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August 12, 2021

Dear Ms. Blundon,

Re: Newfoundland Power Inc.
2022 Capital Budget Application

We have completed our review as requested in your letter May 26, 2021 relating to Newfoundland Power Inc.’s (the “Company’s”) 2022 Capital Budget Application as it pertains to the calculation of the 2020 actual average rate base and the calculations of the 2021 and 2022 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:

2020 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 2020 as calculated by the Company under the ARBM and provided in Schedule D of its Application is $1,181,897,000 which is an increase of $28,341,000 (2.5%) over the average rate base for 2019 of $1,153,556,000.

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The net change in the Company's average rate base from 2019 to 2020 can be summarized as follows:

(000's)	2020	2019
Average rate base - opening balance	$ 1,153,556	$ 1,117,341
Change in average deferred charges and deferred regulatory costs	471	1,332
Average change in:		
Plant in service	78,115	75,078
Accumulated depreciation	(37,536)	(32,558)
Contributions in aid of construction	(2,891)	(3,122)
Weather normalization reserve	(2,626)	442
Other post-employment benefits	(4,814)	(4,604)
Future income taxes	(3,898)	(3,087)
Rate base allowances	1,391	1,982
Customer Finance Programs	(181)	499
Demand Management Incentive Acct	501	196
Other rate base components (net)	(191)	57
Average rate base - ending balance	$ 1,181,897	$ 1,153,556

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 2020; 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 2020 average rate base, and therefore conclude that the 2020 average rate base included in Schedule D of the Company's Application is in accordance with established practice and Board Orders.

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Rate Base Additions, Deductions and Allowances

In compliance with Order No. P.U. 19 (2003), the Company 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 2021 and 2022 in its 2022 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 2021 and 2022 forecast rate base additions, deductions and allowances are consistent with the calculation of the Company's 2021 and 2022 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). The 2021 and 2022 forecast do not reflect the proposals included in the Company's 2022/2023 General Rate Application. Each, in turn, is reviewed below.

Rate Base Additions

The forecast additions to rate base for 2021 and 2022 and the actual additions in 2019 and 2020 as presented by the Company are as follows:

(000's)	Actual 2019	Actual 2020	Forecast 2021	Forecast 2022
Deferred Pension Costs	$91,824	$89,900	$88,900	$94,151
Credit Facility Issue Costs	61	46	31	16
Cost Recovery Deferral – Hearing Costs	494	247	-	-
Cost Recovery Deferral – Conservation	17,371	17,049	17,497	18,185
Cost Recovery Deferral – Electrification	-	-	935	935
Customer Finance Programs	2,494	2,098	2,147	2,184
Demand Management Incentive Account	1,881	1,002	1,268	1,268
Total Additions	**$114,125**	**$110,342**	**$110,778**	**$116,739**

Source: Newfoundland Power Inc. - 2022 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 2021 and 2022 is $2,765,000 and $2,730,000 and the forecast pension plan expense is $3,765,000 and ($2,521,000) for 2021 and 2022 respectively. The difference between the funding and the expense, as indicated below, represents the decrease or increase in deferred pension costs forecasted for 2021 and 2022.

(000's)	**Actual 2019**	**Actual 2020**	**Forecast 2021**	**Forecast 2022**
Deferred Pension Costs, January 1	$89,678	$91,824	$89,900	$88,900
Pension Plan Funding	2,770	2,838	2,765	2,730
Pension Plan Expense	(624)	(4,762)	(3,765)	2,521
Increase/(decrease) in Deferred Pension Costs	2,146	(1,924)	(1,000)	5,251
Deferred Pension costs, December 31	**$91,824**	**$89,900**	**$88,900**	**$94,151**

Source: Newfoundland Power Inc. - 2022 Capital Budget Application
Report on *Rate Base: Additions, Deductions & Allowance*s - Table 2

The forecast pension funding for 2021 and 2022 per Table 2 of the Rate Base: Additions, Deductions & Allowances report is $2,765,000 and $2,730,000 respectively, compared to actual funding in 2020 of $2,838,000. The forecast funding amounts have been agreed to schedules provided by the Company's actuary.

The forecast pension expense for 2021 and 2022 is $3,765,000 and ($2,521,000) respectively compared to an actual expense in 2020 of $4,762,000. The forecast pension expense for 2021 changed from $2,465,000 to $3,765,000 from the 2021 to 2022 Capital Budget Application. According to the Company, the primary reason for the increase in pension expense for the 2021 forecast is a reduction in the forecast discount rate (2.60% vs 3.10%) and an increase in the amortization of prior year losses due to actuarial losses in 2020 of $23,400,000. Furthermore, according to the Company the 2021 forecast pension expense is lower than 2020 actual primarily due to lower forecast interest costs due to a lower forecast discount rate. The 2022 forecast pension expense is lower than 2020 actual primarily due to a reduction in the amortization of actuarial losses and interest costs in the amount of $4,500,000 and $1,700,000, respectively. The forecast pension expense 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 2018, the committed credit facility was renegotiated to extend its maturity date to August 2023. The total amended costs totaled $40,000 and are being amortized over the 5-year life of the agreement, beginning in 2018.

In August 2019, the committed credit facility was renegotiated to extend its maturity date to August 2024. The total amended costs totaled $35,000 and are being amortized over the 5-year life of the agreement, that began in 2019.

In the 2019/2020 General Rate Application the amortization of credit facility costs associated with the balance as of December 31, 2018 of $120,000 was included as a component of the Company's cost of capital for 2019 and 2020 revenue requirement purposes. As these costs are reflected in customer rates, they are not included in rate base for those years.

According to the Company, there were no amendments to the credit facility in 2020.

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. 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 Rate Stabilization Account 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 Order No. 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.

Cost Recovery Deferral – Electrification

As indicated by the Company, the Electrification costs are based on their 2021 Electrification, Conservation and Demand Management Application which was filed with the Board on December 16, 2020. Approval and recovery of electrification costs and amortization are subject to a future Order of the Board.

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 ARBM in 2008, inclusion of certain other assets and liabilities was required, including Customer Finance Programs receivables. The 2021 and 2022 forecast Customer Finance Programs receivable balance is comparable with 2020 and 2019.

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. 14 (2021) the Board approved a debit transfer of $1,431,126 equal to the balance in the 2020 DMI account of $1,001,788 plus related income tax effects of $429,338 to the Rate Stabilization Account as at March 31, 2021.

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 2021 and 2022 and the actual figures for 2020 and 2019 as presented by the Company are as follows:

(000's)	Actual 2019	Actual 2020	Forecast 2021	Forecast 2022
Other Post-Employment Benefits ("OPEBs")	$61,791	$66,739	$72,113	$77,787
Customer Security Deposits	1,420	1,212	1,212	1,212
Accrued Pension Liabilities	5,104	5,258	5,363	5,496
Accumulated Deferred Income Taxes	10,088	12,683	14,664	17,330
Weather Normalization Reserve	5,654	(3,734)	(3,915)	-
2019 Revenue Surplus	1,226	613	-	-
Total Deductions	**$73,975**	**$90,239**	**$97,267**	**$101,825**

Source: Newfoundland Power Inc. - 2022 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 2020 is $66,739,000 with $72,113,000 and $77,787,000 forecast for 2021 and 2022 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 2021 and 2022 forecast Customer Security Deposits balance is consistent with the 2020 balance.

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 accumulated deferred income taxes for 2021 and 2022 forecast over 2020 actuals is primarily due to higher capital cost allowance ("CCA") related to the Customer Information System project and the accelerated CCA program. In 2019, Newfoundland Power adopted the use of the accelerated CCA for income tax purposes which increased CCA claims and associated deferred tax.

Based on our review of Accumulated Deferred Income Tax balances, we confirm that we have not noted any material discrepancies or unusual items, and it is consistent with approved Board Orders.

Weather Normalization Reserve

The disposition of the December 31, 2020 balance to the Rate Stabilization Account as of March 31, 2021 was approved in Order No. P.U. 13 (2021).

Based on our review of the forecast weather normalization reserve, we confirm that we have not noted any discrepancies or unusual items.

Cost Over Recovery – 2019 Revenue Surplus

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 – 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 2021 and 2022 forecast CWC and the Materials and Supplies allowance are based on the method used to calculate the 2019/2020 actuals through 2022 forecast average rate base as approved by the Board in Order No. P.U. 2 (2019).

According to the Company, the CWC allowance is lower for forecast 2021 and 2022 from 2020 primarily due to the reduction in income taxes which reflects the lower forecast returns in those years based on existing customer rates. Furthermore, the reduction in municipal taxes reflects the forecast reduction in sales for those years. The reduction in gross operating expenses is primarily due to lower purchased power costs related to declining sales in those years. According to the Company, average materials and supplies increased in 2021 and 2022 compared to 2020 actuals due to assumed general inflationary costs (based on GDP deflator) and the ramping up of the LED Streetlight Replacement Project in 2021 and 2022 versus 2020.

Based on our review of the Rate Base Allowances, we have not noted any discrepancies or unusual items and the forecast for 2021 and 2022 is consistent with 2019/2020 test year data.

We trust this is the information you requested. If you have any questions, please contact us.

Yours sincerely,
Grant Thornton LLP

Barry Griffiths

Barry Griffiths, CPA, CA
Principal