

1 **Q. Response to CA-NLH-005 Attachment A indicates that for 2023F under existing rates**
2 **Newfoundland Power earned 6.85% return on rate base (assuming the inclusion of**
3 **excess earnings of \$5.1 million before income taxes) and 8.44% return on equity.**
4 **Newfoundland Power is proposing an increase in revenue requirement of \$11.8**
5 **million in revenue requirement to provide an opportunity for it to earn a return on**
6 **rate base of 6.85% in 2024 (with no excess earnings forecast).**

7 **a) Given Newfoundland Power is proposing an \$11.8 million increase in revenue**
8 **requirement and existing rates provided excess earning of \$5.1 million to the**
9 **benefit of customers in 2023, does Newfoundland Power’s rate proposal**
10 **effectively result in a \$16.9 million cost increase to customers relative to 2023?**
11 **Please explain your response and specifically explain why such an increase is**
12 **appropriate given the 2024 forecast cost of debt is \$4.4 million higher than the**
13 **2023 forecast cost of debt.**

14 **b) Please provide proforma 2024 finance schedules (in the formats provided in**
15 **Appendix A to Appendix E) using the following scenario: Substitute the 2024**
16 **Forecast Return on Equity (\$) with the 2023 Actual Return on Equity (\$) (i.e.,**
17 **with excess earnings removed) and reflect any impact on income taxes.**

18 **c) Please provide proforma 2024 finance schedules (in the formats provided in**
19 **Appendix A to Appendix E) using the following scenario: Substitute the 2024**
20 **Forecast Return on Equity (\$) with the 2023 Actual Return on Equity (\$) (i.e.,**
21 **with excess earnings removed); substitute the 2024 Forecast Average Rate Base**
22 **with the 2023 Actual Rate Base; and reflect any impact on income taxes.**

23 **d) Please provide proforma 2024 finance schedules (in the formats provided in**
24 **Appendix A to Appendix E) using the following scenario: Substitute the 2024**
25 **Forecast Return on Equity (\$) with the 2023 Actual Return on Equity (\$) (i.e.,**
26 **with excess earnings removed); substitute the 2024 Forecast Average Rate Base**
27 **with the 2023 Test Year Rate Base; and reflect any impact on income taxes.**

28
29 **A. a) No, the proposed customer rate increase of 1.5% in the Application does not result in**
30 **a \$16.9 million cost increase to customers relative to 2023.**

31
32 Each year, Newfoundland Power’s return on rate base is the result of a variety of
33 differences between its actual results and its latest test year forecast.¹ In any given
34 year, there are various positive and negative factors that impact the return on rate
35 base. The reasonableness of the Company’s return on rate base is based on the
36 overall results of that year.

37
38 In 2023, variances from the 2023 test year forecast primarily reflect the impact of
39 higher electricity sales and higher other revenue, partially offset by higher finance
40 charges, higher demand charges from Hydro, and higher operating expenses.²
41 Overall, these factors provide for 2023 forecast excess earnings of \$5.1 million
42 before tax. 2023 forecast results are unique in that the increased debt costs in 2023

¹ Existing customer rates are based on Newfoundland Power’s 2023 test year revenue requirement approved by the Board in Order No. P.U. 3 (2022).

² See the response to Request for Information PUB-NP-005.

1 compared to the 2023 test year created a situation where excess earnings effectively
2 began at a 2023 forecast rate of return on equity of 8.44%.³
3

4 In 2024, Newfoundland Power has forecast cost pressures that more than offset the
5 positive impact of sales experienced since customer rates were last set. Beyond the
6 additional return on rate base of \$11.8 million, additional depreciation expense
7 creates an added cost in 2024 compared to the 2023 test year of \$5.1 million.
8 Further, inflationary pressures and operational requirements have contributed to an
9 increase in operating costs of \$8.1 million from the 2023 test year.⁴ Overall,
10 Newfoundland Power's 2024 existing forecast (before cost recovery) provides for a
11 revenue shortfall of \$12.6 million.⁵
12

13 While there are a number of positive and negative factors forecast for 2024 as
14 compared to the 2023 test year, the Application only considers the change in the
15 return on rate base component of Newfoundland Power's revenue requirement.⁶
16

17 The proposed \$11.8 million increase in revenue requirement as compared to the
18 2023 test year used to set existing customer rates is appropriate, and reflects more
19 than the \$4.4 million increase in the forecast cost of debt for 2024 as compared to
20 2023, for a number of reasons:
21

- 22 (i) The \$11.8 million increase is a result of the revisions required by Order No.
23 P.U. 3 (2022) to reflect Newfoundland Power's 2024 forecast average rate
24 base and rate of return on rate base maintaining the common equity ratio and
25 return on common equity ("ROE") accepted for rate setting in that order.
26
- 27 (ii) Cost recovery in 2024 is required for the Company to have an opportunity to
28 earn a just and reasonable return on rate base in accordance with section 80
29 of the *Public Utilities Act* (the "Act").
30

31 Newfoundland Power's existing 2024 forecast (before cost recovery)
32 provides for a rate of return on rate base of 6.21%, which is 64 basis points
33 below the 6.85% regulated rate of return on rate base. That result would be
34 46 basis points beyond the bottom of the ±18 basis point range established by
35 the Board. Further, the existing 2024 forecast provides for a ROE of 7.08%,
36 which is 142 basis points lower than the ratemaking 8.50% ROE approved by
37 the Board for 2024. That result would be over 100 basis points lower than the
38 implied ±40 basis point range on ROE.

³ See the response to Request for Information PUB-NP-001.

⁴ See, for example, the response to Request for Information NLH-NP-002.

⁵ The 2024 revenue shortfall (net of income taxes) is \$8.8 million as outlined on page 1, Appendix D of the *2024 Rate of Return on Rate Base* report filed with the Application. \$8.8 million / 0.7 = \$12.6 million.

⁶ See the response to Request for Information PUB-NP-014.

1 (iii) The \$11.8 million in cost recovery proposed in the Application provides
2 Newfoundland Power the opportunity to earn a just and reasonable return on
3 its rate base in 2024 in accordance with section 80 of the Act.

4
5 With cost recovery of the \$11.8 million revenue requirement, Newfoundland
6 Power's 2024 rate of return on rate base is forecast to be 6.82%, which is 3
7 basis points lower than the 2024 regulated rate of return on rate base of
8 6.85%.⁷ This result is within the ± 18 basis point range currently approved by
9 the Board. Further, after cost recovery, the Company's 2024 forecast
10 provides for a ROE of 8.44%, which is 6 basis points lower than the ROE of
11 8.50% approved by the Board for ratemaking purposes.

12
13 (iv) Newfoundland Power's return on rate base includes both its return on debt
14 and return on equity. 2024 cost recovery associated with its return on equity
15 must be considered equally with its return on debt. Cost recovery based on
16 only the Company's forecast change in cost of debt from 2023 to 2024 would
17 not be consistent with Order No. P.U. 3 (2022),⁸ section 80 of the Act, or past
18 Board practice.⁹

19
20 (v) Any approach that would provide for cost recovery of approximately \$4.4
21 million would not provide Newfoundland Power an opportunity to earn a just
22 and reasonable return on its rate base in 2024 in accordance with Section 80
23 of the Act. See, for example, part c) to the response to Request for
24 Information PUB-NP-018.

25
26 b) See Attachment A for the requested information.

27
28 Parts b), c) and d) of this Request for Information request scenarios that assume
29 Newfoundland Power's 2024 forecast return on equity equals its 2023 return on
30 equity. This assumption requires a *pro forma* return on equity adjustment of
31 \$13.1 million (before income tax).¹⁰ The Company submits that there is no
32 reasonable scenario in which Newfoundland Power could achieve the additional
33 \$13.1 million in return on equity in 2024 while maintaining the delivery of safe,
34 reliable electricity to its customers without an increase in current customer rates.

35
36 c) See Attachment B for the requested information.

37
38 d) See Attachment C for the requested information.

⁷ The impact of the \$11.8 million additional revenue requirement is 61 basis points.

⁸ Order No. P.U. 3 (2022) specifically provides the 2024 rate of return on rate base be determined by maintaining the common equity ratio and ROE accepted for rate setting in that order.

⁹ See the Application, *2024 Rate of Return on Rate Base*, section 2.0 *Regulatory Practice*.

¹⁰ See Appendix D, page 1, line 15 in Attachments A, B and C.

Part b) Requested Scenario

Newfoundland Power Inc.

2024 Forecast Average Rate Base
(\$000s)

	<u>2024F</u>	<u>2023F</u>
1 Net Plant Investment		
2 Plant Investment	2,420,434	2,318,214
3 Accumulated Depreciation	(1,015,030)	(961,973)
4 Contributions in Aid of Construction	<u>(46,269)</u>	<u>(46,242)</u>
5	1,359,135	1,309,999
6		
7 Additions to Rate Base		
8 Deferred Pension Costs	108,004	101,433
9 Deferred Credit Facility Costs	74	105
10 Cost Recovery Deferral - Pension Capitalization	1,195	799
11 Cost Recovery Deferral - 2022 Revenue Shortfall	-	229
12 Cost Recovery Deferral - 2024 Revenue Shortfall ¹	4,712	-
13 Cost Recovery Deferral - Conservation	21,859	21,086
14 Cost Recovery Deferral - Load Research & Retail Rate Design Review	699	328
15 Customer Finance Programs	1,428	1,414
16 Weather Normalization Reserve	-	2,395
17 Demand Management Incentive Account	<u>-</u>	<u>700</u>
18	137,971	128,489
19		
20 Deductions from Rate Base		
21 Other Post-Employment Benefits	87,275	83,759
22 Customer Security Deposits	1,270	1,270
23 Accrued Pension Obligation	5,616	5,453
24 Accumulated Deferred Income Taxes	34,339	32,014
25 Excess Earnings Account	3,566	3,566
26 Refundable Investment Tax Credits	<u>274</u>	<u>292</u>
27	132,340	126,354
28		
29 Year End Rate Base	1,364,766	1,312,134
30		
31 Average Rate Base Before Allowances	1,338,451	1,267,611
32		
33 Rate Base Allowances		
34 Materials and Supplies Allowance	13,905	14,676
35 Cash Working Capital Allowance	7,705	7,419
36		
37 Average Rate Base at Year End	<u>1,360,061</u>	<u>1,289,706</u>

¹ 2024 Revenue Shortfall from Appendix D, page 1, net of income taxes (\$6,732 x 0.7 = \$4,712).

Newfoundland Power Inc.

2024 Regulated Return on Rate Base

1	Average Capitalization (\$000s) - 2024 Existing	
2	Debt	790,532
3	Common Equity	602,221
4		1,392,753
5		
6	Average Capital Structure	
7	Debt	56.76%
8	Common Equity	43.24%
9		100.00%
10		
11	Cost of Capital	
12	Debt	5.27% ¹
13	Common Equity	8.50% ²
14		
15	Weighted Average Cost of Capital	
16	Debt	2.99%
17	Common Equity	3.68%
18		6.67% ³
19		
20	Return on Rate Base (\$000s)	
21	Return on Debt	41,628 ⁴
22	Return on Common Equity	51,510 ⁵
23		93,138
24		
25	Average Rate Base (\$000s)	1,360,061 ⁶
26		
27	Rate of Return on Rate Base	6.85%

¹ Cost of Debt shown is net of AFUDC.

² Order No. P.U. 3 (2022) requires the rate of return on rate base to be calculated maintaining the ratemaking common equity of 8.50%.

³ Under the Asset Rate Base Method, differences between average invested capital and average rate base exist for the cash working capital allowance, the materials and supplies allowance and construction work in progress. In the requested approach, these differences result in the weighted average cost of capital of 6.67% differing by 0.18% from the rate of return on rate base of 6.85%.

⁴ From Appendix D, page 3.

⁵ The return on common equity is calculated as follows (\$000s):

Return on Common Equity from Appendix D, page 1	51,801
Add: Revenue Shortfall Net of Income Taxes (at 8.50% ROE) from Appendix D, page 1 (footnote 4)	(291)
Return on Common Equity (at 8.50% ROE)	51,510

⁶ From Appendix A.

Newfoundland Power Inc.

Revised 2023 Test Year Revenue Requirement
(Adjusted for the revised return on rate base for 2024)
 (\$000s)

	2023	2024	2024
	Test Year¹	Return on	Revised²
		Rate Base	
1 Costs			
2 Power Supply Cost	459,924	-	459,924
3 Operating Costs	70,725	-	70,725
4 Employee Future Benefit Costs	2,771	-	2,771
5 Deferred Cost Recoveries and Amortizations	(816)	-	(816)
6 Depreciation	74,458	-	74,458
7 Income Taxes	20,944	989 ³	21,933
8	<u>628,006</u>	<u>989</u>	<u>628,995</u>
9			
10 Return on Debt	33,073	8,555	41,628 ⁴
11 Return on Equity	49,202	2,308	51,510 ⁴
12 Return on Rate Base	<u>82,275</u>	<u>10,863</u>	<u>93,138</u>
13			
14 2023 Revenue Requirement	710,281	11,852	722,133
15			
16 Adjustments			
17 Other Revenue	(6,473)	-	(6,473)
18 Interest on Security Deposits	18	-	18
19 Other Transfers to RSA	(4,581)	-	(4,581)
20	<u>(11,036)</u>	<u>-</u>	<u>(11,036)</u>
21			
22	<u>699,245</u>	<u>11,852</u>	<u>711,097</u>

¹ From Exhibit 7 (1st Revision) filed with the Board on December 7, 2021 regarding the Company's 2022/2023 General Rate Application (Amended).

² The 2024 revenue requirement is the 2023 test year revenue requirement revised for the increased return on rate base for 2024.

³ 2024 income tax effects associated with the change in 2024 forecast return on equity (\$2,308/0.7 x 30% = \$989).

⁴ From Appendix B, lines 21 and 22.

Newfoundland Power Inc.

2024 Forecast
Statement of Income
2024 Pro Forma Before and After Cost Recovery
(\$000s)

	<u>2024F Before Recovery</u>	<u>Impact of 2024 Recovery</u>	<u>2024F After Recovery</u>
1 Revenue	777,237	5,120 ¹	782,357
2 Purchased power expense	522,821	-	522,821
3 Contribution	<u>254,416</u>	<u>5,120</u>	<u>259,536</u>
4			
5 Other revenue	<u>9,789</u>	<u>237</u> ²	<u>10,026</u>
6			
7 Other expenses:			
8 Operating expenses	78,775	-	78,775
9 Employee future benefit costs	3,010	-	3,010
10 Deferred cost recoveries and amortizations	(240)	(6,732) ¹	(6,972)
11 Depreciation	79,557	-	79,557
12 Finance charges	<u>41,701</u>	<u>(94)</u> ³	<u>41,607</u>
13	<u>202,803</u>	<u>(6,826)</u>	<u>195,977</u>
14			
15 Pro forma earnings adjustment	13,069 ⁴	-	13,069 ⁴
16			
17 Income before income taxes	74,471 ⁴	12,183	86,654 ⁴
18 Income taxes	<u>22,670</u> ⁴	<u>3,655</u>	<u>26,325</u> ⁴
19			
20 Earnings applicable to common shares	<u>51,801</u> ⁴	<u>8,528</u>	<u>60,329</u> ⁴
21			
22			
23 Regulated Return on Equity	8.54% ⁴		9.87%
24			
25 Revenue Shortfall (Net of Income Taxes at 8.50% Return on Equity)	-		-

¹ Reconciliation to 2024 Return on Rate Base Recovery shown in Appendix C, line 22:

Rate recovery from July 1, 2024 to December 31, 2024	5,120
2024 Revenue Shortfall	6,732
	<u>11,852</u>

² Due to higher interest on the Company's Rate Stabilization Account effective July 1, 2024 based on the change in rate of return on rate base from the 2023 test year rate of return on rate base of 6.39% to the 2024 regulated rate of return on rate base of 6.85% as shown in Appendix B, line 27.

³ Due to lower financing requirements resulting from the proposed rate recovery in 2024.

⁴ Requested adjustment to substitute the 2024 forecast return on equity with the 2023 actual return on equity.

2023 actual return on equity (with excess earnings removed)	51,801
2024 forecast return on equity	<u>42,653</u>
Difference (after-tax)	9,148
Income taxes	3,921
Difference (before tax)	13,069
Difference (ROE %): Pro forma ROE of 8.54% less 2024 forecast ROE of 7.08%	1.46%
Estimated revenue shortfall (surplus) for Appendix B to adjust to 8.50% ratemaking ROE	(291)

Newfoundland Power Inc.
2024 Forecast
Average Rate Base¹
2024 Before and After Cost Recovery
(\$000s)

	<u>2024F Before Recovery</u>	<u>Impact of 2024 Recovery</u>	<u>2024F After Recovery</u>
1 Plant Investment	1,334,567	-	1,334,567
2			
3 Additions to Rate Base			
4 Deferred Pension Costs	104,719	-	104,719
5 Deferred Credit Facility Costs	90	-	90
6 Cost Recovery Deferral - Pension Capitalization	997	-	997
7 Cost Recovery Deferral - 2022 Revenue Shortfall	115	-	115
8 Cost Recovery Deferral - 2024 Revenue Shortfall	-	2,356 ²	2,356
9 Cost Recovery Deferral - Conservation	21,473	-	21,473
10 Cost Recovery Deferral - Load Research & Rate Design	513	-	513
11 Customer Finance Programs	1,421	-	1,421
12 Weather Normalization Reserve	1,198	-	1,198
13 Demand Management Incentive Account	350	-	350
14	<u>130,876</u>	<u>2,356</u>	<u>133,232</u>
15			
16 Deductions from Rate Base			
17 Other Post-Employment Benefits	85,517	-	85,517
18 Customer Security Deposits	1,270	-	1,270
19 Accrued Pension Obligation	5,535	-	5,535
20 Accumulated Deferred Income Taxes	33,177	-	33,177
21 Excess Earnings Account	3,566	-	3,566
22 Refundable Investment Tax Credits	283	-	283
23	<u>129,348</u>	<u>-</u>	<u>129,348</u>
24			
25 Average Rate Base Before Allowances	1,336,095	2,356	1,338,451
26			
27 Cash Working Capital Allowance	7,684	21 ³	7,705
28			
29 Materials and Supplies Allowance	13,905	-	13,905
30			
31 Average Rate Base at Year End	<u>1,357,684</u>	<u>2,377</u>	<u>1,360,061</u>

¹ All amounts shown are averages.

² 2024 Revenue Shortfall from Appendix D, page 1 on an after-tax average basis ($\$6,732 \times 0.7 = \$4,712 / 2 = 2,356$).

³ Minor changes to the calculation resulting from the proposed rate change.

Newfoundland Power Inc.

**2024 Forecast
Return on Rate Base
2024 Before and After Cost Recovery
(\$000s)**

		2024F Before Recovery	Impact of 2024 Recovery	2024F After Recovery
1	Pro Forma Regulated Return on Equity ¹	51,801	8,528	60,329
2		<u>51,801</u>	<u>8,528</u>	<u>60,329</u>
3				
4	Finance Charges ²			
5	Interest on Long-Term Debt	39,053	-	39,053
6	Other Interest	3,635	(94)	3,541
7	Amortization of Bond Issue Expenses	225	-	225
8	AFUDC	(1,285)	-	(1,285)
9		<u>41,628</u>	<u>(94)</u>	<u>41,534</u>
10				
11	Return on Rate Base	<u>93,429</u>	<u>8,434</u>	<u>101,863</u>
12				
13	Average Rate Base	<u>1,357,684</u>	<u>2,377</u>	<u>1,360,061</u>
14				
15	Rate of Return on Rate Base (%)	6.88	0.61	7.49

¹ From Appendix D, page 1, line 20.

² Total finance charges for 2024 forecast presented in Appendix D, page 1 are as follows (\$000s):

Return on debt from above	41,628
Add: Interest on security deposits	<u>73</u>
Finance charges presented in Appendix D, page 1	41,701

Newfoundland Power Inc.

Average Customer Billing Impacts
Average Customer Impacts by Rate Class Under Existing and Proposed Rates
(includes July 1, 2023 RSA and MTA)
(\$000s)

Category	Revenue From Existing Rates (A) ¹	Revenue From Proposed Rates (B) ²	Change in Annual Customer Billings (C) ³	Average Impacts (D) ^{4,5}
1				
2				
3	522,206	529,905	7,699	1.5%
4	1,714	1,740	26	1.5%
5	<u>523,920</u>	<u>531,645</u>	<u>7,725</u>	<u>1.5%</u>
6				
7	109,270	110,876	1,606	1.5%
8	127,233	129,082	1,849	1.5%
9	45,779	46,436	657	1.4%
10	<u>282,282</u>	<u>286,394</u>	<u>4,112</u>	<u>1.5%</u>
11				
12	17,039	17,310	271	1.6%
13	2,953	2,994	41	1.4%
14				
15	<u>Total</u>	<u>838,343</u>	<u>12,149</u> ⁶	<u>1.5%</u>

¹ Column A is the 2024 forecast customer billings under existing rates.

² Column B is the annual customer billings resulting from the proposed 2024 Return on Rate Base rate recovery in the requested approach.

³ Column C = Column B - Column A.

⁴ Column D is the average annual customer rate impact of the forecast rate change (Column C / Column A).

⁵ Individual customer billing impacts include RSA and MTA which vary depending on usage.

⁶ Revenue Requirement to Revenue from Rates Reconciliation:

2024 Rate of Return on Rate Base recovery amount from Appendix C	11,852
Change in municipal tax billings	<u>297</u>
	<u>12,149</u>

Part c) Requested Scenario

Newfoundland Power Inc.

2024 Forecast Average Rate Base
(\$000s)

	<u>2024F</u>	<u>2023F</u>
1 Net Plant Investment		
2 Plant Investment	2,420,434	2,318,214
3 Accumulated Depreciation	(1,015,030)	(961,973)
4 Contributions in Aid of Construction	(46,269)	(46,242)
5	<u>1,359,135</u>	<u>1,309,999</u>
6		
7 Additions to Rate Base		
8 Deferred Pension Costs	108,004	101,433
9 Deferred Credit Facility Costs	74	105
10 Cost Recovery Deferral - Pension Capitalization	1,195	799
11 Cost Recovery Deferral - 2022 Revenue Shortfall	-	229
12 Cost Recovery Deferral - 2024 Revenue Shortfall ¹	1,327	-
13 Cost Recovery Deferral - Conservation	21,859	21,086
14 Cost Recovery Deferral - Load Research & Retail Rate Design Review	699	328
15 Customer Finance Programs	1,428	1,414
16 Weather Normalization Reserve	-	2,395
17 Demand Management Incentive Account	-	700
18	<u>134,586</u>	<u>128,489</u>
19		
20 Deductions from Rate Base		
21 Other Post-Employment Benefits	87,275	83,759
22 Customer Security Deposits	1,270	1,270
23 Accrued Pension Obligation	5,616	5,453
24 Accumulated Deferred Income Taxes	34,339	32,014
25 Excess Earnings Account	3,566	3,566
26 Refundable Investment Tax Credits	274	292
27	<u>132,340</u>	<u>126,354</u>
28		
29 Year End Rate Base	1,361,381	1,312,134
30		
31 Average Rate Base Before Allowances	1,336,759	1,267,611
32		
33 Rate Base Allowances		
34 Materials and Supplies Allowance	13,905	14,676
35 Cash Working Capital Allowance	7,692	7,419
36		
37 Average Rate Base at Year End	<u>1,358,356</u>	<u>1,289,706</u>

¹ 2024 Revenue Shortfall from Appendix D, page 1, net of income taxes (\$1,896 x 0.7 = \$1,327).

Newfoundland Power Inc.

2024 Regulated Return on Rate Base

1	Average Capitalization (\$000s) - 2023 Actual		
2	Debt	728,787	¹
3	Common Equity	563,267	¹
4		1,292,054	
5			
6	Average Capital Structure		
7	Debt	56.41%	¹
8	Common Equity	43.59%	¹
9		100.00%	
10			
11	Cost of Capital		
12	Debt	5.27%	²
13	Common Equity	8.50%	³
14			
15	Weighted Average Cost of Capital		
16	Debt	2.97%	
17	Common Equity	3.71%	
18		6.68%	⁴
19			
20	Return on Rate Base (\$000s)		
21	Return on Debt	38,315	⁵
22	Return on Common Equity	47,862	⁶
23		86,177	
24			
25	2023 Actual Average Rate Base (\$000s)	1,290,079	¹
26			
27	Rate of Return on Rate Base		6.68% ⁴

¹ Based on 2023 actual information. The Company's calculation of 2023 average rate base will be finalized and filed with the Board on March 31, 2023 as part of Newfoundland Power's 2023 Annual Returns filing.

² The 2024 forecast cost of debt as shown in the Application, *2024 Rate of Return on Rate Base* report, *Appendix B*, line 12. Cost of Debt shown is net of AFUDC.

³ Order No. P.U. 3 (2022) requires the rate of return on rate base to be calculated maintaining the ratemaking common equity of 8.50%.

⁴ Under the Asset Rate Base Method, differences between average invested capital and average rate base exist for the cash working capital allowance, the materials and supplies allowance and construction work in progress. In the requested approach, the average rate base and average invested capital differences are not material.

⁵ Calculated as \$1,290,079 x weighted average cost of debt of 2.97% = \$38,315.

⁶ Calculated as \$1,290,079 x weighted average cost of common equity of 3.71% = \$47,862.

Newfoundland Power Inc.

Revised 2023 Test Year Revenue Requirement
(\$000s)

	2023 Test Year ¹	2024 Return on Rate Base	2024 Revised ²
1 Costs			
2 Power Supply Cost	459,924	-	459,924
3 Operating Costs	70,725	-	70,725
4 Employee Future Benefit Costs	2,771	-	2,771
5 Deferred Cost Recoveries and Amortizations	(816)	-	(816)
6 Depreciation	74,458	-	74,458
7 Income Taxes	20,944	(574) ³	20,370
8	<u>628,006</u>	<u>(574)</u>	<u>627,432</u>
9			
10 Return on Debt	33,073	5,242	38,315 ⁴
11 Return on Equity	49,202	(1,340)	47,862 ⁴
12 Return on Rate Base	<u>82,275</u>	<u>3,902</u>	<u>86,177</u>
13			
14 2023 Revenue Requirement	710,281	3,328	713,609
15			
16 Adjustments			
17 Other Revenue	(6,473)	-	(6,473)
18 Interest on Security Deposits	18	-	18
19 Other Transfers to RSA	(4,581)	-	(4,581)
20	<u>(11,036)</u>	<u>-</u>	<u>(11,036)</u>
21			
22	<u>699,245</u>	<u>3,328</u>	<u>702,573</u>

¹ See Exhibit 7 (1st Revision) filed with the Board on December 7, 2021 regarding the Company's 2022/2023 General Rate Application (Amended).

² The 2024 revenue requirement is the 2023 test year revenue requirement revised for the increased cost of debt for 2024 in the requested approach.

³ 2024 income tax effects associated with the change in 2024 forecast return on equity $(-\$1,340/0.7 \times 30\% = -\$574)$.

⁴ From Appendix B, lines 21 and 22.

Newfoundland Power Inc.
2024 Forecast
Statement of Income
2024 Before and After Cost Recovery
(\$000s)

	2024F Before Recovery	Impact of 2024 Recovery	2024F After Recovery
1 Revenue	777,237	1,432 ¹	778,669
2 Purchased power expense	522,821	-	522,821
3 Contribution	<u>254,416</u>	<u>1,432</u>	<u>255,848</u>
4			
5 Other revenue	<u>9,789</u>	<u>23</u> ²	<u>9,812</u>
6			
7 Other expenses:			
8 Operating expenses	78,775	-	78,775
9 Employee future benefit costs	3,010	-	3,010
10 Deferred cost recoveries and amortizations	(240)	(1,896) ¹	(2,136)
11 Depreciation	79,557	-	79,557
12 Finance charges	41,701	(18) ³	41,683
13	<u>202,803</u>	<u>(1,914)</u>	<u>200,889</u>
14			
15 Pro forma earnings adjustment	13,069 ⁴	-	13,069 ⁴
16			
17 Income before income taxes	74,471 ⁴	3,369	77,840 ⁴
18 Income taxes	<u>22,670</u> ⁴	<u>1,011</u>	<u>23,681</u> ⁴
19			
20 Earnings applicable to common shares	<u>51,801</u> ⁴	<u>2,358</u>	<u>54,159</u> ⁴
21			
22			
23 Regulated Return on Equity	8.54% ⁴		8.91% ⁴
24			
25 Revenue Shortfall (Net of Income Taxes at 8.50% Return on Equity)	-		-

¹ Reconciliation to 2024 Return on Rate Base Recovery shown in Appendix C, line 22:

Rate recovery from July 1, 2024 to December 31, 2024	1,432
2024 Revenue Shortfall	<u>1,896</u>
	3,328

² Due to higher interest on the Company's Rate Stabilization Account effective July 1, 2024. This is based on the change in rate of return on rate base from the 2023 test year of 6.39% to the 2024 regulated rate of return on rate base of 6.68% as shown in Appendix B, line 27.

³ Due to lower financing requirements resulting from the proposed rate recovery in 2024.

⁴ Requested adjustment to substitute the 2024 forecast return on equity with the 2023 actual return on equity.

2023 actual return on equity (with excess earnings removed)	51,801
2024 forecast return on equity	<u>42,653</u>
Difference (after-tax)	9,148
Income taxes	3,921
Difference (before tax)	13,069
Difference (ROE %): Pro forma ROE of 8.54% less 2024 forecast ROE of 7.08%	1.46%

Newfoundland Power Inc.

2024 Forecast
Average Rate Base'
2024 Before and After Cost Recovery
(\$000s)

	<u>2024F Before Recovery</u>	<u>Impact of 2024 Recovery</u>	<u>2024F After Recovery</u>
1 Plant Investment	1,334,567	-	1,334,567
2			
3 Additions to Rate Base			
4 Deferred Pension Costs	104,719	-	104,719
5 Deferred Credit Facility Costs	90	-	90
6 Cost Recovery Deferral - Pension Capitalization	997	-	997
7 Cost Recovery Deferral - 2022 Revenue Shortfall	115	-	115
8 Cost Recovery Deferral - 2024 Revenue Shortfall	-	664 ²	664
9 Cost Recovery Deferral - Conservation	21,473	-	21,473
10 Cost Recovery Deferral - Load Research & Rate Design	513	-	513
11 Customer Finance Programs	1,421	-	1,421
12 Weather Normalization Reserve	1,198	-	1,198
13 Demand Management Incentive Account	350	-	350
14	<u>130,876</u>	<u>664</u>	<u>131,540</u>
15			
16 Deductions from Rate Base			
17 Other Post-Employment Benefits	85,517	-	85,517
18 Customer Security Deposits	1,270	-	1,270
19 Accrued Pension Obligation	5,535	-	5,535
20 Accumulated Deferred Income Taxes	33,177	-	33,177
21 Excess Earnings Account	3,566	-	3,566
22 Refundable Investment Tax Credits	283	-	283
23	<u>129,348</u>	<u>-</u>	<u>129,348</u>
24			
25 Average Rate Base Before Allowances	1,336,095	664	1,336,759
26			
27 Cash Working Capital Allowance	7,684	8 ³	7,692
28			
29 Materials and Supplies Allowance	13,905	-	13,905
30	<u>1,357,684</u>	<u>672</u>	<u>1,358,356</u>
31 Average Rate Base at Year End			

¹ All amounts shown are averages.

² 2024 Revenue Shortfall from Appendix D, page 1 on an after-tax average basis ($\$1,896 \times 0.7 = \$1,372 / 2 = \$664$).

³ Minor changes to the calculation resulting from the proposed rate change.

Newfoundland Power Inc.

**2024 Forecast
Return on Rate Base
2024 Before and After Cost Recovery
(\$000s)**

		2024F Before Recovery	Impact of 2024 Recovery	2024F After Recovery
1	Pro Forma Regulated Return on Equity ¹	51,801	2,358	54,159
2		<u>51,801</u>	<u>2,358</u>	<u>54,159</u>
3				
4	Finance Charges ²			
5	Interest on Long-Term Debt	39,053	-	39,053
6	Other Interest	3,635	(18)	3,617
7	Amortization of Bond Issue Expenses	225	-	225
8	AFUDC	(1,285)	-	(1,285)
9		<u>41,628</u>	<u>(18)</u>	<u>41,610</u>
10				
11	Return on Rate Base	<u>93,429</u>	<u>2,340</u>	<u>95,769</u>
12				
13	Average Rate Base	<u>1,357,684</u>	<u>672</u>	<u>1,358,356</u>
14				
15	Rate of Return on Rate Base (%)	6.88	0.17	7.05

¹ From Appendix D, page 1, line 20.

² Total finance charges for 2024 forecast presented in Appendix D, page 1 are as follows (\$000s):

Return on debt from above	41,628
Add: Interest on security deposits	<u>73</u>
Finance charges presented in Appendix D, page 1	41,701

Newfoundland Power Inc.

Average Customer Billing Impacts
Average Customer Impacts by Rate Class Under Existing and Proposed Rates
(includes July 1, 2023 RSA and MTA)
(\$000s)

Category	Revenue From Existing Rates (A) ¹	Revenue From Proposed Rates (B) ²	Change in Annual Customer Billings (C) ³	Average Impacts (D) ^{4,5}
1.1 Domestic	522,206	524,366	2,160	0.4%
1.1S Domestic Seasonal	1,714	1,721	7	0.4%
Total Domestic	523,920	526,087	2,167	0.4%
2.1 General Service 0-100 kW (110 kVA)	109,270	109,722	452	0.4%
2.3 General Service 110-1000 kVA	127,233	127,753	520	0.4%
2.4 General Service over 1000 kVA	45,779	45,964	185	0.4%
Total General Service	282,282	283,439	1,157	0.4%
4.1 Street and Area Lighting	17,039	17,115	76	0.4%
Forfeited Discounts	2,953	2,965	12	0.4%
Total	826,194	829,606	3,412 ⁶	0.4%

¹ Column A is the 2024 forecast customer billings under existing rates.

² Column B is the annual customer billings resulting from the proposed 2024 Return on Rate Base rate recovery in the requested approach.

³ Column C = Column B - Column A.

⁴ Column D is the average annual customer rate impact of the forecast rate change (Column C / Column A).

⁵ Individual customer billing impacts include RSA and MTA which vary depending on usage.

⁶ Revenue Requirement to Revenue from Rates Reconciliation:

2024 Rate of Return on Rate Base recovery amount from Appendix C	3,328
Change in municipal tax billings	84
	3,412

Part d) Requested Scenario

Newfoundland Power Inc.

2024 Forecast Average Rate Base
(\$000s)

	<u>2024F</u>	<u>2023F</u>
1 Net Plant Investment		
2 Plant Investment	2,420,434	2,318,214
3 Accumulated Depreciation	(1,015,030)	(961,973)
4 Contributions in Aid of Construction	<u>(46,269)</u>	<u>(46,242)</u>
5	1,359,135	1,309,999
6		
7 Additions to Rate Base		
8 Deferred Pension Costs	108,004	101,433
9 Deferred Credit Facility Costs	74	105
10 Cost Recovery Deferral - Pension Capitalization	1,195	799
11 Cost Recovery Deferral - 2022 Revenue Shortfall	-	229
12 Cost Recovery Deferral - 2024 Revenue Shortfall ¹	1,688	-
13 Cost Recovery Deferral - Conservation	21,859	21,086
14 Cost Recovery Deferral - Load Research & Retail Rate Design Review	699	328
15 Customer Finance Programs	1,428	1,414
16 Weather Normalization Reserve	-	2,395
17 Demand Management Incentive Account	<u>-</u>	<u>700</u>
18	134,947	128,489
19		
20 Deductions from Rate Base		
21 Other Post-Employment Benefits	87,275	83,759
22 Customer Security Deposits	1,270	1,270
23 Accrued Pension Obligation	5,616	5,453
24 Accumulated Deferred Income Taxes	34,339	32,014
25 Excess Earnings Account	3,566	3,566
26 Refundable Investment Tax Credits	<u>274</u>	<u>292</u>
27	132,340	126,354
28		
29 Year End Rate Base	1,361,742	1,312,134
30		
31 Average Rate Base Before Allowances	1,336,939	1,267,611
32		
33 Rate Base Allowances		
34 Materials and Supplies Allowance	13,905	14,676
35 Cash Working Capital Allowance	7,692	7,419
36		
37 Average Rate Base at Year End	<u>1,358,536</u>	<u>1,289,706</u>

¹ 2024 Revenue Shortfall from Appendix D, page 1, net of income taxes (\$2,412 x 0.7 = \$1,688).

Newfoundland Power Inc.

2024 Regulated Return on Rate Base

1	Average Capitalization (\$000s) - 2023 Test Year		
2	Debt	708,191	¹
3	Common Equity	578,588	¹
4		1,286,779	
5			
6	Average Capital Structure		
7	Debt	55.04%	¹
8	Common Equity	44.96%	¹
9		100.00%	
10			
11	Cost of Capital		
12	Debt	5.27%	²
13	Common Equity	8.50%	³
14			
15	Weighted Average Cost of Capital		
16	Debt	2.90%	
17	Common Equity	3.82%	
18		6.72%	⁴
19			
20	Return on Rate Base (\$000s)		
21	Return on Debt	37,336	⁵
22	Return on Common Equity	49,181	⁶
23		86,517	
24			
25	2023 Test Year Average Rate Base (\$000s)	1,287,450	⁷
26			
27	Rate of Return on Rate Base		6.72% ⁴

¹ See Exhibit 5 (1st Revision), page 6 of 9, filed with the Board on December 7, 2021 regarding the Company's 2022/2023 General Rate Application (Amended).

² The 2024 forecast cost of debt as shown in the Application, 2024 Rate of Return on Rate Base report, Appendix B, line 12. Cost of Debt shown is net of AFUDC.

³ Order No. P.U. 3 (2022) requires the rate of return on rate base to be calculated maintaining the ratemaking common equity of 8.50%.

⁴ Under the Asset Rate Base Method, differences between average invested capital and average rate base exist for the cash working capital allowance, the materials and supplies allowance and construction work in progress. In the requested approach, the average rate base and average invested capital differences are not material.

⁵ Calculated as \$1,287,450 x weighted average cost of debt of 2.90% = \$37,336.

⁶ Calculated as \$1,287,450 x weighted average cost of common equity of 3.82% = \$49,181.

⁷ See Exhibit 5 (1st Revision), page 7 of 9, filed with the Board on December 7, 2021 regarding the Company's 2022/2023 General Rate Application (Amended).

Newfoundland Power Inc.

Revised 2023 Test Year Revenue Requirement
(\$000s)

	2023 Test Year ¹	2024 Return on Rate Base	2024 Revised ²
1 Costs			
2 Power Supply Cost	459,924	-	459,924
3 Operating Costs	70,725	-	70,725
4 Employee Future Benefit Costs	2,771	-	2,771
5 Deferred Cost Recoveries and Amortizations	(816)	-	(816)
6 Depreciation	74,458	-	74,458
7 Income Taxes	20,944	(9) ³	20,935
8	628,006	(9)	627,997
9			
10 Return on Debt	33,073	4,263	37,336 ⁴
11 Return on Equity	49,202	(21)	49,181 ⁴
12 Return on Rate Base	82,275	4,242	86,517
13			
14 2023 Revenue Requirement	710,281	4,233	714,514
15			
16 Adjustments			
17 Other Revenue	(6,473)	-	(6,473)
18 Interest on Security Deposits	18	-	18
19 Other Transfers to RSA	(4,581)	-	(4,581)
20	(11,036)	-	(11,036)
21			
22	699,245	4,233	703,478

¹ See Exhibit 7 (1st Revision) filed with the Board on December 7, 2021 regarding the Company's 2022/2023 General Rate Application (Amended).

² The 2024 revenue requirement is the 2023 test year revenue requirement revised for the increased cost of debt for 2024 in the requested approach.

³ 2024 income tax effects associated with the change in 2024 forecast return on equity $(-\$21/0.7 \times 30\% = -\$9)$.

⁴ From Appendix B, lines 21 and 22.

Newfoundland Power Inc.

2024 Forecast
Statement of Income
2024 Before and After Cost Recovery
(\$000s)

	<u>2024F Before Recovery</u>	<u>Impact of 2024 Recovery</u>	<u>2024F After Recovery</u>
1 Revenue	777,237	1,821 ¹	779,058
2 Purchased power expense	522,821	-	522,821
3 Contribution	<u>254,416</u>	<u>1,821</u>	<u>256,237</u>
4			
5 Other revenue	<u>9,789</u>	<u>29</u> ²	<u>9,818</u>
6			
7 Other expenses:			
8 Operating expenses	78,775	-	78,775
9 Employee future benefit costs	3,010	-	3,010
10 Deferred cost recoveries and amortizations	(240)	(2,412) ¹	(2,652)
11 Depreciation	79,557	-	79,557
12 Finance charges	<u>41,701</u>	<u>(23)</u> ³	<u>41,678</u>
13	<u>202,803</u>	<u>(2,435)</u>	<u>200,368</u>
14			
15 Pro forma earnings adjustment	13,069 ⁴	-	13,069 ⁴
16			
17 Income before income taxes	74,471 ⁴	4,285	78,756 ⁴
18 Income taxes	<u>22,670</u> ⁴	<u>1,285</u>	<u>23,955</u> ⁴
19			
20 Earnings applicable to common shares	<u>51,801</u> ⁴	<u>3,000</u>	<u>54,801</u> ⁴
21			
22			
23 Regulated Return on Equity	8.54% ⁴		9.01% ⁴
24			
25 Revenue Shortfall (Net of Income Taxes at 8.50% Return on Equity)	-		-

¹ Reconciliation to 2024 Return on Rate Base Recovery shown in Appendix C, line 22:

Rate recovery from July 1, 2024 to December 31, 2024	1,821
2024 Revenue Shortfall	<u>2,412</u>
	4,233

² Due to higher interest on the Company's Rate Stabilization Account effective July 1, 2024. This is based on the change in rate of return on rate base from the 2023 test year of 6.39% to the 2024 regulated rate of return on rate base of 6.72% as shown in Appendix B, line 27.

³ Due to lower financing requirements resulting from the proposed rate recovery in 2024.

⁴ Requested adjustment to substitute the 2024 forecast return on equity with the 2023 actual return on equity.

2023 actual return on equity (with excess earnings removed)	51,801
2024 forecast return on equity	<u>42,653</u>
Difference (after-tax)	9,148
Income taxes	3,921
Difference (before tax)	13,069
Difference (ROE %): Pro forma ROE of 8.54% less 2024 forecast ROE of 7.08%	1.46%

Newfoundland Power Inc.

2024 Forecast
Average Rate Base'
2024 Before and After Cost Recovery
(\$000s)

	<u>2024F Before Recovery</u>	<u>Impact of 2024 Recovery</u>	<u>2024F After Recovery</u>
1 Plant Investment	1,334,567	-	1,334,567
2			
3 Additions to Rate Base			
4 Deferred Pension Costs	104,719	-	104,719
5 Deferred Credit Facility Costs	90	-	90
6 Cost Recovery Deferral - Pension Capitalization	997	-	997
7 Cost Recovery Deferral - 2022 Revenue Shortfall	115	-	115
8 Cost Recovery Deferral - 2024 Revenue Shortfall	-	844 ²	844
9 Cost Recovery Deferral - Conservation	21,473	-	21,473
10 Cost Recovery Deferral - Load Research & Rate Design	513	-	513
11 Customer Finance Programs	1,421	-	1,421
12 Weather Normalization Reserve	1,198	-	1,198
13 Demand Management Incentive Account	350	-	350
14	<u>130,876</u>	<u>844</u>	<u>131,720</u>
15			
16 Deductions from Rate Base			
17 Other Post-Employment Benefits	85,517	-	85,517
18 Customer Security Deposits	1,270	-	1,270
19 Accrued Pension Obligation	5,535	-	5,535
20 Accumulated Deferred Income Taxes	33,177	-	33,177
21 Excess Earnings Account	3,566	-	3,566
22 Refundable Investment Tax Credits	283	-	283
23	<u>129,348</u>	<u>-</u>	<u>129,348</u>
24			
25 Average Rate Base Before Allowances	1,336,095	844	1,336,939
26			
27 Cash Working Capital Allowance	7,684	8 ³	7,692
28			
29 Materials and Supplies Allowance	<u>13,905</u>	<u>-</u>	<u>13,905</u>
30			
31 Average Rate Base at Year End	<u>1,357,684</u>	<u>852</u>	<u>1,358,536</u>

¹ All amounts shown are averages.

² 2024 Revenue Shortfall from Appendix D, page 1 on an after-tax average basis ($\$2,412 \times 0.7 = \$1,688 / 2 = \$844$).

³ Minor changes to the calculation resulting from the proposed rate change.

Newfoundland Power Inc.

**2024 Forecast
Return on Rate Base
2024 Before and After Cost Recovery
(\$000s)**

		2024F Before Recovery	Impact of 2024 Recovery	2024F After Recovery
1	Pro Forma Regulated Return on Equity ¹	51,801	3,000	54,801
2		<u>51,801</u>	<u>3,000</u>	<u>54,801</u>
3				
4	Finance Charges ²			
5	Interest on Long-Term Debt	39,053	-	39,053
6	Other Interest	3,635	(22)	3,613
7	Amortization of Bond Issue Expenses	225	-	225
8	AFUDC	(1,285)	-	(1,285)
9		<u>41,628</u>	<u>(22)</u>	<u>41,606</u>
10				
11	Return on Rate Base	<u>93,429</u>	<u>2,978</u>	<u>96,407</u>
12				
13	Average Rate Base	<u>1,357,684</u>	<u>852</u>	<u>1,358,536</u>
14				
15	Rate of Return on Rate Base (%)	6.88	0.22	7.10

¹ From Appendix D, page 1, line 20.

² Total finance charges for 2024 forecast presented in Appendix D, page 1 are as follows (\$000s):

Return on debt from above	41,628
Add: Interest on security deposits	<u>73</u>
Finance charges presented in Appendix D, page 1	41,701

Newfoundland Power Inc.

Average Customer Billing Impacts
Average Customer Impacts by Rate Class Under Existing and Proposed Rates
(includes July 1, 2023 RSA and MTA)
(\$000s)

Category	Revenue From Existing Rates (A) ¹	Revenue From Proposed Rates (B) ²	Change in Annual Customer Billings (C) ³	Average Impacts (D) ^{4,5}
1				
2				
3	522,206	524,953	2,747	0.5%
4	1,714	1,723	9	0.5%
5	<u>523,920</u>	<u>526,676</u>	<u>2,756</u>	<u>0.5%</u>
6				
7	109,270	109,844	574	0.5%
8	127,233	127,894	661	0.5%
9	45,779	46,014	235	0.5%
10	<u>282,282</u>	<u>283,752</u>	<u>1,470</u>	<u>0.5%</u>
11				
12	17,039	17,135	96	0.6%
13	2,953	2,968	15	0.5%
14				
15	<u>826,194</u>	<u>830,531</u>	<u>4,337</u> ⁶	<u>0.5%</u>

¹ Column A is the 2024 forecast customer billings under existing rates.

² Column B is the annual customer billings resulting from the proposed 2024 Return on Rate Base rate recovery in the requested approach.

³ Column C = Column B - Column A.

⁴ Column D is the average annual customer rate impact of the forecast rate change (Column C / Column A).

⁵ Individual customer billing impacts include RSA and MTA which vary depending on usage.

⁶ Revenue Requirement to Revenue from Rates Reconciliation:

2024 Rate of Return on Rate Base recovery amount from Appendix C	4,233
Change in municipal tax billings	<u>104</u>
	<u>4,337</u>