
Q. Reference: NLH-NP-007

Newfoundland Power states “*The driver of the forecast excess earnings in 2023 is a higher forecast return on debt compared to the Company’s 2023 test year return on debt.*”

- a) By how much is the 2023 forecast return on debt higher than the 2023 test year return on debt? If it had been another \$1 million higher then by how much would that have increased excess earnings?
- b) Is 2023 forecast revenue, including “other revenue,” higher compared to 2023 test year revenue and, if so, by how much? If it had been another \$1 million higher then by how much would that have increased excess earnings?
- c) Please provide an update of Newfoundland Power’s excess earnings and rate of return on rate base in 2023.
- d) By how much in dollars did 2023 earnings exceed earnings necessary to meet the midpoint of the range of rate of return on rate base approved by the Board?
- e) By how much in dollars did 2023 earnings exceed earnings necessary to meet the low end of the range of rate of return on rate base approved by the Board?

- A. a) The 2023 forecast return on debt is \$4.2 million higher than the 2023 test year. If the return on debt increase was \$1 million higher, it would have increased excess earnings by \$0.3 million.¹

Increases in debt costs since existing customer rates were established as part of the Company’s 2022/2023 *General Rate Application* reflect significant increases in the Bank of Canada’s benchmark interest rate over that timeframe. From March 2022 to July 2023, the Bank of Canada increased its interest rate 10 times for a total increase of 4.75%.

- b) 2023 total forecast revenue is \$61.8 million higher than the 2023 test year. The corresponding increase in 2023 forecast purchased power expense related to the higher revenue is \$57.0 million. If the revenue increase was \$1 million higher, it would have increased excess earnings by \$0.7 million.²
- c) In 2023, the Company had a rate of return on rate base of 6.57% and excess earnings of \$3.7 million on an after-tax basis.
- d) In Order No. P.U. 3 (2022), the Board approved a rate of return on rate base for 2023 of 6.39% in a range of 6.21% to 6.57%. Regulated earnings of \$82.6 million would have resulted in a rate of return on rate base of 6.39% in 2023. Newfoundland Power’s 2023 regulated earnings were \$88.6 million, or \$6.0 million higher than this figure.

¹ On an after-tax basis.

² On an after-tax basis.

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- 1 e) Regulated earnings of \$80.2 million would have resulted in a rate of return on rate
2 base of 6.21% in 2023. The Company's 2023 regulated earnings were \$88.6 million,
3 or \$8.4 million higher than this figure.