

WHENEVER. WHEREVER.  
We'll be there.



August 12, 2024

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

Attention: Jo-Anne Galarneau  
Executive Director and Board Secretary

Dear Ms. Galarneau:

**Re: Application to Amend Newfoundland Power's Credit Facility**

Enclosed is an application seeking approval for Newfoundland Power to amend its \$100 million revolving term credit facility (the "Credit Facility") pursuant to section 91(5) of the *Public Utilities Act* (Newfoundland and Labrador) (the "Application"). The Application proposes to increase the amount of the Credit Facility to \$130 million.

An increase in the amount of the Credit Facility is required to meet the Company's short-term debt requirements. This is due in part to Order No. P.U. 16 (2024), which required, among other things, the Company to maintain the unrecovered portion of the Company's Rate Stabilization Account ("RSA") balance at March 31, 2024 in the RSA (the "Unrecovered RSA Balance"). As indicated in the Company's compliance application dated July 17, 2024, the Unrecovered RSA Balance is \$18.8 million. The Company noted in its letter dated July 17, 2024, that "...*additional borrowings will be required under Newfoundland Power's credit facilities. Further, additional credit facility capacity may be needed in order to finance its day-to-day customer operations.*"

Additionally, an increase in the amount of the Credit Facility is required in light of Order No. P.U. 20 (2024), which denied proposals in the Company's 2024 Rate of Return on Rate Base Application filed with the Board on November 23, 2023 (the "RORB Application"). The order directs that Newfoundland Power may file a revised application, reflecting no rate increases for customers, that includes the following: (i) a rate of return on rate base for 2024 of 6.67%, in a range of 6.49% to 6.85%; (ii) a revised 2024 forecast average rate base; (iii) the transfer of the balance in the Company's Excess Earnings Account as of December 31, 2023 to offset the 2024 revenue shortfall; and (iv) the transfer of the remaining portion of the 2024 revenue shortfall to the Company's RSA for future recovery. Without recovery of the 2024 revenue shortfall in customer rates, the Company will require additional borrowings under its credit facilities to finance its customer operations.

**Newfoundland Power Inc.**

55 Kenmount Road • P.O. Box 8910 • St. John's, NL A1B 3P6

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Board of Commissioners  
of Public Utilities  
August 12, 2024  
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Finally, the increase in the amount of the Credit Facility will also provide financial flexibility associated with future issuances of long-term first mortgage bonds.

We trust that the foregoing and enclosed are found to be in order. If you have any questions, please contact the undersigned.

Yours truly,



Lindsay Hollett  
Senior Legal Counsel

Enclosures

cc. Shirley Walsh  
Newfoundland and Labrador Hydro

Dennis M. Browne, K.C.  
Browne Fitzgerald Morgan & Avis

**Newfoundland Power Inc.**

55 Kenmount Road • P.O. Box 8910 • St. John's, NL A1B 3P6

PHONE (709) 737-5364 • FAX (709) 737-2974 • [lhallett@newfoundlandpower.com](mailto:lhallett@newfoundlandpower.com)

**IN THE MATTER OF** the *Public Utilities Act*, R.S.N.L. 1990, Chapter P-47, as amended, (the “Act”); and

**IN THE MATTER OF** an application pursuant to section 91(5) of the Act (the “Application”) by Newfoundland Power Inc. (“Newfoundland Power”) for approval to amend an existing committed revolving term credit facility to increase the amount of the facility.

**TO:** The Board of Commissioners of Public Utilities (the “Board”)

**THE APPLICATION OF Newfoundland Power SAYS THAT:**

**A. Background**

1. Newfoundland Power is a corporation duly organized and existing under the laws of the Province of Newfoundland and Labrador, is a public utility within the meaning of the Act, and is subject to the provisions of the *Electrical Power Control Act, 1994*.
2. In Order No P.U. 1 (2005), the Board approved Newfoundland Power’s issue of a \$100,000,000 revolving term credit facility (the “Credit Facility”) to meet the short-term debt requirements of Newfoundland Power arising from the fulfillment of its service obligations under the Act. The maturity date and certain provisions of the Credit Facility were amended by subsequent orders of the Board.
3. In Order No. P.U. 22 (2008), the Board approved an extension to the maturity date of the Credit Facility and approved such further extensions of the maturity date as may be requested by Newfoundland Power and agreed to by the lenders.
4. On July 20, 2016, the Company entered into an Amended and Restated Credit Agreement, as amended by a first amending agreement dated August 27, 2017, second amending agreement dated August 27, 2018, third amending agreement dated August 27, 2019, fourth amending agreement dated August 27, 2021, fifth amending agreement dated August 29, 2022, sixth amending agreement dated August 28, 2023 and seventh amending agreement dated June 7, 2024 (the “Amended and Restated Credit Agreement”).
5. On July 10, 2024, the Board issued Order No. P.U. 16 (2024) (the “August 1 Rate Order”). The August 1 Rate Order ordered, among other things, the Company to: (i) file a revised Rate Stabilization Adjustment that would recover only the portion of the Rate Stabilization Account (“RSA”) balance at March 31, 2024 that would provide for an overall average customer rate increase effective August 1, 2024 of approximately 7.0%;

and (ii) maintain the unrecovered portion of the Company's RSA balance at March 31, 2024 in the RSA (the "Unrecovered RSA Balance").

6. On August 1, 2024, the Board issued Order No. P.U. 20 (2024) (the "2024 RORB Order") on the Company's application for approval of 2024 forecast average rate base and rate of return on rate base, made in compliance with Order No. P.U. 3 (2022) (the "RORB Application"). The RORB Application proposed an average increase in customer rates of 1.5%, effective July 1, 2024, based upon, among other things, forecast revenue requirements for 2024 of \$711,080,000, representing a \$11,835,000 increase to the ratemaking 2023 revenue requirement, to reflect the revised 2024 forecast average rate base and rate of return on rate base. The 2024 RORB Order denied proposals in the application, however, it indicates that Newfoundland Power may file a revised application, reflecting no rate increases for customers, that includes the following: (i) a rate of return on rate base for 2024 of 6.67%, in a range of 6.49% to 6.85%; (ii) a revised 2024 forecast average rate base; (iii) the transfer of the balance in the Excess Earnings Account as of December 31, 2023 to offset the 2024 revenue shortfall; and (iv) the transfer of the remaining portion of the 2024 revenue shortfall to the RSA for future recovery.

## **B. Financial Position of Newfoundland Power**

7. On July 17, 2024, Newfoundland Power filed its compliance application in respect of the August 1 Rate Order. The compliance application indicated the amount of the Unrecovered RSA Balance is \$18.8 million.
8. As of the date hereof, the Company has not received reasons for the 2024 RORB Order and, therefore, has not yet filed a revised RORB Application. Uncertainty remains as to the amount and timing of recovery of increases to the Company's revenue requirement associated with its 2024 forecast average rate base and rate of return on rate base.
9. Increasing the amount of the Credit Facility is required for Newfoundland Power to meet short-term debt requirements. This includes maintaining the Unrecovered RSA Balance and to provide financial flexibility to the Company in light of the uncertainty as to the amount and timing of recovery of amounts associated with its 2024 forecast average rate base and rate of return on rate base. The increase in the amount of the Credit Facility will also provide financial flexibility associated with future issuances of long-term first mortgage bonds.
10. The financial position of Newfoundland Power is disclosed in the following Schedules:
  - (a) Schedule A to this Application, the comparative audited financial statements of Newfoundland Power for the financial year ended December 31, 2023, together with the report of the auditor thereon; and

- (b) Schedule B to this Application, the comparative unaudited financial statements of Newfoundland Power for the quarter ending June 30, 2024.

Further information in respect of the Company's financial position is available in the Company's quarterly regulatory reports filed with the Board.

**C. The Amended Credit Facility**

11. An agreement to amend the Amended and Restated Credit Agreement, in the form attached as Schedule C to the Application, has been prepared (the "Eighth Amending Agreement"). Following approval of this Application by the Board, the Eighth Amending Agreement, together with the Amended and Restated Credit Agreement and subsequent amending agreements, as described in paragraph 4, will establish the Amended and Restated Credit Facility.
12. The Eighth Amending Agreement will provide Newfoundland Power with access to an additional \$30,000,000 in short-term debt financing by increasing the amount of the Credit Facility to \$130,000,000.
13. Section 91(5)(a) of the Act requires Newfoundland Power to obtain the approval of the Board before making a material alteration in the characteristics of a security.
14. By the terms of the Eighth Amending Agreement, the amendments to the Amended and Restated Credit Facility will not be effective unless and until the Board approves the amendments as requested in this Application.

**D. Order Requested**

15. Newfoundland Power requests the Board make an Order pursuant to section 91(5) of the Act approving an increase of the amount of the Credit Facility to \$130,000,000 as contemplated by the Eighth Amending Agreement.

**E. Communications**

16. Communication with respect to this Application should be sent to Lindsay Hollett, Senior Legal Counsel to Newfoundland Power.

**DATED** at St. John's, Newfoundland, this 12<sup>th</sup> day of August, 2024.

**NEWFOUNDLAND POWER INC.**

A handwritten signature in black ink, appearing to read "Lindsay Hollett".

Lindsay Hollett  
Senior Legal Counsel to Newfoundland Power  
Newfoundland Power Inc.  
55 Kenmount Road  
St. John's, Newfoundland A1B 3P6

Telephone: (709) 737-5364  
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**IN THE MATTER OF** the *Public Utilities Act*, R.S.N.L. 1990, Chapter P-47, as amended, (the “Act”); and

**IN THE MATTER OF** an application pursuant to section 91(5) of the Act (the “Application”) by Newfoundland Power Inc. (“Newfoundland Power”) for approval to amend an existing committed revolving term credit facility to increase the amount of the facility.


**AFFIDAVIT**

I, Paige London, of the City of St. John’s, in the Province of Newfoundland and Labrador, Chartered Professional Accountant, make oath and say as follows:

1. THAT I am Vice President, Finance and Chief Financial Officer of Newfoundland Power;
2. THAT I have read and understand the foregoing Application; and
3. THAT to the best of my knowledge, information and belief, all matters, facts and things set out in the Application are true.

**SWORN** to before me at St. John’s in the Province of Newfoundland and Labrador this 12<sup>th</sup> day of August, 2024:

  
Barrister

  
Paige London, CPA

**Schedule A**  
**Audited Financial Statements**  
**December 31, 2023**



# Audited Financial Statements & Notes

# Independent Auditor's Report

To the Shareholder and the Board of Directors of Newfoundland Power Inc.

## Opinion

We have audited the financial statements of Newfoundland Power Inc. (the "Company"), which comprise the balance sheets as of December 31, 2023 and 2022, and the statements of earnings, changes in shareholder's equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (US GAAP).

## Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

*Regulatory Assets and Liabilities - Impact of Rate Regulation - Refer to Notes 2 and 7 to the financial statements*

## Key Audit Matter Description

The Company is regulated by the Newfoundland and Labrador Board of Commissioners of Public Utilities (the "PUB") which sets electricity base rates charged to ratepayers. Base rates are designed to recover all reasonable and prudent costs of service and include per kilowatt-hour ("KWh") electricity charges and fixed charges. The Company's return on rate base ("RORB") is subject to review through regular General Rate Applications made to the PUB. Accounting for rate regulation impacts multiple financial statement line items and disclosures, such as property, plant, and equipment; regulatory assets and liabilities; revenues and expenses; and depreciation expense.

We identified the impact of rate regulation as a key audit matter due to the numerous judgments made by management to support its assertions about impacted account balances and disclosures and the potential uncertainties involved in assessing the impact of existing or future regulatory orders on the financial statements. Management judgments include assessing the likelihood of recovery of costs incurred or a refund to customers through the rate-setting process. While the Company has indicated they expect to recover costs from customers through regulated rates, there is a risk that the PUB will not approve full recovery of the costs incurred and a reasonable RORB. Auditing this matter required numerous judgments and specialized knowledge of accounting for rate regulation due to its inherent complexities.

## How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to the likelihood of recovery of costs from, or a refund to, customers through the rate-setting process, and included the following:

- Assessing relevant regulatory orders, regulatory statutes, and interpretations as well as procedural memorandums, utility and intervener filings, and other publicly available information to evaluate the likelihood of recovery in existing or future rates or of existing or future reduction in rates and the ability to earn a reasonable RORB.
- For regulatory matters in process, inspecting the Company's filings and intervenor filings for any evidence that might contradict management's assertions. We obtained and evaluated an analysis from management regarding cost recoveries or potential future reduction in rates, as appropriate.
- Evaluating the Company's disclosures related to the impacts of rate regulation, including the balances recorded and regulatory developments.

*Revenue - Refer to Notes 2 and 4 to the financial statements*

### **Key Audit Matter Description**

The Company implemented a new Customer Information System ("CIS") used in the recording of revenue. The Company derives the majority of its revenue from the delivery of electricity to residential and commercial customers and the provision of street lighting service to municipalities. The initiation, processing and recording of revenue are highly automated and are based on the consumption data and electricity rates hosted in the Company's CIS.

We identified the implementation of the new CIS in the current year as a key audit matter due to the potential risks that revenue is not initiated, processed and recorded consistently with the Company's historical practices. As such, auditing the implementation of the Company's new system to process revenue transactions resulted in an increased extent of audit effort, which included the involvement of information technology ("IT") specialists.

### **How the Key Audit Matter Was Addressed in the Audit**

With the assistance of IT specialists, our audit procedures related to the implementation of the CIS included the following:

- Evaluated the accuracy of the data migration of the relevant information from the legacy system to the CIS.
- Tested the effectiveness of general IT controls over the CIS, including user access controls, change management controls and IT operations controls.
- Evaluated the effectiveness of the relevant automated controls in relation to the completeness and accuracy of transactions recorded in the CIS, from initial capturing to the recording into the general ledger.

### **Other Information**

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with US GAAP, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Tarah Schulz.

/s/ Deloitte LLP

Chartered Professional Accountants  
St. John's, Newfoundland and Labrador  
February 8, 2024

**Statements of Earnings**  
**For the years ended December 31**  
*(in thousands of Canadian dollars, except per share amounts)*

	2023	2022
<b>Revenue</b> (Note 4)	\$ 773,863	\$ 735,755
<b>Expenses</b>		
Purchased power	511,983	479,527
Operating expenses	85,800	87,207
Employee future benefits (Note 11)	(944)	(626)
Depreciation and amortization	82,407	78,187
Cost recovery deferrals, net (Note 7)	(814)	(656)
Finance charges	<u>38,043</u>	<u>35,464</u>
	<u>716,475</u>	<u>679,103</u>
<b>Earnings Before Income Taxes</b>	57,388	56,652
Income tax expense (Note 8)	<u>11,392</u>	<u>11,002</u>
<b>Net Earnings</b>	45,996	45,650
<b>Net Earnings Applicable to Common Shares</b>	<u>\$ 45,996</u>	<u>\$ 45,650</u>
<b>Basic and Diluted Earnings per Common Share</b>	<u>\$ 4.46</u>	<u>\$ 4.42</u>

**Statements of Changes in Shareholder's Equity**  
**For the years ended December 31**  
*(in thousands of Canadian dollars, except per share amounts)*

	Common Shares	Retained Earnings	Total Equity
<b>As at January 1, 2023</b>	\$ 70,321	\$ 473,611	\$ 543,932
Net earnings	-	45,996	45,996
Dividends on common shares (\$0.71 per share)	-	(7,327)	(7,327)
<b>As at December 31, 2023</b>	<u>\$ 70,321</u>	<u>\$ 512,280</u>	<u>\$ 582,601</u>
<b>As at January 1, 2022</b>	\$ 70,321	\$ 456,123	\$ 526,444
Net earnings	-	45,650	45,650
Allocation of Part VI.1 tax	-	735	735
Dividends on common shares (\$2.80 per share)	-	(28,897)	(28,897)
<b>As at December 31, 2022</b>	<u>\$ 70,321</u>	<u>\$ 473,611</u>	<u>\$ 543,932</u>

See accompanying notes to financial statements.

**Balance Sheets**  
**As at December 31**  
*(in thousands of Canadian dollars)*

	2023	2022
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 3,126	\$ -
Accounts receivable (Note 5)	82,736	69,551
Income taxes receivable	3,574	392
Materials and supplies (Note 6)	3,408	2,896
Prepaid expenses	4,398	3,738
Regulatory assets (Note 7)	28,032	5,439
	<u>125,274</u>	<u>82,016</u>
<b>Property, plant and equipment (net) (Note 9)</b>	1,389,378	1,332,577
<b>Intangible assets (Note 10)</b>	66,182	48,221
<b>Defined benefit pension plans (Note 11)</b>	47,509	40,435
<b>Regulatory assets (Note 7)</b>	320,550	309,124
<b>Other assets</b>	1,307	1,573
	<u>\$ 1,950,200</u>	<u>\$ 1,813,946</u>
<b>Liabilities and Shareholder's Equity</b>		
<b>Current liabilities</b>		
Short-term borrowings (Note 12)	\$ -	\$ 1,361
Accounts payable and accrued charges	103,197	96,022
Interest payable	8,534	6,856
Defined benefit pension plans (Note 11)	264	277
Other post-employment benefits (Note 11)	3,035	3,922
Regulatory liabilities (Note 7)	-	15,196
Current instalments of long-term debt (Note 12)	40,450	27,550
	<u>155,480</u>	<u>151,184</u>
<b>Regulatory liabilities (Note 7)</b>	214,027	205,003
<b>Defined benefit pension plans (Note 11)</b>	5,128	5,074
<b>Other post-employment benefits (Note 11)</b>	43,629	62,594
<b>Other liabilities</b>	945	1,270
<b>Deferred income taxes (Note 8)</b>	212,440	189,292
<b>Long-term debt (Note 12)</b>	735,950	655,597
	<u>1,367,599</u>	<u>1,270,014</u>
<b>Shareholder's equity</b>		
Common shares, no par value, unlimited authorized shares, 10.3 million shares issued and outstanding (Note 13)	70,321	70,321
Retained earnings	512,280	473,611
	<u>582,601</u>	<u>543,932</u>
	<u>\$ 1,950,200</u>	<u>\$ 1,813,946</u>

See accompanying notes to financial statements.

APPROVED ON BEHALF OF THE BOARD:

  
Glenn Mifflin  
Director

  
Gina Pecore  
Director

**Statements of Cash Flows**  
**For the years ended December 31**  
*(in thousands of Canadian dollars)*

	2023	2022
<b>Operating Activities</b>		
Net earnings	\$ 45,996	\$ 45,650
<b>Adjustments to reconcile net earnings to net cash provided by operating activities:</b>		
Depreciation of property, plant and equipment	76,945	73,712
Amortization of intangible assets and other	5,679	4,690
Change in long-term regulatory assets and liabilities	(37,306)	2,880
Deferred income taxes <i>(Note 8)</i>	14,656	(3,053)
Employee future benefits	(6,361)	(3,818)
Other	(909)	60
Change in working capital <i>(Note 14)</i>	(34,922)	(12,080)
	<u>63,778</u>	<u>108,041</u>
<b>Investing Activities</b>		
Capital expenditures <i>(Note 14)</i>	(126,767)	(110,218)
Intangible asset expenditures	(23,422)	(16,774)
Contributions from customers	5,197	2,773
	<u>(144,992)</u>	<u>(124,219)</u>
<b>Financing Activities</b>		
Change in short-term borrowings	(1,361)	(13,459)
Net borrowings under committed credit facility	12,000	20,000
Proceeds from long-term debt <i>(Note 12)</i>	90,000	75,000
Repayments of long-term debt <i>(Note 12)</i>	(8,450)	(35,950)
Payment of debt financing costs	(522)	(516)
Dividends on common shares	(7,327)	(28,897)
	<u>84,340</u>	<u>16,178</u>
<b>Change in Cash</b>	3,126	-
<b>Cash, Beginning of Year</b>	-	-
<b>Cash, End of Year</b>	<u>\$ 3,126</u>	<u>\$ -</u>
<b>Cash Flows Include the Following:</b>		
Interest paid	\$ 37,718	\$ 35,586
Income taxes paid	\$ 9,660	\$ 13,000
Income taxes (refunded)	\$ (10,049)	\$ -

See accompanying notes to financial statements.

# Notes to Financial Statements

December 31, 2023

Tabular amounts are in thousands of Canadian dollars unless otherwise noted.

## 1. Description of the Business

Newfoundland Power Inc. (the “Company” or “Newfoundland Power”) is a regulated electricity utility that operates an integrated generation, transmission and distribution system throughout the island portion of Newfoundland and Labrador. The Company serves approximately 275,000 customers comprising approximately 87% of all electricity consumers in the Province. All of the common shares of the Company are owned by Fortis Inc. (“Fortis”). Newfoundland Power has an installed generating capacity of 145 megawatts (“MW”), of which approximately 98 MW is hydroelectric generation. The Company generates approximately 7% of its energy needs and purchases the remainder from Newfoundland and Labrador Hydro (“Hydro”).

Newfoundland Power is regulated by the Newfoundland and Labrador Board of Commissioners of Public Utilities (the “PUB”). The Company operates under cost of service regulation whereby it is entitled an opportunity to recover, through customer rates, all reasonable costs incurred in providing electricity service to its customers, including a just and reasonable return on its rate base. The rate base is the value of the net assets required to provide electricity service.

The determination of the forecast return on rate base, together with the forecast of all reasonable and prudent costs, establishes the revenue requirement upon which the Company’s customer rates are determined through a general rate hearing. Rates include generation, transmission and distribution services.

Newfoundland Power maintains a capital structure comprised of approximately 55% debt and 45% common equity.

On February 25, 2022, the PUB issued an order on the Company’s 2022/2023 General Rate Application (the “2022/2023 GRA Order”) which established the Company’s cost of capital for rate making purposes for 2022 through 2024 based upon an 8.5% return on equity and 45% common equity. The order approved a 1.1% decrease in customer rates effective March 1, 2022. The Company’s rate of return on rate base for 2022 and 2023 was established at 6.61% and 6.39%, respectively, with a range of  $\pm 18$  basis points.

On November 23, 2023, the Company filed an application with the PUB for approval of its 2024 forecast average rate base and rate of return on rate base (“2024 RORB Application”). The 2024 RORB Application is proposing an overall average increase in customer rates of 1.5% effective July 1, 2024. The Company is proposing a rate of return on rate base for 2024 of 6.85%, with a range of  $\pm 18$  basis points. The application is currently under review by the PUB.

On December 12, 2023, the Company filed a General Rate Application (the “2025/2026 GRA”) for the purpose of setting customer rates effective July 1, 2025. The 2025/2026 GRA proposes an overall average increase in customer rates of 5.5% effective July 1, 2025. This proposed increase results from a full review of the Company’s costs since its last GRA, including cost of capital. The application proposes a 9.85% return on equity and 45% common equity for 2025 and 2026. The application is currently under review by the PUB.

## 2. Summary of Significant Accounting Policies

The significant accounting policies of the Company are as follows.

### Basis of Presentation

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) pursuant to an order of the Ontario Securities Commission (“OSC”). The order permits Newfoundland Power to prepare its financial statements in accordance with U.S. GAAP until the earliest of: (i) January 1, 2027; (ii) the first day of the financial year that commences after the Company ceases to have activities subject to rate regulation; and (iii) the first day of the financial year that commences on or following the later of: (a) the effective date prescribed by the International Accounting Standards Board (“IASB”) for a mandatory application of a rate-regulated standard; and (b) two years after the IASB publishes the final version of a mandatory rate-regulated standard.



## 2. Summary of Significant Accounting Policies (cont'd)

### Revenue Recognition

The majority of the Company's revenue is generated from electricity sales to customers based on published tariff rates, as approved by the PUB. Electricity is metered upon delivery to customers and recognized as revenue using approved rates when consumed. Meters are read periodically and bills are issued to customers based on these readings. At the end of each period, an estimate of electricity consumed but not yet billed is accrued as revenue. The unbilled revenue accrual for each period is based on estimated electricity sales to customers for the period since the last meter reading at the rates approved by the PUB. The development of electricity sales estimates requires analysis of electricity consumption on a historical basis in relation to key inputs such as the current price of electricity, population growth, economic activity, weather conditions and electricity system losses.

Revenue arising from the amortization of certain regulatory assets and liabilities is recognized in the manner prescribed by the PUB (Note 7). Other revenue is recognized when the service is rendered.

### Sales Taxes

In the course of its operations, the Company collects municipal taxes and sales taxes from its customers. When customers are billed, a current liability is recognized for municipal taxes included in electricity rates charged to customers and sales taxes included on customers' bills. The liability is settled when the taxes are remitted to the appropriate government authority. The Company's revenue excludes municipal taxes and sales taxes.

### Allowance for Credit Losses

The Company records an allowance for credit losses to reduce accounts receivable for amounts estimated to be uncollectible from customers. The allowance is estimated based on historical collection patterns, sales, and current and forecasted economic and other conditions.

### Materials and Supplies

Materials and supplies, representing fuel and materials required for maintenance activities, are measured at the lower of average cost and net realizable value.

### Regulatory Assets and Liabilities

Regulatory assets and liabilities arise as a result of the rate-setting process. Regulatory assets represent future revenues associated with certain costs incurred in the current or prior periods that will be, or are expected to be, recovered from customers in future periods through the rate-setting process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that will be, or are expected to be, refunded to customers through the rate-setting process. The accounting methods underlying regulatory assets and liabilities, and their eventual settlement through the rate-setting process, are approved by the PUB and impact the Company's cash flows.

### Property, Plant and Equipment

Property, plant and equipment are stated at values approved by the PUB as at June 30, 1966, with subsequent additions at cost.

Maintenance and repairs of utility capital assets are charged to expense in the period incurred, while replacements and betterments which extend the useful lives are capitalized.

Contributions in aid of construction represent the cost of utility property, plant and equipment contributed by customers and government. These contributions are recorded as a reduction in the cost of utility property, plant and equipment.

The Company capitalizes certain overhead costs not directly attributable to specific property, plant and equipment but which do relate to its overall capital expenditure program ("general expenses capitalized" or "GEC"). The methodology for calculating and allocating GEC among classes of property, plant and equipment is established by a PUB Order. In 2023, GEC totalled \$5.1 million (2022 - \$7.2 million).

The Company capitalizes an allowance for funds used during construction ("AFUDC"), which represents the cost of debt and equity financing incurred during construction of property, plant and equipment. AFUDC is calculated in a manner prescribed by the PUB based on a capitalization rate that is the Company's weighted average cost of capital. In 2023, the cost of equity financing capitalized as AFUDC and recorded in other revenue was approximately \$1.2 million (2022 - \$0.7 million). The debt component of AFUDC totalling \$1.5 million in 2023 (2022 - \$0.8 million) is recorded as a reduction of finance charges.

Property, plant and equipment are depreciated using the straight-line method by applying the depreciation rates approved by the PUB and disclosed below to the average original cost of the related assets, including GEC and AFUDC.

## 2. Summary of Significant Accounting Policies (cont'd)

### Property, Plant and Equipment (cont'd)

The Company's depreciation methodology, including depreciation rates, accumulated depreciation and estimated remaining service lives, is subject to periodic review by external experts (a "Depreciation Study").

Based on the 2019 Depreciation Study, and as approved by the PUB, the composite depreciation rates for the Company's property, plant and equipment, as well as their service life ranges and average remaining service lives are as follows.

	Composite Depreciation Rate (%)	Service Life (Years)	
		Range	Average Remaining
Distribution	3.1	18-65	29
Transmission and substations	3.1	33-70	28
Generation	2.8	21-80	30
Transportation and communications	8.3	6-30	6
Buildings	2.6	37-80	25
Equipment	10.0	5-25	5

The difference between actual accumulated depreciation and that indicated by a Depreciation Study is treated as a depreciation variance which is used to increase or decrease depreciation expense and is included in customer rates in a manner prescribed by the PUB. The 2019 Depreciation Study, which was based on property, plant and equipment in service as at December 31, 2019, indicated an accumulated depreciation variance of \$31.9 million. The PUB ordered that this variance be amortized as an increase in depreciation expense of property, plant and equipment over the average remaining service life of the related assets.

Upon disposition, the original cost of property, plant and equipment is removed from the asset accounts. That amount, net of salvage proceeds, is also removed from accumulated depreciation. As a result, any gain or loss is charged to accumulated depreciation and is effectively included in the depreciation variance arising from the next Depreciation Study.

### Intangible Assets

Intangible assets are recorded at cost and amortized over their estimated useful lives using the straight-line method by applying the amortization rates approved by the PUB to the cost of the related assets. The weighted average amortization rates for intangible assets in 2023 were 10.0% for computer software (2022 – 10.0%), 5.56% for the customer information system (2022 – not applicable) and 1.5% for land rights (2022 – 1.5%).

Upon disposition, the original cost of the intangible asset is removed from the asset accounts. That amount, net of salvage proceeds, is also removed from accumulated amortization. As a result, any gain or loss is charged to accumulated amortization and is effectively included in the accumulated amortization variance arising from the next Depreciation Study.

### Impairment of Long-Lived Assets

The Company reviews the valuation of property, plant and equipment, intangible assets and other long-term assets when events or changes in circumstances indicate that the assets' carrying values exceed the total undiscounted cash flows expected from their use and eventual disposition. An impairment loss, calculated as the difference between the assets' carrying value and their fair values, which is determined using present value techniques, is recognized in earnings in the period in which it is identified. There was no impairment of long-lived assets for the years ended December 31, 2023 or 2022.

### Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities. The deferred income tax assets and liabilities are measured using enacted income tax rates and laws that are expected to be in effect when the differences are expected to be recovered or settled. The effect of a change in income tax rates on deferred income tax assets and liabilities is recognized in earnings in the period that the change occurs. Current income tax expense is recognized for the estimated income taxes payable or receivable in the current year

## 2. Summary of Significant Accounting Policies (cont'd)

### Income Taxes (cont'd)

Newfoundland Power recovers current income tax expense in customer rates. The Company is permitted to recover deferred income tax expense by the PUB as follows.

Effective January 1, 1981, deferred income tax liabilities are recognized and recovered in customer rates on temporary differences associated with the cumulative excess of capital cost allowance over depreciation of property, plant and equipment.

Effective January 1, 1987, the PUB order noted above was modified to exclude GEC from the depreciation of property, plant and equipment.

Effective January 1, 2008, deferred income taxes are recognized and recovered in customer rates on temporary differences between pension expense and pension funding.

Effective January 1, 2011, deferred income taxes are recognized and recovered in customer rates on temporary timing differences between other post-employment benefits ("OPEB") costs recovered using the accrual method and cash payments.

Deferred income taxes associated with the Company's regulatory reserves and certain regulatory deferrals are also recognized and included in the determination of customer rates (Note 7).

Deferred income tax assets and liabilities associated with other temporary differences between the tax basis of assets and liabilities and their carrying amounts are not included in customer rates. These amounts are expected to be recovered from (refunded to) customers through rates when the income taxes actually become payable (recoverable). The Company recognizes these deferred income tax liabilities with an offsetting increase in regulatory assets. The Company's regulatory asset for deferred income taxes as at December 31, 2023 was \$252.0 million (2022 - \$243.6 million) (Note 7).

The allocation of Part VI.1 tax to Newfoundland Power from Fortis associated with preference share dividends is recognized in retained earnings upon signing the respective agreement.

Tax benefits associated with income tax positions taken, or expected to be taken, in an income tax return are recognized only when the more likely than not recognition threshold is met.

Interest related to unrecognized tax benefits is recognized in finance charges and any associated penalties are recognized in operating expenses.

### Employee Future Benefits

Newfoundland Power maintains defined contribution and defined benefit pension plans for its employees and also provides an OPEB plan. The OPEB plan is composed of retirement allowances for retiring employees as well as health, medical and life insurance for retirees and their dependants.

#### *Defined Contribution and Defined Benefit Pension Plans*

The Company's defined contribution plans are its individual and group registered retirement savings plans. Defined contribution pension plan costs are expensed as incurred.

The Company's defined benefit plans are its funded defined benefit pension plan, an unfunded pension uniformity plan ("PUP"), and an unfunded supplementary employee retirement plan ("SERP"). The funded defined benefit pension plan and the PUP are closed to new entrants.

The net benefit costs and projected benefit obligations of the funded defined benefit pension plan and the PUP are actuarially determined using the projected benefits method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees. Discount rates reflect market interest rates on high-quality bonds with cash flows that match the timing and amount of pension payments. The net benefit costs and projected benefit obligations of the SERP are determined based upon employee earnings and years of service. Net benefit costs are also impacted by the amortization of various regulatory assets (Note 7 (iv)).

## 2. Summary of Significant Accounting Policies (cont'd)

### Employee Future Benefits (cont'd)

Pension plan assets of the funded defined benefit pension plan are valued at market-related value, where investment returns in excess of or below expected returns are recognized in the asset value over a period of three years. The excess of the cumulative net actuarial gain or loss over 10% of the greater of the benefit obligation and the market-related value of plan assets is amortized over the estimated average remaining service period of active employees.

#### *Other Post-Employment Benefits*

The net benefit cost and projected benefit obligation of the OPEB plan are actuarially determined using the projected benefits method pro-rated on service and best estimate of health care costs. Discount rates reflect market interest rates on high-quality bonds with cash flows that match the timing and amount of OPEB payments. Net benefit costs are also impacted by the amortization of various regulatory assets (Note 7 (ii)). The excess of any cumulative net actuarial gain or loss over 10% of the benefit obligation, along with unamortized past service costs is amortized over the estimated average remaining service period of active employees.

### Asset Retirement Obligations

The Company is required to record the fair value of future expenditures necessary to settle legal obligations associated with asset retirements even though the timing or method of settlement is conditional on future events. Newfoundland Power has determined that there are asset retirement obligations ("AROs") associated with its hydroelectric generation assets and some parts of its transmission and distribution system.

For hydroelectric generation assets, the legal obligation is the environmental remediation of the land and waterways to protect fish habitat. However, this obligation is conditional on the decision to decommission generation assets. The Company currently has no plans to decommission any of its hydroelectric generation assets as they are effectively operated in perpetuity. Therefore, the nature and fair value of any ARO is not currently determinable.

The legal obligations for the transmission and distribution system pertain to the proper disposal of assets containing oil and polychlorinated biphenyl. Obligations related to other Company facilities consist of the removal of fuel storage tanks and asbestos. These obligations have been determined to be immaterial and therefore no AROs have been recognized.

The Company will recognize AROs and offsetting property, plant and equipment if the nature and timing can reasonably be determined and the amount is material.

### Leases

A right-of-use asset and lease liability is recognized for all leases with a term greater than 12 months. The right-of-use asset and liability are both measured at the present value of future lease payments, excluding variable payments that are based on usage or performance.

### Use of Accounting Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Estimates and judgments are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Additionally, certain estimates are necessary since the regulatory environment in which the Company operates often requires amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. Due to changes in facts and circumstances and the inherent uncertainty involved in making estimates, actual results may differ significantly from current estimates. Estimates are reviewed periodically and, as adjustments become necessary, are reported in earnings in the period in which they either, as appropriate, become known or included in customer rates.

## 3. Future Accounting Pronouncements

The Company considers the applicability and impact of all accounting standards updates ("ASUs") issued by the Financial Accounting Standards Board. The following update has been issued by the FASB, but has not yet been adopted by Newfoundland Power. Any upcoming ASUs not included below were assessed and determined to be either not applicable to the Company or are not expected to have a material impact on the financial statements.

### 3. Future Accounting Pronouncements (cont'd)

#### Income Taxes

ASU No. 2023-09, *Improvements to Income Tax Disclosures*, issued in December 2023, is effective for Newfoundland Power on January 1, 2025 on a prospective basis, with retrospective application and early adoption permitted. Principally, it requires additional disclosure of income tax information by jurisdiction to reflect an entity's exposure to potential changes in tax legislation, and associated risks and opportunities. Newfoundland Power is assessing the impact that the adoption of this update will have on its financial statements and related disclosures.

### 4. Revenue

The composition of the Company's revenue follows.

	2023	2022
Electricity revenue		
Residential	\$ 468,774	\$ 457,185
Commercial	245,754	241,534
Street lighting	16,536	16,725
Regulatory deferrals and amortizations (Note 7)	28,400	6,691
	759,464	722,135
Other contract revenue	10,650	12,821
Other revenue	3,749	799
Total revenue	\$ 773,863	\$ 735,755

#### Electricity revenue

Electricity revenue includes revenue from the delivery of electricity to residential and commercial customers and the provision of street lighting service to municipalities.

#### Other contract revenue

Other contract revenue is primarily the result of other contracts with customers including: (i) revenue from telecommunication companies for pole attachments and other pole-related services; (ii) wheeling revenue from Hydro for transmitting electricity to its customers using Newfoundland Power's electrical system; and, (iii) revenue from customers for services other than those directly related to delivery of electricity service.

#### Other revenue

Other revenue includes interest revenue, the equity portion of AFUDC and other miscellaneous amounts.

### 5. Accounts Receivable

The timing of revenue recognition, billings and cash collections from contracts with customers results in trade accounts receivable and unbilled accounts receivable. The composition of the Company's accounts receivable follows.

	2023	2022
Trade accounts receivable	\$ 53,729	\$ 39,609
Unbilled accounts receivable	31,789	32,452
Other	1,094	1,419
Allowance for credit losses	(3,876)	(3,929)
	\$ 82,736	\$ 69,551

## 5. Accounts Receivable (cont'd)

Accounts receivable is recorded net of an allowance for credit losses. The change in the allowance for credit losses balance from December 31, 2022 and December 31, 2021 follows.

	2023	2022
<b>Balance, beginning of year</b>	\$ (3,929)	\$ (3,299)
Credit loss expense	(1,971)	(2,027)
Write-offs	2,711	1,872
Recoveries	(687)	(475)
<b>Balance, end of year</b>	<b>\$ (3,876)</b>	<b>\$ (3,929)</b>

## 6. Materials and Supplies

	2023	2022
Materials and supplies	\$ 2,721	\$ 2,387
Fuel in storage	687	509
	<b>\$ 3,408</b>	<b>\$ 2,896</b>

## 7. Regulatory Assets and Liabilities

The Company's regulatory assets and liabilities which will be, or are expected to be, reflected in customer rates in future periods, follow.

	2023	2022	Remaining Recovery Period (Years)
<b>Regulatory assets</b>			
Rate stabilization account (i)	\$ 36,615	\$ -	2
OPEB (ii)	7,008	10,512	2
Conservation and demand management deferral (iii)	29,581	27,655	10
Employee future benefits (iv)	9,215	30,564	Benefit payment period
Weather normalization account (v)	9,031	-	2
Pension capitalization deferral (vi)	1,141	-	4
Cost recovery deferral (vii)	328	656	1
Electrification deferral (viii)	1,953	1,598	N/A
Demand management incentive ("DMI") (ix)	1,398	-	2
Load research and rate design cost deferral (xi)	270	28	N/A
Deferred income taxes (Note 8)	252,042	243,550	Life of related assets
<b>Total regulatory assets</b>	<b>\$ 348,582</b>	<b>\$ 314,563</b>	
<b>Less: current portion</b>	<b>(28,032)</b>	<b>(5,439)</b>	
<b>Long-term regulatory assets</b>	<b>\$ 320,550</b>	<b>\$ 309,124</b>	

## 7. Regulatory Assets and Liabilities (cont'd)

	2023	2022	Remaining Settlement Period (Years)
<b>Regulatory liabilities</b>			
Rate stabilization account (i)	\$ -	\$ 10,266	-
Weather normalization account (v)	-	9,394	-
DMI (ix)	-	153	-
Future removal and site restoration provision (x)	208,722	200,386	Life of related assets
Excess earnings (xii)	5,305	-	N/A
<b>Total regulatory liabilities</b>	<b>\$ 214,027</b>	<b>\$ 220,199</b>	
<b>Less: current portion</b>	<b>-</b>	<b>(15,196)</b>	
<b>Long-term regulatory liabilities</b>	<b>\$ 214,027</b>	<b>\$ 205,003</b>	

### (i) Rate Stabilization Account

On July 1 of each year, customer rates are recalculated in order to recover from or refund to customers, over the subsequent twelve months, the balance in the RSA as of March 31 of the current year. The amount and timing of the recovery or refund is subject to PUB approval.

The RSA passes through, to the Company's customers, amounts primarily related to variances in Hydro's supply costs charged to the Company. Effective July 1, 2022, the RSA also passes through amounts approved for the Muskrat Falls project cost recovery rider to the Company's customers.

The RSA also passes through, to the Company's customers, variations in purchased power expense caused by differences between the actual unit cost of energy and that reflected in customer rates ("Energy Supply Cost Variance"). The marginal cost of purchased power for the Company currently exceeds the average cost that is embedded in customer rates. The amount transferred to the RSA in 2023 for recovery from customers due to the Energy Supply Cost Variance was \$29.2 million (2022 - \$3.8 million).

The pension expense variance deferral account ("PEVDA") is charged or credited with the amount by which actual pension expense differs from amounts approved in customer rates by the PUB due to variations in assumptions. Each year, at March 31, the balance in the PEVDA is transferred to the Company's RSA and disposed of in accordance with the operation of the RSA. The amount transferred from the PEVDA to the RSA in 2023 for recovery from customers was \$1.4 million (2022 - \$0.8 million refund to customers).

The OPEB cost variance deferral account is charged or credited with the amount by which actual OPEB expense differs from amounts approved in customer rates by the PUB due to variations in assumptions. Each year, at March 31, the balance in the OPEB cost variance deferral account is transferred to the Company's RSA and disposed of in accordance with the operation of the RSA. The amount transferred from the OPEB cost variance deferral account to the RSA in 2023 for refund to customers was \$1.1 million (2022 - \$0.1 million).

Customer energy conservation program costs and balances in the weather normalization account are also transferred to the RSA (Notes 7 (iii) and (v)). The RSA is also adjusted from time-to-time by other amounts as approved by the PUB.

### (ii) OPEB

This regulatory asset represents the accumulated difference between OPEB expense recognized on a cash basis for regulatory purposes and an accrual basis for financial reporting purposes from 2000 through 2010. Effective January 1, 2011, the PUB ordered the adoption of the accrual method of accounting for OPEB and the \$52.6 million regulatory asset be amortized evenly over 15 years.

### (iii) Conservation and Demand Management Deferral

As ordered by the PUB, annual customer energy conservation program costs are deferred and amortized to operating expenses over the period these costs are recovered from customers. Effective January 1, 2021 the amortization period increased from seven to ten years, for both historical balances and annual charges as a result of the 2022/2023 GRA Order.

## 7. Regulatory Assets and Liabilities (cont'd)

### (iii) Conservation and Demand Management Deferral (cont'd)

The conservation and demand management deferral was adjusted by \$2.7 million on March 31, 2022 as a result of this Order, representing a balance owing to customers. Conservation program costs of \$6.2 million were deferred in 2023 (2022 - \$5.2 million). The amount transferred to the RSA in 2023 for recovery from customers was \$4.2 million (2022 - \$3.7 million).

### (iv) Employee Future Benefits

Upon transition to U.S. GAAP in 2012, the PUB approved the following with respect to the accounting for employee future benefits.

(a) Opening unamortized balances and future amounts of past service costs and actuarial gains or losses are recorded as a regulatory asset, rather than accumulated other comprehensive loss. The amortization of these balances will continue to be included in the calculation of employee future benefit expense.

(b) The period over which pension expense had been recognized differed between that used for regulatory purposes and that used for U.S. GAAP. Therefore, the cumulative difference was recorded as a regulatory asset to be recovered from customers in future rates. The PUB ordered that pension expense for regulatory purposes be recognized in accordance with U.S. GAAP effective January 1, 2013 and that the accumulated difference in pension expense to December 31, 2012 of \$12.4 million be amortized evenly over 15 years to pension expense.

### (v) Weather Normalization Account

The weather normalization account reduces earnings volatility by adjusting purchased power expense and electricity sales revenue to eliminate variances in purchases and sales caused by the difference between normal weather conditions, based on long-term averages and actual weather conditions. The PUB has ordered that balances in the weather normalization account be recovered through the RSA (Note 7 (i)). The amount transferred to the RSA in 2023 for refund to customers was \$9.4 million (2022 - \$2.9 million).

### (vi) Pension Capitalization Deferral

As approved in the 2022/2023 GRA Order, the Company recorded a \$1.4 million deferral of forecast revenue requirement increase in 2023. The deferral will be amortized over a 5 year period from January 1, 2023 to December 31, 2027. Amortization of \$0.3 million was recorded in 2023.

### (vii) Cost Recovery Deferral

As approved in the 2022/2023 GRA Order, the Company recorded a \$0.9 million under-recovery from customers in 2022. The deferral will be amortized over a 34-month period from March 1, 2022 to December 31, 2024. Amortization of \$0.3 million was recorded in 2023 (2022 - \$0.3 million).

### (viii) Electrification Deferral

As approved in the 2022/2023 GRA Order, the Company will record costs incurred in implementing customer electrification initiatives in a deferral account. A recovery mechanism for these costs has not yet been approved by the PUB.

### (ix) DMI

Through the DMI, variations in the unit cost of purchased power related to demand are limited, at the discretion of the PUB, to 1% of demand costs reflected in customer rates. The disposition of balances in this account to the RSA are determined by orders of the PUB following consideration of the Company's conservation and demand management activities. The amount transferred to the RSA in 2023 for refund to customers was \$0.2 million (2022 - \$1.9 million recovery from customers).

### (x) Future Removal and Site Restoration Provision

This regulatory liability represents amounts collected in customer electricity rates over the life of certain property, plant and equipment which are attributable to removal and site restoration costs that are expected to be incurred in the future. Actual removal and site restoration costs are recorded against the regulatory liability when incurred. The regulatory liability represents the amount of expected future removal and site restoration costs associated with the applicable property, plant and equipment in service as at December 31, calculated using current depreciation rates as approved by the PUB.

### (xi) Load Research and Rate Design Cost Deferral

As approved in the 2022/2023 GRA Order, the Company will record costs incurred associated with the completion of a Load Research and Rate Design Review in a deferral account. A recovery mechanism for these costs has not yet been approved by the PUB.



## 7. Regulatory Assets and Liabilities (cont'd)

### (xii) Excess Earnings

This account represents regulatory earnings for 2023 in excess of the upper limit of the allowed range of return on rate base as determined by the PUB. The disposition of the balance in this account will be determined by a further order of the PUB.

## 8. Income Taxes

The composition of the Company's income tax expense follows.

	2023	2022
Current income tax expense	\$ (3,264)	\$ 14,055
Deferred income tax expense	23,145	5,781
Less: regulatory adjustment	(8,489)	(8,834)
	\$ 11,392	\$ 11,002

Income taxes differ from the amount that would be determined by applying the enacted combined Canadian federal and provincial statutory income tax rate to earnings before income taxes. A reconciliation of the combined statutory income tax rate to the Company's effective income tax rate follows.

	2023	2022
Earnings before income taxes	\$ 57,388	\$ 56,652
Statutory tax rate	30.0%	30.0%
Income taxes, at statutory rate	17,216	16,996
Items capitalized for accounting purposes but expensed for income tax purposes	(2,331)	(2,597)
Difference between capital cost allowance and depreciation and amortization expense	(3,896)	(3,705)
Other	403	308
Income tax expense	\$ 11,392	\$ 11,002
Effective income tax rate	19.9%	19.4%

The composition of the Company's net deferred income tax liability follows.

	2023	2022
Deferred income tax liabilities		
Property, plant and equipment	\$ 218,064	\$ 210,889
Intangible assets	24,563	11,436
Regulatory assets	19,874	26,534
Defined benefit pension plans	18,057	16,141
Total deferred income tax liabilities	\$ 280,558	\$ 265,000
Deferred income tax assets		
Regulatory liabilities	\$ (56,097)	\$ (55,170)
OPEB	(10,777)	(19,727)
Other	(1,244)	(811)
Total deferred income tax assets	(68,118)	(75,708)
<b>Net deferred income tax liability</b>	<b>\$ 212,440</b>	<b>\$ 189,292</b>

The net deferred income tax liability includes a gross up to reflect the income tax associated with future revenue required to fund the net deferred income tax liability (Note 7).

As at December 31, 2023, the Company had no material non-capital or capital losses carried forward. As at December 31, 2023, the Company had no material unrecognized tax benefits related to uncertain tax positions.

As at December 31, 2023, the Company's tax years open to examination by taxing authorities include 2017, 2019 and subsequent years.

## 9. Property, Plant and Equipment

	Cost		Accumulated Depreciation		Net Book Value	
	2023	2022	2023	2022	2023	2022
Distribution	\$ 1,184,377	\$ 1,138,060	\$ (419,833)	\$ (401,313)	\$ 764,544	\$ 736,747
Transmission and substations	490,508	460,601	(133,649)	(128,343)	356,859	332,258
Generation	278,197	269,638	(112,768)	(106,866)	165,429	162,772
Transportation and communications	51,284	44,243	(25,576)	(23,207)	25,708	21,036
Land, buildings and equipment	88,926	86,931	(34,277)	(33,877)	54,649	53,054
Construction in progress	7,816	12,429	-	-	7,816	12,429
Construction materials	14,373	14,281	-	-	14,373	14,281
	\$2,115,481	\$2,026,183	\$ (726,103)	\$ (693,606)	\$ 1,389,378	\$ 1,332,577

Distribution assets are used to distribute low voltage electricity to customers and include poles, towers and fixtures, low voltage wires, transformers, overhead and underground conductors, street lighting, metering equipment and other related equipment. Transmission and substations assets are used to transmit high voltage electricity to distribution assets and include poles, high voltage wires, switching equipment, transformers and other related equipment. Generation assets are used to generate electricity and include hydroelectric and thermal generating stations, gas and combustion turbines, dams, reservoirs and other related equipment. Transportation and communications assets include vehicles as well as telephone, radio and other communications equipment. Land, buildings and equipment are used generally in the provision of electricity service, but not specifically in the distribution, transmission or generation of electricity or specifically related to transportation and communication activities.

## 10. Intangible Assets

	Cost		Accumulated Amortization		Net Book Value	
	2023	2022	2023	2022	2023	2022
Computer software	\$ 78,463	\$ 59,351	\$ (24,002)	\$ (21,219)	\$ 54,461	\$ 38,132
Land rights	17,390	15,594	(5,669)	(5,505)	11,721	10,089
	\$ 95,853	\$ 74,945	\$ (29,671)	\$ (26,724)	\$ 66,182	\$ 48,221

Amortization expense related to intangibles was \$5.5 million for 2023 (2022 - \$4.5 million).

## 11. Employee Future Benefits

The projected benefit obligation for all of the Company's defined benefit plans, and the market-related value of plan assets for the Company's funded defined benefit pension plan, are measured for accounting purposes as at December 31 of each year.

In August 2023, Newfoundland Power received actuarial valuation results for its defined benefit pension plan including the funding status of the plan as at December 31, 2022, on a going concern and solvency basis. On a going concern basis, the surplus increased from \$67.6 million as at December 31, 2019 to \$131.0 million as at December 31, 2022. On a solvency basis, the funding position surplus increased from \$19.2 million as at December 31, 2019 to \$29.2 million as at December 31, 2022. The increase was primarily due to a higher estimated discount rate.

## 11. Employee Future Benefits (cont'd)

Details of the Company's defined benefit plans follow.

	2023		2022	
	Defined Benefit Pension Plans <sup>1</sup>	OPEB Plan	Defined Benefit Pension Plans <sup>1</sup>	OPEB Plan
<b>Change in projected benefit obligation</b>				
Balance, beginning of year	\$ 328,995	\$ 66,516	\$ 418,738	\$ 88,675
Service costs	2,492	1,515	3,826	2,730
Employee contributions	424	-	516	-
Interest costs	16,862	3,421	13,127	2,779
Benefits paid	(20,787)	(3,324)	(19,580)	(2,428)
Actuarial loss (gain)	18,067	(21,464)	(87,632)	(25,240)
Balance, end of year <sup>2,3</sup>	\$ 346,053	\$ 46,664	\$ 328,995	\$ 66,516
<b>Change in fair value of plan assets</b>				
Balance, beginning of year	\$ 364,079	\$ -	\$ 482,154	\$ -
Actual return on assets	42,682	-	(102,023)	-
Benefits paid	(20,787)	(3,324)	(19,580)	(2,428)
Employee contributions	424	-	516	-
Employer contributions	1,772	3,324	3,012	2,428
Balance, end of year <sup>4</sup>	\$ 388,170	\$ -	\$ 364,079	\$ -
<b>Funded status, net asset (liability), end of year</b>				
	\$ 42,117	\$ (46,664)	\$ 35,084	\$ (66,516)
<b>Balance Sheet Presentation</b>				
Long-term assets	\$ 47,509	\$ -	\$ 40,435	\$ -
Current liabilities	(264)	(3,035)	(277)	(3,922)
Long-term liabilities	(5,128)	(43,629)	(5,074)	(62,594)
	\$ 42,117	\$ (46,664)	\$ 35,084	\$ (66,516)

<sup>1</sup> The Company's defined benefit plans include the funded defined benefit pension plan, the PUP and the SERP.

<sup>2</sup> The accumulated benefit obligation for defined benefit pension plans, which includes no assumption about future salary levels, was \$335.5 million at December 31, 2023 (December 31, 2022 - \$316.0 million).

<sup>3</sup> The increase in the projected benefit obligation for the defined benefit pension plan is due to an actuarial loss recorded at December 31, 2023 as a result of a decrease in discount rate. Further detail is provided in the significant assumptions table on the following page.

<sup>4</sup> The increase in the fair value of plan assets is due to an increased actual return on assets, as a result of favourable market conditions.

## 11. Employee Future Benefits (cont'd)

Newfoundland Power's net benefit costs for its defined benefit pension and OPEB plans included in regulatory assets and yet to be recognized are as follows.

	2023			2022		
	Defined Benefit Pension Plans	OPEB Plan	Total	Defined Benefit Pension Plans	OPEB Plan	Total
Employee future benefits regulatory asset (Note 7 (iv))						
Unrecognized actuarial losses (gains)	\$ 50,619	\$ (44,701)	\$ 5,918	\$ 50,589	\$ (24,147)	\$ 26,442
Unrecognized transitional obligations	3,297	-	3,297	4,122	-	4,122
	\$ 53,916	\$ (44,701)	\$ 9,215	\$ 54,711	\$ (24,147)	\$ 30,564
OPEB regulatory asset (Note 7 (ii))	\$ -	\$ 7,008	\$ 7,008	\$ -	\$ 10,512	\$ 10,512

The change in regulatory assets associated with the Company's defined benefit pension and OPEB plans for 2023 and 2022 follow.

	2023		2022	
	Defined Benefit Pension Plans	OPEB Plan	Defined Benefit Pension Plans	OPEB Plan
Actuarial losses (gains)	\$ 28	\$ (21,464)	\$ 35,247	\$ (25,240)
Amortization of OPEB regulatory asset	-	(3,504)	-	(3,504)
Amortization of actuarial gains (losses)	-	910	(16)	-
Amortization of pension deferral costs	(824)	-	(824)	-
Total	\$ (796)	\$ (24,058)	\$ 34,407	\$ (28,744)

### Significant Assumptions

The following table provides the weighted-average assumptions used to determine benefit obligations for the Company's defined benefit pension and OPEB plans. These rates are used in determining the net benefit costs in the following year.

	2023		2022	
	Defined Benefit Pension Plans	OPEB Plan	Defined Benefit Pension Plans	OPEB Plan
Discount rate (%)	4.60	4.60	5.30	5.30
Rate of compensation increase (%)	3.50	-	3.50	-
Expected long-term rate of return on plan assets (%) <sup>1</sup>	5.75	-	5.75	-
Health care cost trend increase (%) <sup>2</sup>	-	4.00	-	4.00

<sup>1</sup> Developed by management with assistance from an independent actuary. The best estimates are based on historical performance, future expectations and periodic portfolio rebalancing among the diversified asset classes.

<sup>2</sup> The health care cost trend rate at December 31, 2023 is 6.14% for the OPEB plan (2022 – 6.24%). This rate is assumed to decrease to the ultimate health care cost trend rate of 4.0% by 2040.

## 11. Employee Future Benefits (cont'd)

### Plan Assets

The investment strategy of the Company's funded defined benefit pension plan is to ensure that the pension plan assets, together with expected contributions, are invested in a prudent and cost-effective manner so as to optimally meet the liabilities of the plan for its members.

The investment objective of the pension plan is to maximize return in order to manage the funded status of the plan, and minimize the Company's cost over the long-term, as measured by both cash contributions and pension expense for financial statement purposes.

The Company's funded primary defined benefit pension plan asset allocation is as follows.

Plan assets as at December 31 (%)	2023		2022	
	Target Allocation	Actual <sup>1</sup>	Target Allocation	Actual <sup>1</sup>
Canadian equities	10	10	10	11
International equities	30	31	30	33
Fixed income	60	59	60	56
Total	100	100	100	100

<sup>1</sup> The defined benefit pension plan assets will be rebalanced to target only if actual results are +/- 5% outside of target allocation.

Newfoundland Power periodically reviews its investment strategy and asset allocation. Based on the review completed in 2021, the allocation of fixed income investments was updated to incorporate longer duration bonds to reduce interest rate risk and pension expense volatility, while maintaining the opportunity to earn a reasonable return on pension plan assets.

### Fair Value of Plan Assets

The guidance on fair value measurements emphasizes that plan asset measurement should be based on assumptions that market participants would use to price the plan assets. The Company's funded defined benefit pension plan assets are measured using the market approach valuation technique. The assumptions or inputs to the valuation technique are categorized into three levels. Level 1 provides the most reliable measure of fair value, whereas Level 3 generally requires significant management judgment.

The fair value measurements for all of the Company's equity and debt securities, as held in various pooled funds, are classified as Level 2 inputs based on the three-level hierarchy that distinguishes the level of pricing observability utilized in measuring fair value. Level 2 includes inputs other than quoted market prices in active markets that are either directly or indirectly observable for the asset or liability.

The fair value of the Company's primary defined benefit pension plan assets are as follows.

	2023	2022
Canadian equities	\$ 39,904	\$ 40,205
International equities	121,575	119,310
Fixed income	226,691	204,564
Total fair value	\$ 388,170	\$ 364,079

## 11. Employee Future Benefits (cont'd)

### Expected Cash Flows

The estimated future benefit payments for the defined benefit pension and OPEB plans follow.

	Defined Benefit Pension Plans	OPEB Plan
2024	\$ 21,207	\$ 3,035
2025	21,446	2,818
2026	22,327	3,027
2027	22,728	3,027
2028	22,933	3,046
2029-2033	117,193	15,546

The Company's contributions to the defined benefit pension plans are estimated to average \$1.5 million annually through 2026.

### Employee Future Benefits Cost

The Company's employee future benefits cost includes the net benefit costs of its defined benefit, defined contribution and OPEB plans.

The components of net benefit costs associated with the Company's defined benefit pension and OPEB plans, prior to capitalization, are as follows.

	2023		2022	
	Defined Benefit Pension Plans	OPEB Plan	Defined Benefit Pension Plans	OPEB Plan
Service costs	\$ 2,458	\$ 1,515	\$ 3,784	\$ 2,730
Interest costs	16,862	3,421	13,127	2,779
Expected return on plan assets	(24,643)	-	(20,859)	-
Amortization of actuarial (gains) losses	-	(910)	16	-
	\$ (5,323)	\$ 4,026	\$ (3,932)	\$ 5,509
Regulatory adjustments (Note 7)				
Amortization of pension deferrals	824	-	824	-
Amortization of OPEB regulatory asset	-	3,504	-	3,504
Net benefit cost	\$ (4,499)	\$ 7,530	\$ (3,108)	\$ 9,013

During 2023, the Company expensed approximately \$3.4 million (2022 - \$3.1 million) related to its defined contribution pension plans.

## 12. Long-term Debt

	Maturity Date	2023	2022
First mortgage sinking fund bonds			
8.900% \$40 million Series AH	2026	\$ 29,235	\$ 29,635
6.800% \$50 million Series AI	2028	37,500	38,000
7.520% \$75 million Series AJ	2032	59,250	60,000
5.441% \$60 million Series AK	2035	48,600	49,200
5.901% \$70 million Series AL	2037	58,100	58,800
6.606% \$65 million Series AM	2039	55,250	55,900
4.805% \$70 million Series AN	2043	63,000	63,700
4.446% \$75 million Series AO	2045	68,250	69,000
3.815% \$75 million Series AP	2057	69,750	70,500
3.608% \$100 million Series AQ	2060	96,000	97,000
4.198% \$75 million Series AR	2052	73,500	74,250
5.122% \$90 million Series AS	2053	89,100	-
Committed credit facility	2028	32,000	20,000
		779,535	685,985
Less: current portion		(40,450)	(27,550)
		\$ 739,085	\$ 658,435
Less: deferred financing costs		(3,135)	(2,838)
		\$ 735,950	\$ 655,597

First mortgage sinking fund bonds are secured by a first fixed and specific charge on property, plant and equipment owned or to be acquired by the Company and by a floating charge on all other assets. They require an annual sinking fund payment of 1% of the original principal balance.

On August 11, 2023, the Company issued \$90 million in first mortgage sinking fund bonds. The bonds were issued for a 30-year term at an interest rate of 5.122%. Net proceeds from the issue were used to repay credit facility borrowings, which were incurred principally to fund capital expenditures, and for general corporate purposes.

Newfoundland Power has unsecured bank credit facilities of \$120 million comprised of a \$100 million committed credit facility and a \$20 million demand facility. During the third quarter of 2023, the committed facility was amended to extend the maturity date from August 2027 to August 2028. Subject to lenders' approval, the Company may request an extension for a further period of up to, but not exceeding, five years.

Borrowings under the committed credit facility are in the form of bankers acceptances that primarily have a maturity of 30 days or less, bearing interest based on the daily Canadian Deposit Offering Rate for the date of borrowing plus a stamping fee. Standby fees on the unutilized portion of the committed credit facility are payable quarterly in arrears at a fixed rate of 0.16%. Interest on borrowings under the demand facility is calculated at the daily prime rate and is payable monthly in arrears.

The utilized and unutilized credit facilities as at December 31 follow.

	2023	2022
Total credit facilities	\$ 120,000	\$ 120,000
Borrowings under committed credit facility	(32,000)	(20,000)
Borrowings under demand facility	-	(1,361)
Credit facilities available	\$ 88,000	\$ 98,639

Deferred financing costs are recorded at cost and are amortized to earnings using the effective interest rate method over the life of the related debt.

## 12. Long-term Debt (cont'd)

Future payments required to meet sinking fund instalments, maturities of long-term debt and long-term credit facilities follow.

Year	(\$ thousands)
2024	8,450
2025	8,450
2026	36,485
2027	8,050
2028	43,050
Thereafter	643,050

The issuance of debt with a maturity that exceeds one year requires prior approval of the PUB. The issuance of first mortgage sinking fund bonds is subject to an earnings covenant whereby the ratio of (i) annual earnings applicable to common shares, before bond interest and tax, to (ii) annual bond interest incurred plus annual bond interest to be incurred on the contemplated bond issue, must be two times or higher. Under its committed credit facility, the Company must also ensure that its debt to capitalization ratio does not exceed 0.65:1.00 at any time. During 2023, and as at December 31, 2023, the Company was in compliance with all of its debt covenants.

## 13. Capital Stock

### Authorized

- (a) an unlimited number of Class A and Class B Common Shares without nominal or par value. The shares of each class are inter-convertible on a share-for-share basis and rank equally in all respects including dividends. The Board of Directors may provide for the payment, in whole or in part, of any dividends to Class B shareholders by way of a stock dividend; and
- (b) an unlimited number of First Preference Shares and Second Preference Shares without nominal or par value. First Preference Shares are entitled to cumulative preferential dividends and are redeemable at the option of the Company at a premium not in excess of the annual dividend rate.

<i>Issued and outstanding</i>	2023		2022	
	Number of Shares	Amount	Number of Shares	Amount
Class A common shares	10,320,270	\$ 70,321	10,320,270	\$ 70,321

## 14. Change in Working Capital

The composition of the Company's change in working capital follows.

	2023	2022
Accounts receivable	\$ (12,913)	\$ 3,335
Income taxes receivable	(3,182)	321
Materials and supplies	(512)	(1,057)
Prepaid expenses	(660)	(993)
Current regulatory assets	(16,447)	(328)
Accounts payable and accrued charges	3,921	4,627
Interest payable	1,678	339
Current regulatory liabilities	(6,807)	(18,324)
	\$ (34,922)	\$ (12,080)

Non-cash investing activities balances as at December 31 follows.

	2023	2022
Capital expenditures included in accounts payable and accrued charges	\$ 11,135	\$ 8,496



## 15. Related Party Transactions

The Company provides services to, and receives services from, its parent company, Fortis and other subsidiaries of Fortis. The Company also incurs charges from Fortis for the recovery of general corporate expenses incurred by Fortis. These transactions are in the normal course of business and are recorded at their exchange amounts.

Related party transactions included in operating expenses in 2023 were \$2.2 million (2022 - \$2.3 million).

A member of the Board of Directors of Newfoundland Power is the President of a construction services company. The Company has entered into construction service agreements with this company. Total capital expenditures incurred in 2023 associated with these agreements were \$4.0 million (2022 - \$2.6 million). The awarding of these contracts followed a competitive bidding process in the ordinary course of business. The construction services company is also a member of a joint venture that paid a \$2.6 million contribution in aid of construction to the Company in 2023. The contribution followed PUB guidelines in the ordinary course of business. The Board of Directors has no role in these processes.

## 16. Fair Value Measurement

Fair value is the price at which a market participant could sell an asset or transfer a liability to an unrelated party. A fair value measurement is required to reflect the assumptions that market participants would use in pricing an asset or a liability based on the best available information. These assumptions include the risks inherent in a particular valuation technique, such as a pricing model, and the risks inherent in the inputs to the model.

The fair value of long-term debt, including current portion and committed credit facility, is classified as Level 2 based on the three level hierarchy utilized in measuring fair value. The fair value is calculated by discounting the future cash flows of each debt instrument at the estimated yield-to-maturity equivalent to benchmark government bonds, with similar terms to maturity, plus a credit risk premium equal to that of issuers of similar credit quality. Since the Company does not intend to settle its debt instruments before maturity, the fair value estimate does not represent an actual liability and, therefore, does not include settlement costs.

The fair value of long-term debt, including current portion and committed credit facility, as at December 31, 2023 and 2022 is as follows.

	2023		2022	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Long-term debt, including current portion and committed credit facility (Note 12)	\$ 779,535	\$ 833,225	\$ 685,985	\$ 706,328

The fair value of the Company's defined benefit pension plan assets is discussed in Note 11. The fair value of the Company's remaining financial instruments included in current assets, current liabilities, other assets and other liabilities approximate their carrying value, reflecting their nature, short-term maturity or normal trade credit terms.

The fair value of the Company's financial instruments reflects a point-in-time estimate based on current and relevant market information about the instruments as at the balance sheet date. The estimates cannot be determined with precision as they involve uncertainties and matters of judgment, and therefore, may not be relevant in predicting the Company's future earnings or cash flows.

**Schedule B**  
**Interim Financial Statements**  
**June 30, 2024**



## Interim Financial Statements June 30, 2024

**WHENEVER. WHEREVER.**  
We'll be there.

NEWFOUNDLAND   
**POWER**  
A FORTIS COMPANY

## Condensed Statements of Earnings (Unaudited)

For the Three and Six Months Ended June 30

(in thousands of Canadian dollars, except per share amounts)

	Three Months Ended		Six Months Ended	
	2024	2023	2024	2023
<b>Revenue</b> (Note 5)	\$ 180,158	\$ 184,143	\$ 443,066	\$ 439,574
<b>Expenses</b>				
Purchased power	110,858	115,536	310,090	308,657
Operating expenses	22,128	20,628	45,777	42,900
Employee future benefits	(854)	(221)	(1,709)	(452)
Depreciation and amortization	22,315	21,091	43,097	40,750
Cost recovery deferrals, net (Note 7)	(61)	(204)	(121)	(407)
Finance charges	10,669	9,683	21,094	18,826
	<u>165,055</u>	<u>166,513</u>	<u>418,228</u>	<u>410,274</u>
<b>Earnings Before Income Taxes</b>	15,103	17,630	24,838	29,300
Income tax expense	2,647	3,599	4,687	5,989
<b>Net Earnings</b>	12,456	14,031	20,151	23,311
<b>Net Earnings Applicable to Common Shares</b>	\$ 12,456	\$ 14,031	\$ 20,151	\$ 23,311
<b>Basic and Diluted Earnings per Common Share</b>	\$ 1.21	\$ 1.36	\$ 1.95	\$ 2.26

## Condensed Statements of Changes in Shareholder's Equity (Unaudited)

For the Six Months Ended June 30

(in thousands of Canadian dollars, except per share amounts)

	Common Shares	Retained Earnings	Total Equity
<b>As at January 1, 2024</b>	\$ 70,321	\$ 512,280	\$ 582,601
Net earnings	-	20,151	20,151
Allocation of Part VI.1 tax	-	350	350
Dividends on common shares (Note 12) (\$0.00 per share)	-	-	-
<b>As at June 30, 2024</b>	<u>\$ 70,321</u>	<u>\$ 532,781</u>	<u>\$ 603,102</u>
<b>As at January 1, 2023</b>	\$ 70,321	\$ 473,611	\$ 543,932
Net earnings	-	23,311	23,311
Dividends on common shares (Note 12) (\$0.71 per share)	-	(7,327)	(7,327)
<b>As at June 30, 2023</b>	<u>\$ 70,321</u>	<u>\$ 489,595</u>	<u>\$ 559,916</u>

See accompanying notes to condensed interim financial statements.

## Condensed Balance Sheets (Unaudited)

As at

(in thousands of Canadian dollars)

	<b>June 30, 2024</b>	<b>December 31, 2023</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 2,401	\$ 3,126
Accounts receivable (Note 6)	76,194	82,736
Income taxes receivable	-	3,574
Materials and supplies	3,418	3,408
Prepaid expenses	2,048	4,398
Regulatory assets (Note 7)	36,559	28,032
	<u>120,620</u>	<u>125,274</u>
<b>Property, plant and equipment (net)</b>	1,410,421	1,389,378
<b>Intangible assets</b>	65,673	66,182
<b>Defined benefit pension plans</b>	50,597	47,509
<b>Regulatory assets (Note 7)</b>	339,528	320,550
<b>Other assets</b>	1,197	1,307
	<u>\$ 1,988,036</u>	<u>\$ 1,950,200</u>
<b>Liabilities and Shareholder's Equity</b>		
<b>Current liabilities</b>		
Accounts payable and accrued charges	\$ 58,455	\$ 103,197
Interest payable	8,534	8,534
Income taxes payable	5,519	-
Defined benefit pension plans	289	264
Other post-employment benefits	2,927	3,035
Regulatory liabilities (Note 7)	453	-
Current instalments of long-term debt (Note 8)	55,450	40,450
Related-party borrowings (Note 11)	30,000	-
	<u>161,627</u>	<u>155,480</u>
<b>Regulatory liabilities (Note 7)</b>	224,987	214,027
<b>Defined benefit pension plans</b>	5,135	5,128
<b>Other post-employment benefits</b>	43,722	43,629
<b>Other liabilities</b>	774	945
<b>Deferred income taxes</b>	212,644	212,440
<b>Long-term debt (Note 8)</b>	736,045	735,950
	<u>1,384,934</u>	<u>1,367,599</u>
<b>Shareholder's equity</b>		
Common shares, no par value, unlimited authorized shares, 10.3 million shares issued and outstanding (Note 12)	70,321	70,321
Retained earnings	532,781	512,280
	<u>603,102</u>	<u>582,601</u>
	<u>\$ 1,988,036</u>	<u>\$ 1,950,200</u>

See accompanying notes to condensed interim financial statements.

**Condensed Statements of Cash Flows (Unaudited)**  
**For the Three and Six Months Ended June 30**  
*(in thousands of Canadian dollars)*

	Three Months Ended		Six Months Ended	
	2024	2023	2024	2023
<b>Operating Activities</b>				
Net earnings	\$ 12,456	\$ 14,031	\$ 20,151	\$ 23,311
<b>Adjustments to reconcile net earnings to net cash provided by operating activities:</b>				
Depreciation of property, plant and equipment	20,709	19,540	39,886	38,080
Amortization of intangible assets and other	1,664	1,604	3,325	2,776
Change in long-term regulatory assets and liabilities	(8,146)	(16,415)	(15,050)	(21,281)
Deferred income taxes	256	4,772	(5,357)	8,572
Employee future benefits	(2,506)	(1,890)	(4,821)	(3,818)
Other	68	80	190	(98)
Change in working capital	10,822	(9,161)	(24,536)	(51,038)
	<u>35,323</u>	<u>12,561</u>	<u>13,788</u>	<u>(3,496)</u>
<b>Investing Activities</b>				
Capital expenditures	(30,083)	(30,008)	(58,344)	(53,547)
Intangible asset expenditures	(1,403)	(6,026)	(2,702)	(8,176)
Contributions from customers	357	1,504	1,533	2,089
	<u>(31,129)</u>	<u>(34,530)</u>	<u>(59,513)</u>	<u>(59,634)</u>
<b>Financing Activities</b>				
Change in short-term borrowings	-	-	-	(1,361)
Net (repayments) borrowings under committed credit facility	(4,000)	22,000	15,000	72,000
Net borrowings from related party (Note 11)	-	-	30,000	-
Dividends on common shares	-	-	-	(7,327)
	<u>(4,000)</u>	<u>22,000</u>	<u>45,000</u>	<u>63,312</u>
<b>Change in Cash</b>	194	31	(725)	182
<b>Cash, Beginning of Period</b>	2,207	151	3,126	-
<b>Cash, End of Period</b>	<u>\$ 2,401</u>	<u>\$ 182</u>	<u>\$ 2,401</u>	<u>\$ 182</u>
<b>Cash Flows Include the Following:</b>				
Interest paid	\$ 13,374	\$ 14,010	\$ 20,761	\$ 19,271
Income taxes paid	\$ 1,001	\$ 4	\$ 4,002	\$ 9,655
Income taxes refunded	\$ (3,422)	\$ (10,046)	\$ (3,422)	\$ (10,045)

See accompanying notes to condensed interim financial statements.

# Notes to Condensed Interim Financial Statements (Unaudited)

## For the Three and Six Months Ended June 30, 2024 and 2023 (unless otherwise noted)

Tabular amounts are in thousands of Canadian dollars unless otherwise noted.

### 1. Description of the Business

Newfoundland Power Inc. (the “Company” or “Newfoundland Power”) is a regulated electricity utility that operates an integrated generation, transmission and distribution system throughout the island portion of Newfoundland and Labrador. The Company serves approximately 276,000 customers comprising approximately 87% of all electricity consumers in the Province. All of the common shares of the Company are owned by Fortis Inc. (“Fortis”). Newfoundland Power has an installed generating capacity of 145 megawatts (“MW”), of which approximately 98 MW is hydroelectric generation. It generates approximately 7% of its energy needs and purchases the remainder from Newfoundland and Labrador Hydro (“Hydro”).

Newfoundland Power is regulated by the Newfoundland and Labrador Board of Commissioners of Public Utilities (the “PUB”). The Company operates under cost of service regulation whereby it is entitled an opportunity to recover, through customer rates, all reasonable costs incurred in providing electricity service to its customers, including a just and reasonable return on its rate base. The rate base is the value of the net assets required to provide electricity service.

The determination of the forecast return on rate base, together with the forecast of all reasonable and prudent costs, establishes the revenue requirement upon which the Company’s customer rates are determined through a general rate hearing. Rates include generation, transmission and distribution services.

Newfoundland Power maintains a capital structure comprised of approximately 55% debt and 45% common equity.

On November 23, 2023, the Company filed an application with the PUB for approval of its 2024 forecast average rate base and rate of return on rate base (“2024 RORB Application”). The 2024 RORB Application proposed an overall average increase in customer rates of 1.5% effective July 1, 2024. The Company proposed a rate of return on rate base for 2024 of 6.85%, with a range of  $\pm 18$  basis points. This reflects an 8.5% return on equity and 45% common equity for 2024, as previously approved by the PUB for ratemaking purposes. The application remains under review by the PUB.

On December 12, 2023, the Company filed a General Rate Application (the “2025/2026 GRA”) for the purpose of setting customer rates effective July 1, 2025. The 2025/2026 GRA proposes an overall average increase in customer rates of 5.5% effective July 1, 2025. This proposed increase results from a full review of the Company’s costs since its last GRA, including cost of capital. The application proposes a 9.85% return on equity and 45% common equity for 2025 and 2026. An oral hearing on the application was held in June and July 2024. The application is currently under review by the PUB.

On June 12, 2024, Newfoundland Power filed an application with the PUB proposing a 9.3% increase in customer electricity rates effective July 1, 2024. This was the result of: (i) a 7.0% increase due to the Company’s Rate Stabilization Account (“RSA”), largely reflecting additional power supply costs incurred and paid to Hydro in 2023; and (ii) a 2.3% increase from Hydro due to updated wholesale rate adjustments associated with the Government of Newfoundland and Labrador’s rate mitigation plan announced in May 2024. On July 10, 2024, the PUB issued an order approving recovery of a portion of the RSA balance that would provide for an overall average increase in customer electricity rates of approximately 7.0% effective August 1, 2024. The order directed that the remaining portion of Newfoundland Power’s RSA balance as at March 31, 2024 of approximately \$18.8 million shall be maintained in the RSA. The August 1, 2024 customer rate change is not expected to have a material impact on Newfoundland Power’s annual earnings.

### 2. Basis of Presentation

These condensed interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) for interim financial statements and do not include all the disclosures provided in the annual audited financial statements. These condensed interim financial statements should be read in conjunction with the Company’s 2023 annual audited financial statements.

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. There were no material changes to the Company’s significant accounting estimates during the three and six months ended June 30, 2024.

## 2. Basis of Presentation (cont'd)

The accounting policies and methods of their application followed in the preparation of these condensed interim financial statements are the same as those followed in the preparation of the Company's 2023 annual audited financial statements.

## 3. Changes in Accounting Policies

### Future Accounting Pronouncements

The Company considers the applicability and impact of all Accounting Standards Updates ("ASUs") issued by the Financial Accounting Standards Board ("FASB"). The following update has been issued by the FASB, but has not yet been adopted by Newfoundland Power. Any ASUs not included below were assessed and determined to be either not applicable to the Company or are not expected to have a material impact on the financial statements.

### Income Taxes

ASU No. 2023-09, *Improvements to Income Tax Disclosures*, issued in December 2023, is effective for Newfoundland Power on January 1, 2025 on a prospective basis, with retrospective application and early adoption permitted. Principally, it requires additional disclosure of income tax information by jurisdiction to reflect an entity's exposure to potential changes in tax legislation, and associated risks and opportunities. Newfoundland Power is assessing the impact that the adoption of this update will have on its financial statements and related disclosures.

## 4. Seasonality

**Sales and Revenue:** Quarterly sales and revenue are impacted by the seasonality of electricity consumption for heating. As a result, sales and revenue are significantly higher in the first quarter and significantly lower in the third quarter compared to the remaining quarters.

**Earnings:** In addition to the seasonality of electricity consumption for heating, quarterly earnings are impacted by the purchased power rate structure. The Company pays more, on average, for each kilowatt hour ("kWh") of purchased power in the winter months and less, on average, for each kWh of purchased power in the summer months. Overall, these sales, revenue and cost dynamics are such that earnings will generally be lower in the first quarter than the remaining quarters in the year.

## 5. Revenue

The composition of the Company's revenue follows.

	Three Months Ended June 30		Six Months Ended June 30	
	2024	2023	2024	2023
Electricity revenue				
Residential	\$ 106,738	\$ 107,704	\$ 273,827	\$ 272,145
Commercial	56,747	57,469	133,597	133,489
Street lighting	4,117	4,134	8,212	8,288
Regulatory deferrals and amortizations	7,913	11,327	18,550	18,976
	175,515	180,634	434,186	432,898
Other contract revenue	2,848	2,689	5,525	5,109
Other revenue	1,795	820	3,355	1,567
Total revenue	\$ 180,158	\$ 184,143	\$ 443,066	\$ 439,574

### Electricity revenue

Electricity revenue includes revenue from the delivery of electricity to residential and commercial customers and the provision of street lighting service to municipalities.

### Other revenue

Other contract revenue is primarily the result of other contracts with customers including: (i) revenue from telecommunication companies for pole attachments and other pole related services; (ii) wheeling revenue from Hydro for transmitting electricity to its customers using Newfoundland Power's electrical system; and (iii) revenue from customers for services other than those directly related to delivery of electricity service.

Other revenue includes interest revenue, the equity portion of allowance for funds used during construction and other miscellaneous amounts.



## 6. Accounts Receivable

The composition of the Company's accounts receivable follows.

	June 30, 2024	December 31, 2023
Trade accounts receivable	\$ 72,064	\$ 53,729
Unbilled accounts receivable	6,979	31,789
Other	1,547	1,094
Allowance for credit losses	(4,396)	(3,876)
	\$ 76,194	\$ 82,736

Accounts receivable is recorded net of an allowance for credit losses. The change in the allowance for credit losses balance from December 31, 2023 and December 31, 2022 follows.

	Six Months Ended June 30	
	2024	2023
<b>Balance, beginning of period</b>	\$ (3,876)	\$ (3,929)
Credit loss expense	(1,205)	(830)
Write-offs	877	962
Recoveries	(192)	(388)
<b>Balance, end of period</b>	\$ (4,396)	\$ (4,185)

## 7. Regulatory Assets and Liabilities

Regulatory assets and liabilities arise as a result of the rate-setting process. Regulatory assets represent future revenues associated with certain costs incurred in the current or prior periods that will be, or are expected to be, recovered from customers in future periods through the rate-setting process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that will be, or are expected to be, credited to customers through the rate-setting process. The regulatory assets and liabilities, and their eventual settlement through the rate-setting process, are prescribed by the PUB and impact the Company's cash flows. The Company's regulatory assets and liabilities which will be, or are expected to be, reflected in customer rates in future periods, follow.

	June 30, 2024	December 31, 2023	Remaining Recovery Period (Years)
<b>Regulatory assets</b>			
Rate stabilization account	\$ 51,437	\$ 36,615	2
Other post-employment benefits ("OPEB")	5,256	7,008	2
Conservation and demand management deferral	27,055	29,581	10
Employee future benefits	10,553	9,215	Benefit payment period
Weather normalization account	-	9,031	N/A
Cost recovery deferral	164	328	1
Electrification deferral	2,126	1,953	N/A
Load research and rate design cost deferral	519	270	N/A
Pension capitalization deferral	1,426	1,141	4
Energy supply cost variance	17,518	-	2
OPEB expense variance deferral account	1,845	-	1
Demand management incentive ("DMI")	585	1,398	2
Deferred income taxes	257,603	252,042	Life of related assets
<b>Total regulatory assets</b>	\$ 376,087	\$ 348,582	
<b>Less: current portion</b>	(36,559)	(28,032)	
<b>Long-term regulatory assets</b>	\$ 339,528	\$ 320,550	

## 7. Regulatory Assets and Liabilities (cont'd)

	June 30, 2024	December 31, 2023	Remaining Settlement Period (Years)
<b>Regulatory liabilities</b>			
Weather normalization account	\$ 3,810	\$ -	2
Pension expense variance deferral account	453	-	1
Future removal and site restoration provision	215,872	208,722	Life of related assets
Excess earnings	5,305	5,305	N/A
<b>Total regulatory liabilities</b>	<b>\$ 225,440</b>	<b>\$ 214,027</b>	
<b>Less: current portion</b>	<b>(453)</b>	<b>-</b>	
<b>Long-term regulatory liabilities</b>	<b>\$ 224,987</b>	<b>\$ 214,027</b>	

## 8. Long-Term Debt

	June 30, 2024	December 31, 2023
First mortgage sinking fund bonds	\$ 747,535	\$ 747,535
Committed credit facility	47,000	32,000
	794,535	779,535
Less: current portion	(55,450)	(40,450)
	\$ 739,085	\$ 739,085
Less: deferred financing costs	(3,040)	(3,135)
	\$ 736,045	\$ 735,950

First mortgage sinking fund bonds are secured by a first fixed and specific charge on property, plant and equipment owned or to be acquired by the Company and by a floating charge on all other assets. They require an annual sinking fund payment of 1% of the original principal balance.

Newfoundland Power has unsecured bank credit facilities of \$120 million composed of a \$100 million committed credit facility and a \$20 million demand facility. The committed facility matures in August 2028. Subject to lenders' approval, the Company may request an extension for a further period of up to, but not exceeding, five years.

Borrowings under the committed credit facility are in the form of Canadian Overnight Repo Rate Average ("CORRA") loans that primarily have a maturity of 30 days or less, bearing interest based on the Term CORRA Reference Rate for the days preceding the date of borrowing plus a stamping fee. Standby fees on the unutilized portion of the committed credit facility are payable quarterly in arrears at a fixed rate of 0.16%. Interest on borrowings under the demand facility is calculated at the daily prime rate and is payable monthly in arrears.

The utilized and unutilized credit facilities as at June 30, 2024 and December 31, 2023 follow.

	June 30, 2024	December 31, 2023
Total credit facilities	\$ 120,000	\$ 120,000
Borrowings under committed credit facility	(47,000)	(32,000)
Borrowings under demand facility	-	-
Credit facilities available	\$ 73,000	\$ 88,000

## 9. Fair Value Measurement

Fair value is the price at which a market participant could sell an asset or transfer a liability to an unrelated party. A fair value measurement is required to reflect the assumptions that market participants would use in pricing an asset or a liability based on the best available information. These assumptions include the risks inherent in a particular valuation technique, such as a pricing model, and the risks inherent in the inputs to the model.

The fair value of long-term debt, including current portion and committed credit facility, is classified as Level 2 based on the three-level hierarchy utilized in measuring fair value. The fair value is calculated by discounting the future cash flows of each debt instrument at the estimated yield-to-maturity equivalent to benchmark government bonds, with similar terms to maturity, plus a credit risk premium equal to that of issuers of similar credit quality. Since the Company does not intend to settle its debt instruments before maturity, the fair value estimate does not represent an actual liability and, therefore, does not include settlement costs.

The fair value of long-term debt, including current portion and committed credit facility, as at June 30, 2024 and December 31, 2023 is as follows.

	June 30, 2024		December 31, 2023	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Long-term debt, including current portion and committed credit facility (Note 8)	\$ 794,535	\$ 814,671	\$ 779,535	\$ 833,225

As at June 30, 2024, the fair value of the Company's primary defined benefit pension plan assets was \$383.0 million compared to \$388.2 million as at December 31, 2023. The fair value measurements for all of the pension plan assets, as held in various pooled funds, are classified as Level 2.

The fair value of the Company's remaining financial instruments included in current assets, current liabilities, other assets and other liabilities approximate their carrying value, reflecting their nature, short-term maturity or normal trade credit terms.

The fair value of the Company's financial instruments reflects a point-in-time estimate based on current and relevant market information about the instruments as at the balance sheet date. The estimates cannot be determined with precision as they involve uncertainties and matters of judgment, and therefore, may not be relevant in predicting the Company's future earnings or cash flows.

## 10. Employee Future Benefits

The components of net benefit costs associated with the Company's defined benefit pension and OPEB plans, prior to capitalization, are as follows.

	Three Months Ended June 30			
	2024		2023	
	Defined Benefit Pension Plans	OPEB Plan	Defined Benefit Pension Plans	OPEB Plan
Service costs	\$ 463	\$ 306	\$ 606	\$ 379
Interest costs	3,860	519	4,217	855
Expected return on plan assets	(5,819)	-	(6,161)	-
Amortization of net actuarial gains	-	(497)	-	(228)
	\$ (1,496)	\$ 328	\$ (1,338)	\$ 1,006
Regulatory adjustments				
Amortization of pension deferrals	206	-	206	-
Amortization of OPEB regulatory asset	-	876	-	876
Net benefit costs	\$ (1,290)	\$ 1,204	\$ (1,132)	\$ 1,882

## 10. Employee Future Benefits (cont'd)

	Six Months Ended June 30			
	2024		2023	
	Defined Benefit Pension Plans	OPEB Plan	Defined Benefit Pension Plans	OPEB Plan
Service costs	\$ 912	\$ 612	\$ 1,229	\$ 758
Interest costs	7,720	1,039	8,436	1,711
Expected return on plan assets	(11,638)	-	(12,321)	-
Amortization of net actuarial gains	-	(995)	-	(455)
	\$ (3,006)	\$ 656	\$ (2,656)	\$ 2,014
Regulatory adjustments				
Amortization of pension deferrals	412	-	412	-
Amortization of OPEB regulatory asset	-	1,752	-	1,752
Net benefit costs	\$ (2,594)	\$ 2,408	\$ (2,244)	\$ 3,766

For the three and six months ended June 30, 2024, the Company expensed \$1.0 million and \$1.8 million, respectively, related to its defined contribution pension plans (2023 - \$0.9 million and \$1.7 million, respectively).

## 11. Related Party Transactions

The Company provides services to, and receives services from, its parent company Fortis and other subsidiaries of Fortis. The Company also incurs charges from Fortis for the recovery of general corporate expenses incurred by Fortis. These transactions are in the normal course of business and are recorded at their exchange amounts.

Related party transactions included in operating expenses for the three and six months ended June 30, 2024 were \$0.5 million and \$1.1 million, respectively (2023 - \$0.5 million and \$1.0 million, respectively).

During the six months ended June 30, 2024, the Company borrowed a short-term demand loan from Fortis at an average interest rate of 5.85%. The maximum amount outstanding during the first six months of 2024 was \$30 million. As at June 30, 2024, the amount outstanding was \$30 million. Finance charges paid to Fortis in the first six months of 2024 were \$0.5 million. There were no related-party borrowings from, or finance charges paid to, Fortis in the first six months of 2023.

## 12. Capital Stock and Dividends

During the first six months of 2024 and 2023, the weighted average number of common shares outstanding was 10,320,270. The Company did not declare or pay common share dividends during the first six months of 2024, compared to \$0.71 per share in 2023, consistent with the Company's common share dividend policy to maintain a capital structure composed of approximately 55% debt and 45% common equity.

**Schedule C**  
**Eighth Amending Agreement**

**EIGHTH AMENDING AGREEMENT  
RE: NEWFOUNDLAND POWER INC.**

**AMENDED AND RESTATED CREDIT AGREEMENT**

**THIS EIGHTH AMENDING AGREEMENT** made as of the \_\_\_\_ day of \_\_\_\_\_, 2024 (this “**Agreement**”).

**BETWEEN:**

**ROYAL BANK OF CANADA**, a Canadian chartered bank

(herein, in its capacity as administrative agent of the Lenders, called the “**Agent**”)

- and-

**ROYAL BANK OF CANADA, CANADIAN IMPERIAL BANK OF COMMERCE, BANK OF MONTREAL and THE BANK OF NOVA SCOTIA** and one or more Persons to whom the foregoing or their respective permitted assigns may from time to time assign an undivided interest in the Borrower Documents (as defined in the Credit Agreement) and who agree to be bound by the terms hereof as a Lender (as defined herein)

(herein, in their capacities as lenders to the Borrower, collectively called the “**Lenders**” and individually called a “**Lender**”)

- and -

**NEWFOUNDLAND POWER INC.**, a corporation incorporated under the laws of the Province of Newfoundland and Labrador

(herein called the “**Borrower**”)

**WHEREAS** the Borrower, the Lenders and the Agent entered into an amended and restated credit agreement made as of July 20, 2016 (as amended by a first amending agreement made as of August 27, 2017, a second amending agreement made as of August 27, 2018, a third amending agreement made as of August 27, 2019, a fourth amending agreement made as of August 27, 2021, a fifth amending agreement made as of August 29, 2022, a sixth amending agreement made as of August 28, 2023 and a seventh amending agreement made as of June 7, 2024, the “**Existing Credit Agreement**”) and pursuant to which the Lenders established a certain revolving credit facility in favour of the Borrower;

**AND WHEREAS** the parties hereto wish to amend certain provisions of the Existing Credit Agreement in accordance with the terms and subject to the conditions set forth herein.

**NOW THEREFORE THIS AGREEMENT WITNESSES** that, in consideration of the mutual covenants and agreements contained herein, the parties covenant and agree as follows:

**ARTICLE 1  
DEFINED TERMS**

**1.1 Capitalized Terms.** All capitalized terms which are used herein without being specifically defined herein shall have the meaning ascribed thereto in the Existing Credit Agreement as amended hereby (the Existing Credit Agreement, as so amended hereby, the “**Credit Agreement**”).

**ARTICLE 2  
AMENDMENTS**

**2.1 General Rule.** Subject to the terms and conditions herein contained, the Existing Credit Agreement is hereby amended to the extent necessary to give effect to the provisions of this Agreement and to incorporate the provisions of this Agreement into the Existing Credit Agreement.

**2.2 Definitions.** Section 1.1 of the Existing Credit Agreement is hereby amended by deleting the definition of “Maturity Date” in its entirety and replacing it with the following:

“**Maturity Date**” means August 27, 2029, as the same may be extended pursuant to Section 9.2.”.

**2.3 Establishment of Credit Facility.** Section 2.1 of the Existing Credit Agreement is hereby amended by deleting the reference therein to “\$100,000,000” and replacing it with “\$130,000,000”.

**2.4 Schedule A.** Schedule A to the Existing Credit Agreement is hereby deleted in its entirety and replaced with Schedule A attached hereto.

**ARTICLE 3  
REPRESENTATIONS AND WARRANTIES**

**3.1 Representations and Warranties.** To induce the Lenders and the Agent to enter into this Agreement, the Borrower hereby represents and warrants to the Lenders and the Agent that

the representations and warranties of the Borrower which are contained in Section 10.1 of the Credit Agreement are true and correct on the date hereof, as if made on the date hereof.

#### **ARTICLE 4**

#### **CONDITIONS PRECEDENT TO EFFECTIVENESS OF AGREEMENT**

**4.1 Conditions Precedent.** This Agreement shall become effective upon the following conditions being satisfied:

- (a) this Agreement shall be executed and delivered by the Borrower, the Agent and the Lenders;
- (b) the Agent and its counsel, acting reasonably, shall be satisfied that all necessary governmental, corporate and other third party consents, acknowledgements, directions and approvals (including, without limitation, all requisite approvals from the Newfoundland and Labrador Board of Commissioners of Public Utilities) have been obtained with respect to this Agreement and the Credit Agreement;
- (c) a certificate of a senior officer of the Borrower, in such capacity (i) certifying that no Default or Event of Default has occurred and is continuing or would result immediately after the effectiveness of this Agreement and (ii) attaching (A) a duly certified copy of the articles of incorporation and by-laws of the Borrower, (B) a certified copy of the resolution of the board of directors of the Borrower authorizing it to execute and deliver this Agreement and to perform its obligations under the Credit Agreement and (C) specimen signatures of the individuals authorized to sign this Agreement;
- (d) a certificate of status or good standing for the Borrower issued by the appropriate governmental body or agency of the jurisdiction in which the Borrower is incorporated;
- (e) an opinion of the legal counsel to the Borrower, addressed to the Agent and the Agent's counsel, with respect to all matters as the Agent may reasonably request; and
- (f) the Agent shall have confirmed that satisfactory arrangements have been made for the payment by the Borrower of (i) the upfront extension fee of 3.0 basis points on each Lender's Individual Commitment (as defined in the Existing Credit Agreement) and (ii) the new money fee of 15.0 basis points on the amount by which each Lender's Individual Commitment exceeds each such Lender's Individual Commitment (as defined in the Existing Credit Agreement) immediately prior to the effectiveness of this Agreement (all of the foregoing fees collectively referred to herein as the "**Upfront Fees**"), which such Upfront Fees shall be non-refundable, fully earned when due, and shall become due and payable upon this Agreement becoming effective.



**ARTICLE 5  
MISCELLANEOUS**

**5.1 Future References to the Credit Agreement.** On and after the date of this Agreement, each reference in the Existing Credit Agreement to “this Agreement”, “hereunder”, “hereof”, or words of like import referring to the Existing Credit Agreement, and each reference in any related document to the “Credit Agreement”, “thereunder”, “thereof”, or words of like import referring to the Existing Credit Agreement, shall mean and be a reference to the Credit Agreement. The Credit Agreement is and shall continue to be in full force and effect and is hereby in all respects ratified and confirmed.

**5.2 Governing Law.** This Agreement shall be governed by and construed in accordance with the Laws of the Province of Ontario and the federal Laws of Canada applicable therein.

**5.3 Enurement.** This Agreement shall enure to the benefit of and shall be binding upon the parties hereto and their respective successors and permitted assigns.

**5.4 Conflict.** If any provision of this Agreement is inconsistent or conflicts with any provision of the Existing Credit Agreement, the relevant provision of this Agreement shall prevail and be paramount.

**5.5 Counterparts; Electronic Execution.** This Agreement and each other Borrower Document may be executed in one or more counterparts (and by different parties hereto in different counterparts), each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Delivery by fax or other electronic transmission of an executed counterpart of a signature page to this Agreement and each other Borrower Document shall be effective as delivery of an original executed counterpart of this Agreement and such other Borrower Document. The words “execution,” “execute,” “signed,” “signature,” and words of like import in or related to any document to be signed in connection with this Agreement or any other Borrower Document shall be deemed to include electronic signatures, or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature or the use of a paper based recordkeeping system, as the case may be, to the extent and as provided for in any applicable law, including, without limitation, as provided in Parts 2 and 3 of the Personal Information Protection and Electronic Documents Act (Canada), the Electronic Commerce Act, 2000 (Ontario), the Electronic Transaction Acts (British Columbia), the Electronic Transactions Act (Alberta), or any other similar laws based on the Uniform Electronic Commerce Act of the Uniform Law Conference of Canada. The Agent may, in its discretion, require that any such documents and signatures executed electronically or delivered by fax or other electronic transmission be confirmed by a manually-signed original thereof; provided that the failure to request or deliver the same shall not limit the effectiveness of any document or signature executed electronically or delivered by fax or other electronic transmission.

**[Remainder of page intentionally blank]**

**IN WITNESS WHEREOF** the parties hereto have executed this Agreement.

**NEWFOUNDLAND POWER INC., as  
Borrower**

By: \_\_\_\_\_

Name:

Title:

By: \_\_\_\_\_

Name:

Title:

**ROYAL BANK OF CANADA, as Agent**

By: \_\_\_\_\_

Name:

Title:

**ROYAL BANK OF CANADA, as Lender**

By: \_\_\_\_\_

Name:

Title:

**CANADIAN IMPERIAL BANK OF  
COMMERCE, as Lender**

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

**BANK OF MONTREAL, as Lender**

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

**THE BANK OF NOVA SCOTIA, as Lender**

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

**SCHEDULE A  
INDIVIDUAL COMMITMENTS**

<b>Name and Address of Lender</b>	<b>Individual Commitment</b>
Royal Bank of Canada 200 Bay Street Royal Bank Plaza 5 <sup>th</sup> Floor, South Tower Toronto, Ontario M5J 2W7	\$41,600,000
Attention: Director, Corporate Credit Telefax: (416) 842-5320	\$31,200,000
Canadian Imperial Bank of Commerce 199 Bay Street Commerce Court West, 3 <sup>rd</sup> Floor Toronto, Ontario M5L 1A2	\$31,200,000
Attention: Director, Energy and Utilities Group Telefax: (416) 980-5011	\$31,200,000
Bank of Montreal 1 First Canadian Place, 4 <sup>th</sup> Floor Toronto, Ontario M5X 1H3	\$26,000,000
Attention: Vice President, Power, Utilities & Infrastructure Telefax: (416) 894-2285	\$26,000,000
The Bank of Nova Scotia 4 <sup>th</sup> Floor 1709 Hollis Street Halifax, Nova Scotia B3J 1W1	\$26,000,000
Attention: Director, Corporate Banking – Power and Utilities Telefax: (902) 422-0664	\$26,000,000