Section 3: Finance/Fair Return

Q. (Section 3, page 3-10) It is stated "*Newfoundland Power's average debt is expected to increase by approximately $207 million from 2022 to 2026. The increase in average debt is primarily to finance capital expenditures necessary to maintain system reliability and to provide required service to customers.*"

a) Does the increase in debt also finance capital expenditures that improve operating efficiency?

b) Please confirm that the 2026 forecast average debt is expected to increase by about 31.3% over 2022 levels even though the average cost of debt is forecast to decrease over this time frame.

c) Please provide a table comparing average cost of debt to operating costs, and labour cost, over the same period.

d) Has Newfoundland Power considered postponing some capital expenditures due to high interest rates and the likelihood that interest rates may decline in the next few years?

A. a) The increase in average debt is primarily to finance all capital expenditures, including those that improve operating efficiency. For details on specific projects included in the *2024 Capital Budget Application* that improve operating efficiency, please see the responses to Requests for Information PUB-NP-004 and CA-NP-020 filed as part of the *2024 Capital Budget Application*.

b) It is confirmed that the 2026 forecast average debt is expected to increase by 31.3% over 2022 levels.[1] The average cost of debt is expected to decline over the same period, primarily reflecting lower average coupon rates on the Company's first mortgage bonds.[2]

c) Table 1 provides the requested data.

[1] See Newfoundland Power's *2025/2026 General Rate Application, Volume 1, Application, Company Evidence and Exhibits, Section 3, Finance,* page 3-10. ($868.798 million - $661.762 million) / $661.762 million = 31.3%.

[2] This is a result of higher interest rate debt being retired and replaced with lower interest rate debt. For example, in June 2022, Newfoundland Power repaid $28.4 million associated with the maturity of 10.125% Series AF First Mortgage Bonds. In August 2023, the Company issued $90 million in 5.122% Series AS First Mortgage Bonds.

Table 1:
Comparison of Average Cost of Debt, Operating Costs and Labour Costs
2022 to 2026E

	2022	**2023F**	**2024E**	**2025E**	**2026E**
Average Cost of Debt[3] (%)	5.25	5.11	5.26	5.10	4.99
Change vs. Prior Period (%)		-0.14%	0.15%	-0.16%	-0.11%
Operating Costs[4] ($000s)	70,530	72,492	76,838	79,083	81,603
Change vs Prior Period ($)		1,962	4,346	2,245	2,520
Change vs Prior Period (%)		2.8%	6.0%	2.9%	3.2%
Labour Costs[5] ($000s)	39,037	38,992	40,429	42,079	43,882
Change vs Prior Period ($)		(45)	1,437	1,650	1,803
Change vs Prior Period (%)		-0.1%	3.7%	4.1%	4.3%

d) See the response to Request for Information CA-NP-050.

[3] See Newfoundland Power's *2025/2026 General Rate Application, Volume 1, Application, Company Evidence and Exhibits, Section 3, Finance*, page 3-10, Table 3-8.

[4] See Newfoundland Power's *2025/2026 General Rate Application, Volume 1, Application, Company Evidence and Exhibits, Section 2, Customer Operations*, page 2-29, Table 2-3.

[5] See Newfoundland Power's *2025/2026 General Rate Application, Volume 1, Application, Company Evidence and Exhibits, Section 2, Customer Operations*, page 2-35, Table 2-9.