

- 1 **Q. Further to the response to PUB-NP-022:**
 2 **a) With respect to part a) and Attachment A, please explain what is included in**
 3 **Operations and Engineering software and the reasons for the increases in costs**
 4 **in this category in each year in the period 2024 to 2026.**
 5 **b) Part c) states that an increase of \$1.1 million in Financial Services Costs in 2024**
 6 **is associated with the assessment required to address upcoming changes in**
 7 **accounting standards related to converting to IFRS. Costs are also included in**
 8 **2025 and 2026 for this. Is it possible that the requirement for Newfoundland**
 9 **Power to change accounting standards may be further postponed? Given this**
 10 **and the fact that this is a significant generational change, would it be**
 11 **appropriate to recover the associated costs over a longer period?**

- 12
 13 **A. a)** Newfoundland Power uses technology in the operation and engineering of its
 14 electrical system. Such technology supports the Company's ability to balance cost
 15 management, system reliability and responsiveness to customers' expectations.

16
 17 Engineering software allows for engineering design and modelling, asset data
 18 management, and electrical system monitoring and control. Specifically, the
 19 Company's primary engineering software includes asset management, SCADA,
 20 computer-aided design, CYME and PI, as well as substation protection and controls.

21
 22 Operations software supports safe, reliable and efficient customer service delivery,
 23 including efficient management of field employees for both customer-driven work
 24 requests and outage response. Specifically, the Company's primary operations
 25 software includes outage management, workforce management, geographic
 26 information system, safety management and digital forms applications.

27
 28 Table 1 provides the forecast increase in computing equipment and software costs for
 29 operations and engineering for 2024 to 2026 forecast.

Table 1:
Increases in Computing Equipment and Software Costs
2024 to 2026 Forecast
(\$000s)

2024F	2025F	2026F
281	193	217

30 Forecast operating cost increases for 2024 through 2026 for third-party licensing and
 31 support costs for software used in the day-to-day operation and maintenance of the
 32 electrical system include: (i) inflationary cost increases and renewal of licensing
 33 agreement terms and conditions on existing software; (ii) upgrades or enhancements to
 34 existing operations and engineering applications; and (iii) the addition of new software
 35 applications. The new software applications include the following:

- 36
 37 i) In 2024, the forecast increase includes additional third-party licensing and
 38 support costs for approved 2023 capital projects in *Application Enhancements*

1 project including the *Environment, Health and Safety System Replacement*¹ and
2 *Digital Forms Portfolio Enhancements*.² These capital projects both had a
3 positive net present value and were approved in Order No. P.U. 38 (2022).
4

5 ii) In 2025, the forecast increase includes additional third-party licensing and
6 support costs for an approved 2024 capital project in *Application*
7 *Enhancements* and a project for *Digital Forms Portfolio Enhancements*.³ This
8 capital project had a positive net present value and was approved in Order No.
9 P.U. 2 (2024). The Company is also forecasting operating support costs for
10 new drone and satellite imagery analysis software in 2025.⁴
11

12 iii) In 2026, the forecast increase includes additional software support and
13 maintenance costs related to the replacement of the Company's asset
14 management system. Newfoundland Power's current asset management
15 system assists in optimizing the performance of the assets of the Company by
16 monitoring condition, scheduling maintenance, and identifying areas for
17 improvement. The Company has received written notification from the vendor
18 supporting this software that the current system will no longer be supported
19 after December 31, 2026. The Company anticipates proposing a replacement
20 system in the *2025 Capital Budget Application*. Additional support costs are
21 anticipated to begin in 2026.
22

23 Overall, operations and engineering software applications have supported the
24 Company in providing safe, reliable and efficient customer service delivery over the
25 long term.
26

27 b) Due to the absence of a standard that can appropriately account for rate-regulated
28 activities under International Financial Reporting Standards ("IFRS"), Newfoundland
29 Power has been preparing its financial statements in accordance with generally
30 accepted accounting principles in the United States ("U.S. GAAP") since 2012 under
31 a series of exemptions granted by the Ontario Securities Commission ("OSC").

¹ This system is used to document environmental and safety incidents and training, contractor inspections and work observations. The effective management of these processes is necessary to maintain the safety of employees and contractors, as well as to comply with Occupational Health and Safety Regulations.

² This capital project has reduced the number of manual processes with the system automatically capturing employee location and other necessary information. This provides efficiencies for field crews, and ensures data accuracy and compliance.

³ The continuation of digitalizing forms improves overall efficiency of Company operations.

⁴ Drone and satellite imagery systems will improve company operations and provide greater efficiencies to inspection processes and vegetation management planning.

1 Under the Company’s current OSC exemption order (the “Exemption Order”), the
2 Company’s ability to report in U.S. GAAP terminates on the earlier of:

- 3
4 i) January 1, 2027; or
5 ii) the first day of the Company’s financial year that commences on or
6 following the later of:
7 a. the effective date prescribed by the International Accounting Standards
8 Board (“IASB”) for a Mandatory Rate-regulated Standard; and
9 b. two years after the IASB publishes the final version of a Mandatory
10 Rate-regulated Standard.⁵

11
12 The issuance of a final rate-regulated accounting standard under IFRS is currently
13 anticipated to occur in the second half of 2025, with an effective date beginning
14 between 18 and 24 months from the publication date. If there is a delay in the
15 issuance of the final standard and the effective date, when published, is later than
16 January 1, 2027, due to the wording of the current Exemption Order, the Company
17 would still have to begin reporting in IFRS on January 1, 2027. If that scenario
18 occurred, the Company would consider making an application to the OSC for a
19 further exemption; however, there is no guarantee that it would be approved.
20

21 In the *2025/2026 General Rate Application*, the Company has included costs
22 associated with the change in accounting standards in its 2025 and 2026 test years in
23 accordance with the timeframe they are expected to be incurred. A reasonable
24 alternative to the Company’s proposed approach of including the conversion costs in
25 its 2025 and 2026 test years could be to establish a deferral account for these costs for
26 amortization and recovery from customers over a reasonable time period.⁶

⁵ The Exemption Order also terminates if the Company ceases to have rate-regulated activities.

⁶ For example, as part of the Company’s *2022/2023 General Rate Application*, a deferral account was approved for pension capitalization costs, with recovery from customers over a five-year period. Such an approach to IFRS conversion costs would recognize the long-term nature of the conversion, but not oppose the principle of intergenerational equity.