Q. a) Please provide the advantages and/or disadvantages of having a separate revenue shortfall deferral account to track the change in supply costs to be incurred by Newfoundland Power for the period January 1, 2025 to June 30, 2025.

b) If a separate revenue shortfall deferral account was created, should it track the actual cost difference resulting from the wholesale rate change or the forecast change in supply costs? Please explain.

c) Please explain the approach to determining financing costs associated with the deferred supply costs. Is it the same approach proposed for other revenue shortfalls proposed for future recovery and how does it compare to the finance cost recovery approach currently reflected in the Energy Supply Cost Variance Deferral Account?

A. a) In Newfoundland Power's view, it is only necessary to create a separate deferral account associated with the flow through of a revised wholesale rate on January 1, 2025 if a Board order on the Company's *2025/2026 General Rate Application* (the "2025/2026 GRA") is not issued by year-end.

Without an order on the 2025/2026 GRA by December 31, 2024, customer rates and Newfoundland Power's supply costs mechanisms will continue to reflect the 2023 test year revenue requirement in 2025.[1] In that scenario, a regulatory mechanism would be necessary to ensure there are no adverse impacts from the flow through of a revised wholesale rate on January 1, 2025. The regulatory mechanism would be similar, if not the same, as the mechanism outlined in paragraph II.4 of the *Rate Stabilization Clause* on page 17 of Newfoundland Power's *Schedule of Rates, Rules and Regulations*, effective August 1, 2024.

The regulatory mechanism that has been used historically, as outlined in the Rate Stabilization Clause, has tracked actual cost differences. In the scenario that this mechanism is necessary, the Company would anticipate using the regulatory mechanism as currently defined.

If a Board order on Newfoundland Power's 2025/2026 GRA is received by year-end, the Company would record the total 2025 revenue shortfall as outlined in the response to Request for Information PUB-NP-001.

With respect to potential advantages and disadvantages of separating the total 2025 revenue shortfall between a revenue shortfall associated with the Application proposals and a revenue shortfall associated with the 2025/2026 GRA, effective July 1, 2025:

[1] If both a Board order on the 2025/2026 GRA and the Application are received by year-end, the Company's supply costs mechanisms would be re-based effective January 1, 2025 based on the 2025 test year power supply costs and energy and demand forecasts incorporating the revised wholesale rate.

Potential Advantages

- It would allow for the two revenue shortfall amounts to be recorded differently in 2025. However, as outlined in the Request for Information PUB-NP-001, recording the total 2025 revenue shortfall over the first six months of 2025 is reasonable.

- It would allow for different amortization periods for each revenue shortfall amount. However, in Newfoundland Power's view, there is no reason to set different amortization periods associated with the total 2025 revenue shortfall.

Potential Disadvantages

- It is a more complex approach. The total 2025 revenue shortfall is the result of the difference between the Company's annual revenue requirement in 2025 and its annual customer rate revenues received in 2025. In separating that 2025 revenue shortfall, the two accounts would still need to equal the total 2025 revenue shortfall to ensure there are no impacts on 2025 and 2026 test year revenue requirements.[2]

- Two separate 2025 revenue shortfall accounts are not necessary if Board orders on the 2025/2026 GRA and this Application are issued by December 31, 2024.[3]

b) See part a).

c) Financing costs associated with deferred supply costs over the first six months of 2025 would be determined in the same manner in 2025, whether the supply costs are deferred as part of the 2025 revenue shortfall or deferred as part of the Energy Supply Cost Variance ("ESCV") Account.[4] In both instances, financing costs would reflect Newfoundland Power's incremental weighted average cost of capital ("WACC").[5]

   In 2026, financing costs associated with the 2025 revenue shortfall would continue to reflect the Company's incremental WACC.

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[2] For this reason, Newfoundland Power would expect that in the scenario that the 2025 revenue shortfall was separated, the deferral account associated with the Application proposals would need to be based on forecast power supply costs.

[3] The Board orders would provide for test year revenue requirements, supply cost mechanisms and revenue shortfall calculations to be determined in a manner that has no adverse impact on Newfoundland Power or its customers.

[4] Also, to confirm, the determination of financing costs associated with the 2025 revenue shortfall, which would include the impact of the Application proposals, would be the same as the revenue shortfalls in past general rate applications.

[5] The Company's incremental WACC is based on its capital structure, its return on equity and its return on debt based on its latest bond issuance. From a practical perspective, the financing costs would be determined based on Newfoundland Power short-term credit facility costs until its overall financing obligations require (i) a long-term debt issuance and/or (ii) changes in equity financing to maintain a 45% equity ratio.

The ESCV account balance as of December 31, 2025 would be transferred to Newfoundland Power's Rate Stabilization Account on that date. As such, the financing costs associated with the ESCV balance would begin to be determined using the Company's rate of return on rate base consistent with the definition of the Rate Stabilization Clause.[6]

Given Newfoundland Power's incremental WACC and rate of return on rate base are comparable in 2026 forecast, there would be no material impact on financing costs in recovering deferred supply costs associated with the first six months in 2025 under either approach.[7]

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[6] As outlined in paragraph II.1 of the *Rate Stabilization Clause* on page 16 of Newfoundland Power's *Schedule of Rates, Rules and Regulations*, effective August 1, 2024.

[7] Reflecting the 2025/2026 GRA proposals, Newfoundland Power's 2026 forecast rate of return on rate base is 7.21% (see the 2025/2026 GRA, Exhibit 8, page 2, line 28). The comparative incremental WACC (using the 2026 proposed capital structure and return on equity as well as the Company's latest debt issue) would be 7.26% for 2026 forecast. Overall, given the earlier start date of recovery of the 2025 revenue shortfall (July 1, 2025) compared to the 2025 ESCV account balance (July 1, 2026), Newfoundland Power would anticipate slightly lower overall financing costs associated with the recovery of the 2025 deferred supply energy costs through the 2025 revenue shortfall approach when compared to recovery through the ESCV account approach.