

1 **Q. According to Newfoundland Power’s Amended 2022-2023 General Rate Application,**
 2 **Exhibit 5 (1st Revision), page 6 of 9, the Weighted Average Cost of Capital (“WACC”)**
 3 **of 6.39% was equal to the Rate of Return on Rate Base calculated for the 2023 Test**
 4 **Year. However, according to Appendix B of the 2024 Rate of Return on Rate Base**
 5 **Application the proposed WACC is 6.67% and the proposed Rate of Return on Rate**
 6 **Base is 6.85%, a spread of 18 basis points.**

7 **a) Please provide a reconciliation of the difference between the WACC of 6.67%**
 8 **and the rate of return on rate base of 6.85% including an explanation of the**
 9 **reason for the difference between the WACC and the Rate of Return on Rate**
 10 **Base.**

11 **b) According to the calculation of the 2023 Test Year Rate Base, the Cash Working**
 12 **Capital Allowance was \$6.712 million and the Materials and Supplies Allowance**
 13 **was \$8.905 million. According to Appendix A of this Application the 2024**
 14 **Forecast Cash Working Capital Allowance and the Materials and Supplies**
 15 **Allowance are \$7.705 million and \$13.905 million, respectively. Please provide a**
 16 **reconciliation and an explanation for the differences in the rate base allowances**
 17 **between the 2023 Test Year and the 2024 Forecast (After Recovery).**

18 **c) Does the impact of the difference noted in (b) contribute to the proposed 1.5%**
 19 **increase in rates? If so, please provide the impact on the proposed rate increase.**
 20 **If not, please explain why.**

21
 22 **A. a) Under the Asset Rate Base Method (“ARBM”), differences in invested capital and**
 23 **rate base exist related to construction work in progress, materials and supplies, and**
 24 **cash working capital amounts. These reconciling items can cause differences**
 25 **between Newfoundland Power’s WACC and its rate of return on rate base.¹**

26
 27 Table 1 provides a reconciliation of the Company’s average invested capital and its
 28 average rate base shown in Appendix B of the Application.

Table 1:
Reconciliation of 2024 Average Rate Base
and Average Invested Capital
(\$millions)

| | |
|--------------------------------------|----------------|
| 2024 average rate base | 1,360.1 |
| Construction work in progress | 8.0 |
| Materials and supplies | 3.7 |
| Cash working capital | 21.0 |
| 2024 average invested capital | 1,392.8 |

¹ The Company’s WACC is a function of its invested capital (total return of \$93.1 million / 2024 average invested capital (after recovery) of \$1,392.8 million = 6.67%), while Newfoundland Power’s rate of return on rate base is a function of its calculation of rate base (total return of \$93.1 million / 2024 average rate base of \$1,360.1 million = 6.85%).

1 Newfoundland Power excludes construction work in progress from its rate base as
2 the associated assets are not yet used and useful in the provision of service.
3 However, construction work in progress still has to be financed and therefore, is
4 reflected in the Company's invested capital. For 2024, the difference in invested
5 capital versus rate base for construction work in progress is approximately
6 \$8.0 million.

7
8 Newfoundland Power maintains an inventory of materials and supplies associated
9 with providing service to customers. The Company's rate base includes an allowance
10 to recognize this requirement. For 2024, the difference in invested capital versus the
11 rate base allowance for materials and supplies is approximately \$3.7 million, which
12 primarily relates to inventory associated with the expansion of the electrical system.²

13
14 Newfoundland Power must finance the cost of its operations until it collects the
15 revenues to recover those costs. The Company's rate base includes a cash working
16 capital allowance to recognize this requirement. For 2024, the difference in invested
17 capital versus the rate base allowance for cash working capital is approximately
18 \$21.0 million. The higher forecast cash working capital for 2024 compared to the
19 rate base allowance is driven by higher purchased power requirements as compared
20 to the 2023 test year forecast.³ While these purchased power costs are ultimately
21 recovered from customers through the Company's Rate Stabilization Account,
22 Newfoundland Power must finance the costs in the year the variance occurs.⁴ The
23 Company is forecasting to finance \$36.4 million in purchased power costs
24 throughout 2024, which represents an average of \$18.2 million in financing
25 requirements in 2024.

- 26
27 b) See Attachment A for a reconciliation of both the cash working capital allowance
28 and materials and supplies allowance from the 2023 test year to the 2024 forecast.

29
30 The higher cash working capital allowance forecast for 2024 as compared to the
31 2023 test year of \$1.0 million is primarily due to higher purchased power costs in
32 2024. The higher materials and supplies allowance forecast for 2024 as compared to
33 the 2023 test year of \$5.0 million is driven by the operational need to have more
34 materials on hand due to supply chain issues experienced in recent years and higher
35 inventory prices.⁵

- 36
37 c) Yes, the differences noted in part b) contribute to the proposed 1.5% increase in
38 customer rates. The total estimated impact is less than 0.1%.⁶

² See Attachment A to this response which shows the expansion amount of \$3.3 million for 2024 forecast.

³ The cash working capital allowance only considers the typical lag in the monthly purchased power invoice of approximately 30 days. It does not take into consideration the lag associated with the recovery of purchased power cost variances from the latest test year.

⁴ These additional 2024 purchased power requirements will be captured through Newfoundland Power's Energy Supply Cost Variance Deferral Account. The balance in the Energy Supply Cost Variance Deferral Account will be transferred to the Company's Rate Stabilization Account at year end on December 31, 2024.

⁵ For example, longer lead time for materials and supplies have occurred in recent years.

⁶ The total difference in the cash working capital allowance and materials and supplies allowance is \$6.0 million (\$1.0 million + \$5.0 million). \$6.0 million x 6.85% return on rate base = \$0.4 million. Estimated income tax effects total \$0.1 million. Total impact of \$0.5 million / existing customer billings of \$826.2 million = 0.06%.