See response to Request for Information PUB-NP-030.

² Approval of forecast average rate base, rate of return on rate base and revenue requirements in the Settlement Agreement was recommended "*as modified by any relevant Board orders issued subsequent to the filing of the Application.*"

³ Refer to paragraph 12 in the Settlement Agreement and paragraph 10(h) in the Amended Application.

⁴ Refer to paragraph 10 in the Settlement Agreement and paragraph 10(f) in the Amended Application.

⁵ Refer to paragraph 11 in the Settlement Agreement and paragraph 10(g) in the Amended Application.

⁶ See Exhibit 9 (1st Revision), line 1 on both pages 1 and 2.

Attachment A to this correspondence provides a reconciliation of the numbers provided in paragraphs 10, 11 and 12 of the Settlement Agreement to the updated numbers included in the Amended Application and revised Exhibits filed with the Board on November 19, 2018.

Forecast Revenue Surplus

Implementation of the Company's 2019/2020 GRA proposals and the terms of the Settlement Agreement on March 1, 2019 results in a \$2,482,000 over recovery of the proposed 2019 revenue requirement. The Settlement Agreement recommends this amount be amortized over a 34-month period commencing March 1, 2019.⁷

The 2019 Revenue Surplus and recommended amortization maintains the Company's proposed regulated return on book equity of 8.50% in each of 2019 and 2020. Attachment B to this correspondence provides this calculation on page 1 of 2.

The 2019 Revenue Surplus is a deduction from Newfoundland Power's forecast average rate base for 2019 and 2020, as detailed on line 18 of Exhibit 6 (1st Revision). The forecast average rate base figures reflect the proposed amortization and income tax effects of the 2019 Revenue Surplus. Attachment B to this correspondence provides this calculation on page 2 of 2.

C. Concluding

We trust that the foregoing and enclosed are found to be in order.

If you have any questions, please contact the undersigned at your convenience.

Yours very truly,



Kelly Hopkins
Corporate Counsel

Enclosure

c. Dennis Browne, QC
Consumer Advocate

Mark Murray
IBEW, Local 1620

⁷ Refer to paragraph 16 in the Settlement Agreement.

Newfoundland Power Inc.
Settlement Agreement Reconciliation

	<u>Settlement Agreement</u> A ¹	<u>Order No. P.U. 20 (2018)</u> B ²	<u>LED Street and Area Lighting</u> C ⁶	<u>Amended Application</u> D = A + B + C ⁷
1 2019 Forecast				
2 Revenue Requirement	\$ 655,841,000	\$ 16,445,000 ³	\$ (32,000)	\$ 672,254,000
3 Average Rate Base	\$ 1,145,882,000	\$ 294,000 ⁴	-	\$ 1,146,176,000
4 Return on Rate Base (%)	7.02	(0.01) ⁵	-	7.01
5				
6 2020 Forecast				
7 Revenue Requirement	\$ 657,459,000	\$ 16,478,000 ³	\$ (91,000)	\$ 673,846,000
8 Average Rate Base	\$ 1,178,756,000	\$ 299,000 ⁴	-	\$ 1,179,055,000
9 Return on Rate Base (%)	7.05	(0.01) ⁵	-	7.04

¹ See the Settlement Agreement, paragraphs 10, 11, and 12. As noted in each respective paragraph, these figures were recommended for approval "as modified by any relevant Board orders issued subsequent to the filing of the Application."

² In Order No. P.U. 20 (2018) issued on June 22, 2018, the Board approved an increase in Newfoundland Power's customer rates resulting from an interim increase in the wholesale electricity rate charged to the Company by Newfoundland and Labrador Hydro. These rates were effective July 1, 2018. This resulted in an increase in Newfoundland Power's 2019 and 2020 revenue requirements to reflect increased purchased power costs.

³ The change in 2019 and 2020 forecast *existing* revenue requirement from rates as a result of the July 1, 2018 rate change approved by the Board in Order No. P.U. 20 (2018). The amounts are calculated as (\$000s):

	2019	2020
Revised existing revenue requirement from rates for the July 1, 2018 rate change	672,286	673,937 (Exhibit 7, 1 st Revision)
Existing revenue requirement from rates as filed in the GRA	655,841	657,459 (Exhibit 7)
Difference	16,445	16,478

⁴ Represents the change in the cash working capital allowance included in the Company's average rate base for 2019 and 2020 resulting from the recovery of increased purchased power costs approved in Order No. P.U. 20 (2018).

⁵ Reflects the changes in revenue requirement and average rate base.

⁶ The reduction in revenue requirement from rates due to the introduction of LED street and area lighting, while maintaining existing rates for other customers, consistent with paragraphs 13 and 21 of the Settlement Agreement. See Exhibit 9 (1st Revision), line 1 on both pages 1 and 2.

⁷ See the Amended Application, paragraph 10, subparagraphs (f), (g) and (h).

Newfoundland Power Inc.
2019 Proposed Statement of Income
Before and After the 2019 Revenue Surplus
(\$000s)

	<u>Before 2019 Revenue Surplus</u>	<u>2019 Revenue Surplus</u>	<u>After 2019 Revenue Surplus</u> ¹
1 Revenue from rates	672,254	-	672,254
2 Transfers from (to) the RSA	3,818	-	3,818
3	<u>676,072</u>	<u>-</u>	<u>676,072</u>
4			
5 Purchased power expense	447,307	-	447,307
6 Demand management incentive account adjustments	-	-	-
7	<u>447,307</u>	<u>-</u>	<u>447,307</u>
8			
9 Contribution	<u>228,765</u>	<u>-</u>	<u>228,765</u>
10			
11 Other revenue	<u>5,612</u>	<u>-</u>	<u>5,612</u>
12			
13 Other expenses:			
14 Operating expenses	62,679	-	62,679
15 Employee future benefit costs	9,080	-	9,080
16 Deferred cost recoveries and amortizations	-	1,752 ²	1,752
17 Depreciation	62,350	-	62,350
18 Finance charges	<u>36,164</u>	<u>-</u>	<u>36,164</u>
19	<u>170,273</u>	<u>1,752</u>	<u>172,025</u>
20			
21 Income Before Income Taxes	64,104	(1,752)	62,352
22 Income taxes	<u>18,628</u>	<u>(526)</u> ³	<u>18,102</u>
23			
24 Net Income	45,476	(1,226) ⁴	44,250
25 Preferred Dividends	<u>552</u>	<u>-</u>	<u>552</u>
26			
27 Earnings Applicable to Common Shares	A <u>44,924</u>	<u>(1,226)</u>	<u>43,698</u>
28			
29 Average Common Equity	B <u>514,710</u>	<u>(613)</u> ⁵	<u>514,097</u>
30			
31 Regulated Return on Book Equity ("ROE") (%)	C = A / B <u>8.73</u>		<u>8.50</u>

¹ See Exhibit 5 (1st Revision), pages 1 and 6.

² The net \$1,752,000 is comprised of the 2019 Revenue Surplus of \$2,482,000 less amortization of \$730,000 [(2,482,000/34 months) x 10 months]. The 2019 Revenue Surplus is determined based on maintaining a ROE of 8.50% for both 2019 and 2020.

³ Income taxes is calculated as \$1,752,000 x 30% = \$526,000.

⁴ The change in net income of (\$1,226,000) is equal to (\$1,752,000) less change in income taxes of (\$526,000).

⁵ This represents the change in average rate base (Line 18 of Exhibit 6 (1st Revision)) resulting from the reduction in Return on Common Equity. See Attachment B, page 2 for a calculation of average rate base associated with the 2019 Revenue Surplus.

Newfoundland Power Inc.

**Forecast Average Rate Base
Impacts of 2019 Revenue Surplus
(\$000s)**

		<u>2019</u>	<u>2020</u>
1 2019 Revenue Surplus			
2			
3 Balance - Beginning of Period		-	1,752
4 2019 Revenue Surplus		2,482 ¹	-
5 Amortization		<u>(730) ²</u>	<u>(876) ²</u>
6 Balance - End of Period		<u>1,752 ¹</u>	<u>876</u>
7			
8			
9 Forecast Average Rate Base			
10			
11 Forecast Rate Base - Beginning of Period	A	-	1,226
12 2019 Revenue Surplus - End of Period		1,752 ³	876 ³
13 Income Taxes		<u>(526) ⁴</u>	<u>(263) ⁴</u>
14 Forecast Rate Base - End of Period	B	1,226	613
15			
16 Forecast Average Rate Base - End of Period	C = (A + B) / 2	<u>613 ⁵</u>	<u>920 ⁵</u>

¹ See Attachment B, page 1 of 2, footnote 2.

² Amortization of the 2019 Revenue Surplus is \$2,482,000 / 34 months = \$73,000 / month. For 2019, amortization is \$73,000 x 10 months = \$730,000. For 2020, amortization is \$73,000 x 12 months = \$876,000.

³ See line 6 above.

⁴ Income taxes is calculated as \$1,752,000 x 30% = \$526,000 for 2019 and \$876,000 x 30% = \$263,000 for 2020.

⁵ This agrees with the amounts on line 18 of Exhibit 6 (1st Revision).