

1 **Q. Reference: Transcript, June 14, 2024, page 94, line 16 to page 96, line 10.**

2
 3 **NP to confirm if, over the last 5-year period, STI targets have been adjusted after**
 4 **they have been originally set, at what point in the year the adjustment was made**
 5 **and on what basis was the adjustment made (both in \$ and ROE). Explain how the**
 6 **minimal and stretch targets are set for earnings, including how ROE is**
 7 **incorporated.**

8
 9 **A. It is confirmed there were no adjustments to any STI target over the last 5-year period,**
 10 **2019 to 2023.**

11
 12 The earnings target (100%) is set based on achieving the regulated rate of return on
 13 equity (“ROE”) approved by the Board of Commissioners of Public Utilities of
 14 Newfoundland and Labrador (the “Board”), currently 8.50%.

15
 16 The minimum (50%) and stretch (150%) targets are set at ± 5% of the earnings target.
 17 This is intended to approximate the ± 18 basis point range of return on rate base approved
 18 by the Board.¹

19
 20 Table 1 provides the earnings target for 2024 as an illustrative example of how the target
 21 (100%), minimum (50%) and stretch (150%) amounts are calculated. The table also
 22 provides the corresponding ROE for each amount.
 23

**Table 1:
 STI Targets
 Earnings Measure
 2024**

Measure	Minimum (50%)	Target (100%)	Stretch (150%)
Earnings	\$46.7M ²	\$49.2M	\$51.7M ³
ROE	8.09%	8.50% ⁴	8.91%

24
 25 The earnings target is based on the Company’s book after-tax earnings, which includes
 26 non-regulated expenses.⁵ The regulated after-tax earnings shown in Exhibit 3 of

¹ Assuming a constant cost of debt, a range of return on rate base of ±18 basis points implies a range of return on common equity of ± 40 basis points.

² \$49.2 million x 95% = \$46.7 million.

³ \$49.2 million x 105% = \$51.7 million.

⁴ In Order No. P.U. 3 (2022), the Board approved a ROE of 8.50% for Newfoundland Power for 2024.

⁵ Newfoundland Power’s publicly issued financial statements include book after-tax earnings.

1 Newfoundland Power's 2025/2026 *General Rate Application* excludes non-regulated
2 expenses.⁶ 2024 forecast non-regulated expenses are \$2.5 million on an after-tax basis.⁷

⁶ A reconciliation from the 2024 forecast book-after tax earnings shown in Table 1 to the regulated after-tax earnings shown in Exhibit 3 follows (all in millions and on an after-tax basis):

Book earnings at 8.50% shown in Table 1	49.2
Non-regulated expenses	2.5
Other (primarily forecast 2024 ROE of 8.44% in Exhibit 3 vs. 8.50% in Table 1)	(0.5)
Regulated net earnings shown on line 25 in Exhibit 3	51.2

⁷ See Figure 29 on page 39 of Grant Thornton LLP's report on Newfoundland Power's 2025/2026 *General Rate Application*, dated April 24, 2024.