NEWFOUNDLAND AND LABRADOR
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES
120 Torbay Road, P.O. Box 21040, St. John's, Newfoundland and Labrador, Canada, A1A 5B2

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2024-03-20

Lindsay Hollett
Senior Legal Counsel
Newfoundland Power Inc.
55 Kenmount Road, P.O. Box 8910
St. John's, NL A1B 3P6

Dear Ms. Hollett:

Re: Newfoundland Power Inc. - 2025-2026 General Rate Application – To NP - Requests for Information

Enclosed are Requests for Information PUB-NP-131 to PUB-NP-170 regarding the above-noted application.

If you have any questions, please do not hesitate to contact the Board's Legal Counsel, Ms. Jacqui Glynn, by email, jglynn@pub.nl.ca or by telephone 709-726-6781.

Sincerely,

Jo-Anne Galarneau
Executive Director and Board Secretary

ecc **Newfoundland Power Inc.**
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IN THE MATTER OF the **Public Utilities Act**, (the "**Act**"); and

IN THE MATTER OF a general rate application by Newfoundland Power Inc. to establish customer electricity rates for 2025 and 2026.

PUBLIC UTILITIES BOARD
REQUESTS FOR INFORMATION

PUB-NP-131 to PUB-NP-170

Issued: March 20, 2024

PUB-NP-131 Further to the responses to PUB-NP-002 and PUB-NP-003, please add to Table 1 the estimated supply cost increases that would result from approval of the proposed increase in return on equity from 8.50% to 9.85%.

PUB-NP-132 Further to the response to PUB-NP-004 a):

a) Please provide an update on the discussions with Newfoundland and Labrador Hydro (Hydro) on the possibility of implementing a new wholesale rate on January 1, 2025, including when Newfoundland Power anticipates such an application will be filed, the process Newfoundland Power expects would be followed to review such an application and Newfoundland Power's basis for expecting that this process would conclude in time for actual implementation for January 1, 2025.

b) Newfoundland Power states it would file a "flow-through" application following approval of a new wholesale rate and that applications of a similar nature have occurred before. Have any of the referenced "flow-through" applications involved a change in the wholesale rate structure?

c) Could a similar "flow-through" application be filed if power supply energy costs are rebased for 2025 and 2026 and a new wholesale rate is approved sometime in late 2025 or 2026?

d) Please explain the rationale for the use of Hydro's 2019 test year requirement for establishing a new wholesale rate when it is anticipated that Hydro will be filing a general rate application in 2025 with new updated test years.

PUB-NP-133 Further to the response to PUB-NP-004 c), Newfoundland Power states that it would be reasonable to rebase power supply energy costs based on the current wholesale rate if the current wholesale rate remains in place until December 31, 2026. Does Newfoundland Power also agree that it would be reasonable to rebase power supply energy costs if the current wholesale rate remains in effect for all of or a significant part of 2025?

PUB-NP-134 The responses to PUB-NLH-003 and PUB-NLH-004 demonstrate that an increase in the test year return on equity for Newfoundland Power will result in a material increase in supply costs from Hydro and contribute to increased customer rates, while an increase in the test year equity component of the capital structure for Newfoundland Power could provide increased return to Newfoundland Power without increasing supply costs from Hydro.

Should this relationship be considered when determining the return (in dollars) when establishing the test year revenue requirement for Newfoundland Power? If not, why not?

PUB-NP-135 Further to the response to PUB-NP-009:

a) Please explain why Quality Leading Indicators were added to the Corporate Performance Measures in 2023 and explain the criteria used to evaluate this measure.

b) Please explain why Cash Flow from Operating Activities was removed from the Corporate Performance measures in 2024.

PUB-NP-136 Further to the response to PUB-NP-011, please restate Table 1 to include 2023 actuals.

PUB-NP-137 Further to the response to PUB-NP-012:

a) Please restate Table 1 to include the 2023 labor inflator and GDP deflator rates.

b) Please explain why the GDP deflator is appropriate to use to adjust non-labor costs for inflation. In the response include what other inflation adjustment factors are available to use and when Newfoundland Power last reviewed the appropriateness of using the GDP deflator?

c) It is stated that labor is inflation adjusted using the Company's internal weighted labor inflation rate. Please explain what other inflation adjustments are available to use instead of the Company's weighted labor rate, why they weren't used and why it is appropriate to use a measure within the company's control rather than an objective inflation measure. In the response, please provide more detail than in the response to PUB-NP-029 (d) as to why this adjustment is appropriate.

PUB-NP-138 Further to the responses to PUB-NP-013 and NLH-NP-047:

a) Please confirm that the FTE levels in 2022 and 2023 were impacted by the Customer Service System project.

b) Explain why the forecast 2025 and 2026 test year FTEs are higher than the levels over the period 2017 to 2021.

PUB-NP-139 Further to the responses to PUB-NP-014 and PUB-NP-081:

a) Please explain in more detail why customer connections are forecast to decline over the period 2024-2026.

b) What other economic forecasts for the Province are available besides those from the Conference Board of Canada and has Newfoundland Power considered using these forecasts in preparing their electricity sales forecasts?

c) Please provide a table that shows the Conference Board of Canada's forecast of housing starts and completions from its medium-term outlook for the period 2013-2023, Newfoundland Power's forecast of new connections for the same period and actual connections.

PUB-NP-140 Further to the response to PUB-NP-017:

a) Operating expenses will increase from the $68.956 million in the 2023TY to $81.6 million forecast for the 2026 test year, an increase in test year operating costs of approximately 18%, even though Newfoundland Power states that it has taken and will continue to take appropriate action to manage its costs to the minimum reasonable level. Given this level of increase forecast for operating costs and the cost pressures facing customers, please explain whether it would be appropriate for the Board to impose a productivity allowance on Newfoundland Power.

b) Newfoundland Power states that an assessment of its operating costs over the forecast period 2022-2026 is a more appropriate basis to assess its management of operating costs than a comparison to the 2023 test year. Please explain in more detail than provided in the response why this is and whether Newfoundland Power agrees that it is typical regulatory practice to evaluate actual costs in comparison to a test year forecast and to compare a forecast test year with the last test year forecast used to set rates.

c) If the 2023 test year forecast is not a fair comparator to evaluate future test years, please explain whether this indicates an issue with how Newfoundland Power forecasts a test year.

d) Since the 2023 test year forecast for costs was well below the actual 2023 results, is there a concern that the forecasts for 2024 to 2026 are too high?

e) Approximately 75% of the increase in non-labor costs is associated with computing equipment and software costs, other company fees and insurance costs. Please provide more details than in the response and in the response to PUB-NP-022 a) to explain why computing equipment and software costs are forecast to increase, including the specific software products and licenses that are forecast to increase and the associated increase for each.

PUB-NP-141 Further to the response to PUB-NP-018:

a) Travel costs are forecast to increase significantly in the 2024-2026 period over the 2023 test year forecast. The response in part c) states the increase is due to a return to normal levels after the COVID-19 pandemic and inflationary increases. What specific action is Newfoundland Power taking to keep these costs as low as possible? In the response include the type of travel included (whether for operating maintenance, conferences, training etc.) and how Newfoundland Power employs remote work as a way to reduce costs.

b) Education and training costs are forecast to increase in the 2024-2026 period over the 2023 test year forecast. The response in part e) states that this category of cost was limited in 2023 due to the COVID-19 pandemic and is forecast to return to normal and also reflects changing workforce demographics. What specific action is Newfoundland Power taking to keep

these costs as low as possible? In the response include an explanation of how Newfoundland Power utilizes on-line training.

c) Changes in other company fees are said in part f) to be in part due to increases in cybersecurity costs. Please provide details on the costs associated with cybersecurity in the period 2023-2026 and explain the reasons for the increases in this category of cost.

d) Part f) i) of the response refers to an increase of $.5 million related to information technology. Please explain the reason for this increase.

e) Part f) ii) refers to an increase of $1 million in costs for regulatory proceedings, consultants for information technology and asset management and audit fees. Please state the increase for each and explain the reasons for the increase in each.

f) Part g) states that vegetation management increased significantly in 2023 compared to the forecast and is forecast to increase again in 2025 and 2026. Please explain why the 2023 actual cost was so much higher than the forecast and the increases forecast for 2024 to 2026. Also provide the costs incurred for vegetation management each year for the period 2013 to 2023.

g) Does Newfoundland Power have a strategy or policy for its vegetation management program referred to in part g)? If yes, please provide it. When did Newfoundland Power last review its policy or approach to vegetation management? Please explain if and how its approach to vegetation management is consistent with good utility practice.

h) Please quantify the reasons for changes in vegetation management costs over the period 2017 to 2026 between the amount of vegetation management completed/planned and the cost per unit of vegetation management (i.e., inflationary costs).

i) Computing equipment and software cost increases over the 2023-2026 period are said in part h) to relate to the introduction of new technology and replacement of existing technology. What new technologies are being introduced and what are being retired that are increasing costs and what is the increased cost of each new technology?

j) Using the same breakdown of costs as in the Table please provide the test year forecast, the actual results and the variance between test year and actuals for the three general rate applications prior to the 2022 General Rate Application.

PUB-NP-142 Further to the response to PUB-NP-022:

a) With respect to part a) and Attachment A, please explain what is included in Operations and Engineering software and the reasons for the increases in costs in this category in each year in the period 2024 to 2026.

b) Part c) states that an increase of $1.1 million in Financial Services Costs in 2024 is associated with the assessment required to address upcoming changes in accounting standards related to converting to IFRS. Costs are also included in 2025 and 2026 for this. Is it possible that the requirement for

Newfoundland Power to change accounting standards may be further postponed? Given this and the fact that this is a significant generational change, would it be appropriate to recover the associated costs over a longer period?

PUB-NP-143 Further to the response to PUB-NP-023, please explain the reasons for the increase in Corporate and Employee Services from 2023F of $9,371 million to $10,897 million forecast for 2026.

PUB-NP-144 Further to the response to PUB-NP-029:

a) Newfoundland Power states it does not have access to information on compensation increases given by Atlantic Canadian utilities to managerial employees for the period 2022-2026. What information does Newfoundland Power have on compensation increases given to or forecast for managerial employees in Atlantic Canada, Canada and Newfoundland and Labrador for any year in the period 2022-2026?

b) Please explain how Newfoundland Power determined the appropriate level of compensation increases for managerial and non-union employees if it did not have data on wage adjustments by or forecast for other employers or industries during the period 2022-2026.

c) Table 2 provided the compensation increases for 2022 and forecast 2023-2026. Please explain why the increases were different in 2022 among the categories of employees listed but are forecast to be the same in the 2023 to 2026 forecasts.

d) Please explain the rationale for executive base salaries and bonuses increasing at the same percentages as the union employees on a go forward basis.

PUB-NP-145 Further to the response to PUB-NP-031, please explain why the median salary paid by Canadian Commercial Industrial companies was selected as the benchmark for executive and director salary policy. In the response state when this benchmark was first set, when it was last reviewed, how many utilities in Canada use this as a benchmark and how many companies in Newfoundland and Labrador use this as a benchmark for their compensation policy.

PUB-NP-146 Further to the response to PUB-NP-031, please explain why it is reasonable for Newfoundland Power employees to be paid more than the employees in the other Atlantic province utility for all categories but two Nova Scotia Power employee categories.

PUB-NP-147 Further to the response to PUB-NP-032:

a) Please explain what benefits do customers experience from the operation of Newfoundland Power's short-term incentive plan and explain why customers

should bear any costs of the short-term incentive plan, particularly now given the significant increase in operating costs from 2023TY to 2026 forecast TY.

b) Please explain why SAIFI is not included in the corporate performance targets.

c) Please explain how the targets are chosen/established.

d) Please confirm that the determination as to whether the targets have been met are largely subjective.

e) Please provide a table including the corporate performance targets for 2022 and 2023, along with the actual results for each of the targets.

f) Newfoundland Power notes that before any payout occurs, the Company's ROE must reach a minimum threshold. Please provide the minimum threshold level for 2022 and 2023.

PUB-NP-148 Further to the response to PUB-NP-040, please confirm that Newfoundland Power does not believe that capital/operational spending can be reduced while ensuring SAIDI is comparable with the Atlantic Canadian average.

PUB-NP-149 Further to the response to PUB-NP-040, Newfoundland Power suggests it views SAIFI (frequency of outage) performance to be more critical than SAIDI (duration of outage) performance. However, investments and improvements discussed in other responses (e.g., PUB-NP-017 and PUB-NP-047) appear to be focused more on shortening the outage duration than the frequency. Please explain how Newfoundland Power expects to achieve improved SAIFI by focusing its investments on projects affecting SAIDI.

PUB-NP-150 Further to the responses to PUB-NP-048 and PUB-NP-051:

a) Please explain why there is an increase in the kilometers of transmission lines to be re-built for 2026 over 2025 if 85% of the transmission lines have been completed and the age profile of the wooden support structures is now favourable?

b) Please explain whether Newfoundland Power intends to review its Transmission Line Rebuild Strategy now that it is 85% complete.

c) Please provide an update on discussions with Newfoundland Hydro with respect to potential benefits of implementation of the wood pole line management practices currently employed by Newfoundland Hydro.

PUB-NP-151 Further to the response to PUB-NP-050, does Newfoundland Power plan to have stakeholder and Board involvement in its asset management review, apart from the associated capital budget applications?

PUB-NP-152 Further to the response to PUB-NP-051:

a) Newfoundland Power states that in 2015 they began to use CHIKM and CIKM indices to evaluate shorter worst performing feeders. Is NP evaluating the

use of any other indices that might be used to better identify performance for feeders with other differing characteristics?

b) Newfoundland Power notes that the Transmission Line Rebuild Strategy was developed in response to the fact that many of the Company's transmission lines were constructed in the 1940s, 50s and 60s and not designed to any particular standard. Please confirm that transmission lines rebuilt under this strategy are being rebuilt to existing standards. If confirmed please state what that standard is.

PUB-NP-153 Further to the response to PUB-NP-076 c), in June 2005, Newfoundland Power filed a report on the transition from the invested capital approach to Asset Rate Base Methodology in compliance with the 2003 GRA Order.

a) Please provide the 2005 report.

b) Page 1 of the report stated: "However, the ARBM is less complicated and has fewer variables as it **is simply calculated by applying the weighted average cost of capital to rate base**." Please explain why Newfoundland Power is not following the approach presented to the Board in its 2005 report.

c) Page 1 also includes the statement: "Both the rate base and weighted average cost of capital are regulated by the Board." Please confirm that the proposed approach to calculating return on rate base is equivalent to applying weighted average cost of capital to average invested capital.

d) Please confirm that the transition to ARBM from the invested capital method was approved in the 2008 GRA.

e) Please confirm that the return on rate base approved in each test year since the 2008 GRA was equal to the approved test year weighted average cost of capital times the approved average rate base.

f) Is Newfoundland Power proposing to transition from ARBM back to the invested capital method in the current application?

PUB-NP-154 Further to the response to PUB-NP-081, do the test year forecasts reflect the recent government initiatives to increase the number of affordable housing units? If not, please quantify, if possible, the additional housing starts and additional sales expected for this initiative for the forecast 2025 and 2026 test years.

PUB-NP-155 Further to the response to PUB-NP-093, it is clear that the price of oil has a substantial impact on conversions to heat pumps in Newfoundland Power's service territory, which affects Newfoundland Power's sales forecast. Please perform an omitted variable bias analysis of excluding the price of oil in Newfoundland Power's forecasting model.

PUB-NP-156 Further to the response to PUB-NP-097, please provide an explanation of the difference between Newfoundland Power's forecast of oil to electric conversions provided in part a) to the Government's forecast conversions provided in part c).

PUB-NP-157 Further to the responses to PUB-NP-090 and PUB-NP-101, six of the twelve Canadian utilities surveyed by Newfoundland Power use a similar peak demand forecasting methodology based on load factor. Nonetheless, Newfoundland Power's recent peak forecasts were consistently under-forecasted (see Table 2). This suggests the methodology may not be appropriate. Please provide an analysis of the sources of Newfoundland Power's underforecast, for example – data problems, forecasting method, and flaws in the forecasting process.

PUB-NP-158 Further to the response to PUB-NP-101, although Newfoundland Power appears to downplay the importance of an accurate peak forecast, what are the implications of underforecasting peak for Newfoundland Power's operations?

PUB-NP-159 Further to the response to PUB-NP-103, has Newfoundland Power reviewed its methodology to determine the elasticity effects on sales due to rate increases since it was introduced in 1998? Please explain how Newfoundland Power's methodology remains relevant and appropriate in the current and near future environment of increased electrification initiatives and potential significant customer rate increases.

PUB-NP-160 Further to the response to PUB-NP-105, given the material increase in load projected for Memorial University in the near future and the rate design and load research study reviews currently underway, does Newfoundland Power believe it would be appropriate to conduct a comprehensive review of the reasonableness of the Memorial University rate structure and the reasonableness of the Memorial University cost recovery within the scope of its rate design report? If no, please explain why.

PUB-NP-161 Further to the response to NLH-NP-027, Attachment A, please explain why 2023 actual labour costs for distribution maintenance were higher than 2023TY.

PUB-NP-162 Further to the response to NLH-NP-030, Attachment A, please explain why Administrative and Engineering Support costs are forecast to increase in 2025 and 2026 over the 2023TY.

PUB-NP-163 Further to the response to NLH-NP-057, please provide the details of the payment of pension contributions and premiums for health, medical and life insurance for both employees and retirees. In the response state the portion of costs paid by employees, retirees and the company.

PUB-NP-164 Further to the response to NLH-NP-074, please confirm that for the 8-year period where additional demand costs were required to be recovered from customers that the test year peak demand forecast was materially less than the actual normalized peak demand on more than one occasion.

PUB-NP-165 Further to the response to NLH-NP-075, please explain why it is appropriate to reduce the threshold for the DMI account to $500,000 given that the threshold has been higher than that level since 2008.

PUB-NP-166 Further to the response to NLH-NP-077, does the peak demand forecast for 2026 reflect the new Memorial University boiler load as being interruptible/curtailable? If yes, please describe the compensation provided to Memorial University for making this load interruptible and explain how this compensation is reflected in the 2026 Test Year forecast. If no, what is the impact of this new load on the annual peak demand forecast for Newfoundland Power?

PUB-NP-167 Further to the response to NLH-NP-084, please explain whether in Newfoundland Power's opinion modifications should be made to Hydro's Supply Cost Variance Deferral Account to enable credits to the load variation component resulting from increased revenues from Newfoundland Power to be used to offset the charges to Newfoundland Power's Energy Supply Cost Variance Deferral Account.

PUB-NP-168 Further to the responses to CA-NP-033 and CA-NP-041, please update the information presented in these responses to include the 2023 actuals to 2026 forecast.

PUB-NP-169 Further to the responses to CA-NP-105, CA-NP-107, CA-NP-109 and CA-NP-118:

a) Please provide the expected timeframes for the completion of the Load Research Study and for the various stages of the Rate Design Review.

b) Please explain why both are required before Newfoundland Power believes there should be a cost of service review.

c) Please explain the process Newfoundland Power anticipates will be necessary to review the results of the study.

PUB-NP-170 Further to the responses to CA-NP-086, CA-NP-222 and PUB-NP-120. As Newfoundland Power has never paid Fortis any issue costs for infusions of common equity, is the only reason to include 50 basis points for flotation costs and financial flexibility in the determination of the fair ROE the fact that there is regulatory precedent to do so?

DATED at St. John's, Newfoundland this 20th day of March, 2024.

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Per

Jo-Anne Galarneau
Board Secretary