

1 **Section 4: Rate Base and Return on Rate Base**

2
3 **Q. a) For the years 2013 to 2023 forecast, please complete the following table:**

	2013	2014...	2023
Order No. setting approved range			
Approved Range of Return on Rate Base			
Midpoint of Approved Range			
Actual Rate of Return on Rate Base			
Approved Regulated Earnings when setting rates (000)			
Actual Regulated Earnings (000)			
Regulated Earnings Variance (000)			

4 **b) With respect to the data provided in a), for each year please provide the primary**
5 **reasons for Newfoundland Power's actual regulated earnings varying from its**
6 **forecast regulated earnings.**

7
8 **A. a) See Attachment A for the requested information.**

9
10 **b) The explanations below provide the primary reasons for variances in the Company's**
11 **actual regulated earnings as compared to the respective forecasts for 2013 through**
12 **2022 and forecast for 2023, as detailed in part a) to this request for information.**

13
14 In 2013, the variance was primarily due to higher other revenue, including a gain on
15 the sale of land.

16
17 In 2014, the variance reflected electricity sales growth, partially offset by higher
18 operating expenses.

19
20 In 2015, the variance was primarily due to lower operating expenses, partially offset
21 by lower electricity sales growth.

22
23 In 2016, the variance reflected lower operating expenses, lower demand charges from
24 Newfoundland and Labrador Hydro ("Hydro"), higher other revenue and lower
25 finance charges. The increases were partially offset by the impact of lower electricity
26 sales.

1 In 2017, the variance was primarily due to lower finance charges, lower operating
2 expenses and higher other revenue, partially offset by the impact of lower electricity
3 sales.
4 In 2018, the variance reflected higher other revenue, including the settlement of an
5 insurance claim, partially offset by the impact of lower electricity sales.
6
7 In 2019, the variance was primarily due to higher other revenue and lower finance
8 charges, partially offset by higher demand charges from Hydro and the impact of
9 lower electricity sales.
10
11 In 2020, the variance reflected higher other revenue and lower finance charges and
12 operating expenses, partially offset by the impact of lower electricity sales.
13
14 In 2021, the variance was primarily due to lower operating expenses and lower
15 electricity system losses, partially offset by the impact of lower electricity sales.
16
17 In 2022, the variance reflected higher electricity sales, lower electricity system losses
18 and lower demand charges from Hydro, partially offset by higher operating expenses.
19
20 For 2023, the forecast variance primarily reflects the impact of higher electricity sales
21 and higher other revenue, partially offset by higher finance charges, higher demand
22 charges from Hydro, and higher operating expenses.
23
24 In Newfoundland Power’s view, these results show that the Company had an
25 opportunity to earn a just and reasonable return based on the customer rates in effect
26 during each of the years 2013 through 2023.

Requested Order Numbers, Range and Rate of Return on Rate Base and Regulated Earnings

Newfoundland Power Inc.
Requested Order Numbers, Range and Rate of Return on Rate Base and Regulated Earnings
2013 to 2023F

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023F
Range and Rate of Return on Rate Base											
Order No. Setting Approved Range	P.U. 23 (2013)	P.U. 23 (2013)	P.U. 51 (2014)	P.U. 25 (2016)	P.U. 25 (2016)	P.U. 41(2017)	P.U. 2 (2019)	P.U. 2 (2019)	P.U. 36 (2020)	P.U. 3 (2022) (Amendment No. 2)	P.U. 3 (2022) (Amendment No. 2)
Approved Range of Return on Rate Base (%)	7.74 to 8.10	7.70 to 8.06	7.32 to 7.68	7.03 to 7.39	7.01 to 7.37	6.86 to 7.22	6.83 to 7.19	6.86 to 7.22	6.47 to 6.83	6.43 to 6.79	6.21 to 6.57
Midpoint of Approved Range (%)	7.92	7.88	7.50	7.21	7.19	7.04	7.01	7.04	6.65	6.61	6.39
Actual/Forecast Return on Rate Base (%)	<u>8.11</u>	<u>7.83</u>	<u>7.48</u>	<u>7.31</u>	<u>7.22</u>	<u>7.13</u>	<u>6.97</u>	<u>7.04</u>	<u>6.74</u>	<u>6.72</u>	<u>6.85</u>
Return on Rate Base Variance ¹	<u>0.19</u>	<u>(0.05)</u>	<u>(0.02)</u>	<u>0.10</u>	<u>0.03</u>	<u>0.09</u>	<u>(0.04)</u>	<u>0.00</u>	<u>0.09</u>	<u>0.11</u>	<u>0.46</u>
Regulated Earnings²											
Approved Regulated Earnings When Setting Rates (\$000s)	37,332	38,716	39,786	41,010	42,638	42,072	44,250	45,632	44,426	47,233	49,202
Actual/Forecast Regulated Earnings (\$000s)	<u>38,605</u>	<u>39,829</u>	<u>41,113</u>	<u>42,887</u>	<u>43,988</u>	<u>43,929</u>	<u>45,395</u>	<u>46,469</u>	<u>46,278</u>	<u>47,914</u>	<u>51,059</u>
Regulated Earnings Variance (\$000s)	<u>1,273</u>	<u>1,113</u>	<u>1,327</u>	<u>1,877</u>	<u>1,350</u>	<u>1,857</u>	<u>1,145</u>	<u>837</u>	<u>1,852</u>	<u>681</u>	<u>1,857</u>

¹ Newfoundland Power's actual return on rate base has been within the ± 18 basis point range approved by the Board for nine of the 11 years requested. In 2013, the Company's rate of return on rate base was slightly over the approved upper limit of the range. For 2023, the Company forecast a rate of return on rate base of 28 basis points over the approved upper limit of the range, primarily due to a higher forecast return on debt. 2023 actuals were 29 basis point over the approved upper limit of the range. Any return on rate base amount exceeding the upper limit of 18 basis points over the approved midpoint are credited to customers through the Excess Earnings Account.

² Regulated earnings include both a return on debt and a return on equity component. For the purposes of this response, the Company's regulated earnings applicable to the return on equity component has been provided. Regulated earnings for 2013 and 2023F are shown before the transfer to the Excess Earnings Account net of income taxes of \$49,000 and \$3.6 million, respectively.