Q. Response to NLH-NP-007 stated:

"Approval of the Company's *2024 Rate of Return on Rate Base Application* will revise Newfoundland Power's 2024 rate of return on rate base to account for the higher debt costs experienced since the Company's last general rate application."

a) Please confirm that the proposed $11.8 million increase in revenue requirement reflects an increase of $8.05 million in operating expenses relative to the 2023 Test Year (i.e., $78.775 million less $70.725 million, as provided in response to NLH-NP-001, Attachment A).

b) Please explain why Newfoundland Power believes it is appropriate to include increased operating costs in determining the revenue requirement in the 2024 rate of return on rate base application which is targeted at recovery of higher debt costs.

c) Please explain why Newfoundland Power's application does not strictly deal with the recovery of the higher finance costs since the approval of the 2023 Test Year.

d) What increases in revenue requirement and customer rates would be required for 2024 to enable the full recovery of only the higher finance costs since the approval of the 2023 Test Year?

e) Did increased sales relative to the test year forecast in 2023 enable Newfoundland Power to offset the $4.2 million increase in debt costs for 2023 and earn a reasonable rate of return? Please explain.

f) What additional increase in sales in 2024 (relative to the 2024 forecast) would provide adequate contribution to fully offset the forecast $4.4 million increase in finance costs (i.e., 2024F to 2023)?

A. a) Newfoundland Power is not proposing to increase its 2024 revenue requirement for increased operating costs relative to the 2023 test year.

The Company's *2024 Rate of Return on Rate Base Application* proposes an $11.8 million increase in revenue requirement from the level in existing customer rates to reflect its 2024 forecast average rate base and rate of return on rate base as required by the Board in Order No. P.U. 3 (2022).[1]

Newfoundland Power finances its rate base with both debt and equity investments. Section 80 of the *Public Utilities Act* provides that a public utility is entitled to earn a just and reasonable return on its rate base each year. The Company's return on rate base is the sum of its return on debt and its return on equity. As such, the Board's direction in Order No. P.U. 3 (2022) appropriately considers changes to Newfoundland Power's return on debt and return on common equity, while maintaining the Board's approved rate of return on equity and equity ratio. The Application is filed in compliance with the Board's order and therefore considers

[1] See Appendix C to the *2024 Rate of Return on Rate Base* report which shows that the only proposed changes to the Company's 2023 test year revenue requirement relate to its increased 2024 return on debt and return on equity (and related income tax effects). For supporting calculations for the change in the return on equity of $2.296 million outlined in Appendix C, see the responses to Requests for Information PUB-NP-009 and PUB-NP-010.

changes in both Newfoundland Power's forecast 2024 return on equity and return on debt from the 2023 test year amounts.

b) See part a).

The Company's response to part b) of Request for Information NLH-NP-007 focused on changes in debt costs in 2023 and 2024. The commentary in that response was not meant to suggest that the Application *only* considers changes in the Company's debt costs since its last general rate application.

c) See part a).

d) The increase in the 2024 forecast return on debt component of Newfoundland Power's return on rate base from the 2023 test year is $8.6 million.[2] The estimated customer rate impact associated with this amount is 1.0%.[3]

e) Newfoundland Power's 2023 forecast contribution margin from sales is $9.0 million higher than its 2023 test year amount.[4] Before transfer to the excess earnings account, the positive contribution margin impact on 2023 forecast earnings more than offset the increase in debt costs of $4.2 million, as well as higher operating costs of $2.8 million.

2023 forecast results are unique in that the increased debt costs in 2023 compared to the 2023 test year created a scenario where excess earnings effectively began at a 2023 forecast rate of return on equity of 8.44%.[5]

Overall, the Company is forecasting to earn a reasonable return on its rate base in 2023.

f) Energy sales in 2024 would need to be an estimated 180 GWh, or 3%, higher than the 2024 forecast to provide for a contribution margin of approximately $4.4 million.[6]

Newfoundland Power observes that the sales forecast used in the Company's 2023 test year was developed in the spring of 2021. At that time, there was uncertainty associated with forecasting energy sales owing to the Muskrat Falls Project and related government rate mitigation plans and the COVID-19 pandemic, which were expected to continue into the 2023 test year.[7] Further, positive impacts since 2021 related to population growth led by record immigration, higher housing starts than those forecast by independent parties, and government electrification initiatives such

[2] See line 10 in Appendix C to the *2024 Rate of Return on Rate Base* report filed with the Application.

[3] $8.6 million divided by existing customer billings of $826.2 million. The remainder of the 1.5% increase proposed in the Application relates to the return on equity and related income tax effects.

[4] See the response to Request for Information PUB-NP-012.

[5] See the response to the Request for Information PUB-NP-001.

[6] Based on the analysis provided in part a) to the response to Request for Information PUB-NP-013.

[7] See paragraph 9 of the November 22, 2021 Settlement Agreement filed in relation to Newfoundland Power's *2022/2023 General Rate Application*.

as the oil-to-electric conversion program could not have been reasonably foreseen at that time.

These factors are now incorporated into Newfoundland Power's 2024 sales forecast, which was completed in the fall of 2023. In addition, population growth is expected to slow in 2024 and increases in electricity prices in 2023 and 2024 are expected to negatively impact sales in 2024.[8] As such, in the Company's view, it would not be reasonable to expect the same positive contribution margin impact in 2024 as experienced in 2023.

While this Request for Information only references the contribution margin impact for an increase in sales, changes in peak demand can also impact Newfoundland Power's 2024 financial forecast.[9] For example, the system peak that occurred on January 24, 2024 resulted in $1.1 million in purchased power costs beyond what was included in the 2024 financial forecast provided in Appendix D to the 2024 Rate of Return on Rate Base report.

[8] Given the lag effect that price changes have on consumption, the elasticity impact is larger in the second year of a rate change. Customer rates increased by 6.9% on July 1, 2023 and are forecast to increase by approximately 9.0% on July 1, 2024. See the response to Request for Information NLH-NP-008. In comparison, customer rates were effectively flat from January 1, 2020 to June 30, 2023.

[9] Newfoundland Power has a Demand Management Incentive ("DMI") Account which is charged with the amount the demand supply cost variance exceeds the DMI, calculated at ±1% of test year wholesale demand charges. In dollars, the DMI is ±$0.8 million. Based on its forecast, the Company anticipated a positive DMI of approximately $0.3 million in 2024. However, as a result of the higher actual peak demand than forecasted, Newfoundland Power is now anticipating demand costs to exceed the 1% threshold in 2024, resulting in a negative DMI of $0.8 million. The overall change is a negative impact of $1.1 million on 2024 purchased power costs.