
Q. Further to the response to PUB-NP-007:

- 1
2 a) Please provide the 2023 year-end return on equity and a computation of the
3 balance in the Excess Earnings Account as of December 31, 2023 using 2023
4 actuals
- 5 b) State whether Newfoundland Power is proposing to use the 2023 Excess Earnings
6 to minimize the increase in rates resulting from this application. Please explain
7 all the factors to be considered in determining which of the two options for the
8 disposition of the balance in the Excess Earnings Account outlined in PUB-NP-
9 007 should be selected.
- 10 c) Please update all tables in the response to NLH-NP-001 Attachment A to reflect
11 2023 year-end financial results.

12
13 A. a) See Attachment A for a calculation of Newfoundland Power's Excess Earnings
14 Account balance as of December 31, 2023.

15
16 The Company's rate of return on equity for 2023 was 8.54%.

- 17
18 b) In this Application, Newfoundland Power is not proposing to use the forecast
19 balance in its Excess Earnings Account as of December 31, 2023 to minimize the
20 1.5% increase in base customer rates resulting from the Application.¹

21
22 As described in the response to Request for Information PUB-NP-007, there are two
23 practical options for the disposition of the 2023 forecast \$5.1 million balance in the
24 Excess Earnings Account:²

25
26 Option 1: Partially offset the proposed July 1, 2024 rate increase through a
27 transfer to the Company's Rate Stabilization Account ("RSA") on
28 March 31, 2024.

29
30 Option 2: Partially offset the 2024 revenue shortfall amount of \$6.7 million to be
31 recovered as part of the Company's 2025/2026 *General Rate Application*
32 ("2025/2026 GRA").

¹ See part a) to the response to Request for Information PUB-NP-007 for a discussion on the issues with using the forecast \$5.1 million excess earnings balance to offset the annualized \$11.8 million in base rate revenue requirement proposed in the Application.

² Under either option, the disposition of any balance in the Excess Earnings Account requires Board direction. For the definition of the Excess Earnings Account, see the Company's *System of Accounts*, Section 3, paragraph 3.05 on page 19, which was filed with the Board as part of Newfoundland Power's 2022 *Annual Report to the Board* dated March 31, 2023.

1 The below outlines factors to consider in determining which option should be
2 selected:

- 3
- 4 (i) Option 1 would reduce the July 1, 2024 customer rate increase by an
5 estimated 0.6%.³ However, there would be a corresponding 0.6% customer
6 rate increase on July 1, 2025 after the excess earnings amount has been fully
7 credited to customers.⁴
- 8
- 9 (ii) Option 2 would have no impact on July 1, 2024 customer rates. The 2024
10 revenue shortfall to be recovered through the 2025/2026 GRA would be
11 reduced to \$1.6 million.⁵ The associated reduction to proposed customer rates
12 effective July 1, 2025 is an estimated 0.2%.⁶
- 13
- 14 (iii) On July 1, 2024, customer rates are estimated to increase by a total of
15 approximately 9.0%. This estimate is based on the 1.5% rate increase
16 proposed in this Application and 7.5% in customer rate pressures associated
17 with the annual July 1st rate adjustment.⁷
- 18
- 19 (iv) On July 1, 2025, there is a proposed customer rate increase associated with
20 Newfoundland Power's 2025/2026 GRA of 5.5%. The impact of the annual
21 July 1st rate adjustment for 2025 is currently unknown.⁸
- 22
- 23 (v) Option 1 would require Board approval for the transfer of the excess earnings
24 amount to the RSA prior to March 31, 2024 in order for Newfoundland
25 Power to ensure its incorporation into the July 1, 2024 rate adjustment.⁹
- 26
- 27 (vi) Option 2 does not require Board approval at this time. Newfoundland Power
28 could complete the adjustments to its 2025 and 2026 revenue requirements
29 under Option 2 in a compliance filing at the conclusion of the Company's
30 2025/2026 GRA process.
- 31
- 32 (vii) Both Option 1 and Option 2 promote rate stability.
- 33
- 34 (viii) Both Option 1 and Option 2 reflect the principles of intergenerational equity.

³ Forecast 2023 excess earnings balance of \$5.1 million / existing customer billings of \$826.2 million = 0.6%.

⁴ The 0.6% increase on July 1, 2025 is the result of the Company's RSA increasing from a credit of \$5.1 million to a balance of zero associated with the Excess Earnings Account.

⁵ \$6.7 million 2024 revenue shortfall minus \$5.1 million forecast 2023 excess earnings.

⁶ Assuming a 30-month amortization period, the 2024 revenue shortfall annual amortization would be reduced by \$2.0 million (\$5.1 million / 30 months x 12 months). The associated reduction to customer rates effective July 1, 2025 is an estimated 0.2%.

⁷ See the response to Request for Information NLH-NP-008.

⁸ The Company's sales forecast assumes a 2.25% rate increase based on the Provincial Government's April 2019 release *Protecting You from the Cost Impacts of Muskrat Falls*.

⁹ Section 2, paragraph 6 in Newfoundland Power's *Rate Stabilization Clause* outlined in its *Schedule of Rates, Rules & Regulations* provides that the RSA shall be adjusted by any other amount as ordered by the Board.

- 1 (ix) Option 2 is consistent with past practice of the Board.¹⁰
2
3 In Newfoundland Power’s view, both Option 1 and Option 2 are reasonable
4 approaches to dispose of the 2023 forecast \$5.1 million balance in the Excess
5 Earnings Account.
6
7 c) See Attachment B for the requested information.

¹⁰ As part of Newfoundland Power’s 2016/2017 General Rate Application, excess earnings from 2013 were used to lower the Company’s 2016 revenue requirement. See *Schedule 1, Appendix E*, page 1, line 17 of Newfoundland Power’s compliance application filed with the Board on June 17, 2016 in relation to its 2016/2017 General Rate Application.

**Newfoundland Power Inc.
Excess Earnings Account as of December 31, 2023**

Newfoundland Power Inc.
Return on Average Rate Base & Determination of Excess Earnings
For The Year Ended December 31, 2023
(\$000s)

	2023
1 Net Earnings	45,996
2 Excess Earnings Adjustment at December 31, 2023	3,714
3 Add: Non-Regulated Expenses (net of income taxes)	2,091
4	51,801
5 Finance Costs	
6 Interest on Long-Term Debt	36,673
7 Other Interest	2,543
8 Amortization of Debt Issue Expenses	218
9 AFUDC	(2,669)
10	36,765
11	
12 Regulated Earnings	88,566
13	
14 Average Rate Base	1,291,932
15	
16 Rate of Return on Average Rate Base	6.86%
17	
18	
19 Average Rate Base	1,291,932
20	
21 Upper Limit of the Allowed Range of Return on Average Rate Base ¹	6.57%
22	
23 Upper Limit of Allowed Regulated Earnings ²	84,880
24	
25 Regulated Earnings	88,566
26	
27 Excess Earnings (net of income taxes, before adjustment)	3,686
28	
29 Adjustment ³	28
30	
31 2023 Excess Earnings (net of income taxes, after adjustment)	3,714
32	
33 Existing Account Balance ⁴	63
34	
35 Excess Earnings Account Balance as of December 31, 2023	3,777

¹ In Order No. P.U. 3 (2022), the Board approved the Company's rate of return on average rate base of 6.39% for 2023, in the range of 6.21% to 6.57%.

² The upper limit of the allowed range of return on average rate base is calculated as $\$1,291,932 \times 6.57\% = \$84,880$.

³ Final 2023 Excess Earnings as calculated above were \$28,000 lower than the amount of the Excess Earnings Adjustment booked at December 31, 2023 (line 2). The Company did not revise the 2023 Excess Earnings Account for this difference.

⁴ The Company had excess earnings in 2001 and 2002 related primarily to a tax refund. The remaining balance of \$63,000 reflects the residual portion of refunds that pertains to customers that no longer have an active electricity account. The Excess Earnings Account definition provides that the disposition of any balances in the account shall be determined by the Board. In Newfoundland Power's view, it is reasonable to include this existing balance with the disposition of the 2023 excess earnings amount.

**Newfoundland Power Inc.
Statements of Income
2023 Test Year, 2023 Actual and 2024 Forecast**

**Newfoundland Power Inc.
Statements of Income**

**2023 Test Year, 2023 Actual and 2024 Forecast
(\$000s)**

	2023 Test Year	2024F		
		2023A	Before Recovery	2024F
Revenue	703,826	759,464	777,237	782,350
Purchased power expense	459,924	511,983	522,821	522,821
Contribution	243,902	247,481	254,416	259,529
Other revenue	6,473	7,976	9,789	10,026
Other expenses:				
Operating expenses	70,725	73,912	78,775	78,775
Employee future benefit costs	2,771	2,735	3,010	3,010
Deferred cost recoveries and amortizations	(816)	(814)	(240)	(6,962)
Depreciation	74,458	74,536	79,557	79,557
Finance charges	33,091	36,842	41,701	41,607
	180,229	187,211	202,803	195,987
Income before income taxes	70,146	68,246	61,402	73,568
Income taxes	20,944	20,159	18,749	22,399
Earnings applicable to common shares	49,202	48,087	42,653	51,169