

WHENEVER. WHEREVER.
We'll be there.



March 31, 2022

Board of Commissioners
of Public Utilities
P.O. Box 21040
120 Torbay Road
St. John's, NL A1A 5B2

Attention: G. Cheryl Blundon
Director of Corporate Services
and Board Secretary

Re: Newfoundland Power 2021 Annual Report to the Board

Dear Ms. Blundon:

Please find enclosed:

- 1) Newfoundland Power Inc.'s Annual Report to the Board for 2021, filed pursuant to section 59(2) of the *Public Utilities Act*;
- 2) A consolidated copy of Newfoundland Power's System of Accounts; and
- 3) Summary of Revisions related to the System of Accounts.

The annual returns are set out in the System of Accounts. No significant changes have been made to the annual returns for 2021.

The consolidated copy of Newfoundland Power's System of Accounts and the related Summary of Revisions is provided to the Board for informational purposes. For 2021, minor wording changes were made to some accounts in order to improve the clarity and accuracy of the account descriptions.

We trust the enclosed is found to be in order; however, should you have any questions, please contact the undersigned.

Newfoundland Power Inc.

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Board of Commissioners
of Public Utilities
March 31, 2022
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Yours truly,



Lindsay Hollett
Senior Legal Counsel

Enclosures

ec. Shirley Walsh
Newfoundland and Labrador Hydro

Dennis Browne, Q.C.
Browne Fitzgerald Morgan Avis & Wadden

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2021 MANAGEMENT DISCUSSION AND ANALYSIS
& Annual Financial Statements

WHENEVER. WHEREVER.
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NEWFOUNDLAND 
POWER
A FORTIS COMPANY

**MANAGEMENT DISCUSSION
AND ANALYSIS//**

MANAGEMENT DISCUSSION AND ANALYSIS

Dated February 10, 2022

The following Management Discussion and Analysis (“MD&A”) of Newfoundland Power Inc. (the “Company” or “Newfoundland Power”) should be read in conjunction with the Company’s annual audited financial statements and notes thereto for the year ended December 31, 2021. The MD&A has been prepared in accordance with National Instrument 51-102 - Continuous Disclosure Obligations. Financial information for 2021 and comparative periods contained herein reflects Canadian dollars and accounting principles generally accepted in the United States (“U.S. GAAP”).

FORWARD-LOOKING INFORMATION

Certain information in this MD&A is forward-looking information within the meaning of applicable Canadian securities laws in Canada. Forward-looking information reflects expectations of Newfoundland Power management regarding future growth, results of operations, performance and opportunities. Wherever possible, words such as “anticipates”, “believes”, “budgets”, “could”, “estimates”, “expects”, “forecasts”, “intends”, “may”, “might”, “plans”, “projects”, “schedule”, “should”, “will”, “would” and the negative of these terms and other similar terminology have been used to identify forward-looking information.

The forward-looking information in this MD&A includes, but is not limited to, statements regarding: the expectation that there will be no material changes in annual cash flow and financing dynamics; the expectation that sufficient cash will be generated from operations to meet pension funding requirements; the expectation that the Company will maintain its current credit ratings in 2022; the expected impact of the commissioning of Nalcor Energy’s Muskrat Falls project on the cost and reliability of the service provided to Newfoundland Power’s customers; the expectation that existing insurance coverage will be maintained; and the expectation that future accounting pronouncements will not have a material impact on the Company’s financial statements.

The forecasts and projections that make up the forward-looking information are based on assumptions, which include, but are not limited to: receipt of applicable regulatory approvals; continued electricity demand; no significant operational disruptions or environmental liability due to severe weather or other acts of nature; no significant decline in capital spending; sufficient liquidity and capital resources; the continuation of regulator-approved mechanisms that permit recovery of costs; no significant variability in interest rates; no significant changes in government energy plans and environmental laws; the ability to obtain and maintain insurance coverage, licenses and permits; the ability to maintain and renew collective bargaining agreements on acceptable terms; and sufficient human resources to deliver service and execute the capital program.

Forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. These factors should be considered carefully and undue reliance should not be placed on the forward-looking information. Risk factors which could cause results or events to differ from current expectations are detailed under the heading “Business Risk Management” in this MD&A. These risk factors include, but are not limited to: regulation; energy supply; purchased power costs; potential impacts of COVID-19; economic conditions; electricity demand; health, safety and environmental regulations; cyber security; capital resources and liquidity; interest rates; labour relations; human resources; operating and maintenance investment requirements; weather; information technology infrastructure; insurance; defined benefit pension plan performance; and continued reporting in accordance with U.S. GAAP.

All forward-looking information in this MD&A is given as of the date of this MD&A and, except as required by law, the Company undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise.

Additional information, including the Company’s quarterly and annual financial statements, MD&A and Annual Information Form, is available on the System for Electronic Document Analysis and Retrieval (“SEDAR”) at sedar.com.

OVERVIEW

The Company

Newfoundland Power is a regulated electricity utility that owns and operates an integrated generation, transmission and distribution system throughout the island portion of Newfoundland and Labrador. The Company is a wholly owned subsidiary of Fortis Inc. (“Fortis”). Fortis is a well-diversified leader in the North American regulated electric and gas utility industry, serving customers across Canada and in the United States and the Caribbean.

Newfoundland Power’s primary business is electricity distribution. It generates approximately 7% of its electricity needs and purchases the remainder from Newfoundland and Labrador Hydro (“Hydro”). Newfoundland Power serves approximately 272,000 customers, comprising approximately 87% of all electricity consumers in the Province.

Newfoundland Power’s vision is to be a leader among North American electricity utilities in terms of safety, reliability, customer service and efficiency. The key goals of the Company are to operate sound electricity distribution systems, deliver safe, reliable electricity to customers at the lowest reasonable cost, and conduct business in a sustainable manner.

Regulation

Newfoundland Power is regulated by the Newfoundland and Labrador Board of Commissioners of Public Utilities (the "PUB"). The Company operates under cost of service regulation whereby it is entitled an opportunity to recover, through customer rates, all reasonable and prudent costs incurred in providing electricity service to its customers, including a just and reasonable return on its rate base. The rate base is the value of the net assets required to provide electricity service.

On January 24, 2019, the PUB issued an order on the Company's 2019/2020 General Rate Application ("GRA") which established the Company's cost of capital for rate making purposes for 2019 through 2021 based upon an 8.5% return on equity and 45% common equity. The Company's rate of return on rate base for 2019 and 2020 was established at 7.01% and 7.04%, respectively, with a range of ± 18 basis points. On December 14, 2020, the PUB approved the Company's rate of return on rate base for 2021 at 6.65% with a range of ± 18 basis points.

In 2021, the PUB approved as filed the Company's 2021 capital expenditure plan totaling \$112.8 million. Approximately 50% of the capital expenditures for 2021 relate to capital maintenance of the electricity system. The 2021 capital expenditure plan approval includes the Company's multi-year capital project to replace its existing customer service system (the "CSS Project"). The CSS Project is a three-year project that commenced in 2021 with a total cost of approximately \$31.6 million. On September 29, 2021, the PUB approved the Company's proposed supplemental 2021 capital expenditures for the deployment of electric vehicle ("EV") charging stations, with a total cost of approximately \$1.5 million.

On May 18, 2021, the Company filed an application with the PUB requesting approval of its 2022 capital expenditure plan totaling \$109.7 million. The PUB advised that the proposed EV charging network project, with a total cost of approximately \$1.6 million, would be considered separately from the application at a later date. On December 20, 2021, the PUB approved as filed the remaining \$108.1 million 2022 capital expenditure plan.

On November 22, 2021, the Company and intervenors reached a full Settlement Agreement with respect to the Company's 2022/2023 GRA. The Settlement Agreement reflects recovery of the Company's forecast costs of service and maintains the cost of capital for rate making purposes for 2022 through 2024 based upon an 8.5% return on equity and 45% common equity. This results in a rate of return on rate base for 2022 and 2023 of 6.61% and 6.39%, respectively, with a range of ± 18 basis points. The Settlement Agreement is subject to approval by the Board and an order is expected in February 2022. As a result of the 2022/2023 GRA, it is expected that there will be an overall 1.1% average decrease in electricity rates to customers effective March 1, 2022.

Financial Highlights

	2021	2020	Change
Electricity Sales (<i>gigawatt hours ("GWh")</i>) ¹	5,715.0	5,729.0	(14.0)
Earnings Applicable to Common Shares			
\$ Millions	43.8	43.2	0.6
\$ Per Share	4.24	4.19	0.05
Cash Flow from Operating Activities (<i>\$millions</i>)	141.2	145.8	(4.6)
Total Assets (<i>\$millions</i>)	1,764.4	1,719.7	44.7

¹ Reflects normalized electricity sales.

Electricity sales for 2021 decreased by 14.0 GWh, or approximately 0.2% compared to 2020. The decrease in electricity sales reflects 1.5% lower average consumption by residential customers and a 0.3% decrease in sales resulting from one less day of electricity sales in 2021 due to 2020 being a leap year. These factors were partially offset by 1.0% higher average consumption by commercial customers and a 0.6% increase in the number of customers.

Earnings increased by \$0.6 million, from \$43.2 million in 2020 to \$43.8 million in 2021. The increase in earnings is primarily due to lower finance costs and lower electricity system losses, partially offset by higher depreciation costs reflecting continued investment in the electricity system and lower electricity sales.

Cash from operating activities totalled \$141.2 million in 2021 compared to \$145.8 million in 2020. The decrease is primarily the result of changes in the Company's working capital and the operation of PUB-approved regulatory mechanisms.

Total assets increased by \$44.7 million compared to December 31, 2020. The increase primarily reflects continued investment in the electricity system and an increase in pension assets, partially offset by a reduction in regulatory assets associated with PUB-approved regulatory mechanisms.

RESULTS OF OPERATIONS

Revenue

(\$millions)	2021	2020	Change
Electricity Revenue ¹	700.7	706.8	(6.1)
Other Revenue ²	12.6	11.8	0.8
Total Revenue	713.3	718.6	(5.3)

¹ Electricity revenue includes regulatory deferrals and amortizations recognized pursuant to PUB orders of approximately \$(12.6) million for 2021 (2020 - \$(8.8) million). The amounts are recorded in accordance with PUB orders and are described in Note 7 to the Company's 2021 annual audited financial statements.

² Other revenue includes revenue from telecommunication companies, interest revenue associated with customer accounts and other miscellaneous amounts.

Electricity revenue decreased by \$6.1 million compared to 2020. The decrease primarily reflects lower electricity sales and changes in regulatory deferrals and amortizations.

Regulatory deferrals and amortizations include the energy supply cost variance, pension expense variance deferral ("PEVDA"), other post-employment benefits ("OPEB") cost variance deferral, and the amortization of annual customer energy conservation program costs. These regulatory mechanisms are described in Note 7 to the Company's 2021 annual audited financial statements.

Other revenue increased by \$0.8 million compared to 2020. The increase primarily reflects higher revenue from telecommunications companies.

Purchased Power: Purchased power expense for 2021 was \$7.5 million lower than 2020. The decrease primarily reflects lower energy purchases and lower electricity system losses.

Operating Expenses: Operating expenses for 2021 were \$1.6 million higher than 2020. The increase was primarily due to higher corporate costs associated with regulatory proceedings and higher other contract expenses, partially offset by lower labour costs and uncollectible bills.

Employee Future Benefits: Employee future benefits were consistent with 2020.

Depreciation and Amortization: Depreciation and amortization expense increased by \$2.8 million, from \$71.2 million in 2020 to \$74.0 million in 2021. The increase reflects the Company's capital expenditure program.

Amortization of Cost Recovery Deferrals: The amortization of cost recovery deferrals was consistent with 2020.

Finance Charges: Finance charges for 2021 were \$1.8 million lower than 2020. The decrease reflects lower interest on long-term debt and lower interest on credit facility borrowings.

Income Taxes: Income tax expense decreased by \$0.3 million, from \$11.9 million in 2020 to \$11.6 million in 2021. The decrease reflects lower income before tax and a lower effective tax rate.

FINANCIAL POSITION

Explanations of the primary causes of significant changes in the Company's balance sheets between December 31, 2020 and December 31, 2021 follow.

<i>(\$millions)</i>	Increase (Decrease)	Explanation
Account Receivable	6.9	Increase primarily reflects higher unbilled accounts receivable related to colder weather in December 2021 compared to December 2020.
Regulatory Assets, including Current Portion	(50.4)	Decrease due to normal operation of the Company's approved regulatory accounts. See Note 7 to the Company's 2021 annual audited financial statements.
Related Party Notes Receivable	(8.0)	Decrease reflects repayment by Fortis of a short-term demand loan.
Property, Plant and Equipment	47.0	Increase due to investment in the electricity system, in accordance with the 2021 capital expenditure program, partially offset by depreciation and customer contributions in aid of construction.
Intangible Assets	5.3	Increase due to investment in computer software expenditures and land rights, partially offset by amortization.
Defined Benefit Pension Assets	43.1	Increase due to an actuarial gain associated with a higher discount rate at December 31, 2021 used to determine the Company's defined benefit pension plan obligation.
Short-term Borrowings	8.1	Represents higher borrowings on the demand facility required to finance ongoing operating activities.
Accounts Payable and Accrued Charges	16.2	Increase reflects higher purchased power costs related to higher energy consumption in December 2021 compared to December 2020.
OPEB, including Current Portion	(5.8)	Decrease due to an actuarial gain associated with a higher discount rate at December 31, 2021 used to determine the Company's OPEB obligation.
Regulatory Liabilities, including Current Portion	16.3	Increase due to the normal operation of the Company's approved regulatory accounts. See Note 7 to the Company's 2021 annual audited financial statements.
Long-Term Debt, including Current Portion	(7.0)	Decrease reflects sinking fund bond payments.
Deferred Income Tax Liability	8.2	Increase reflects investment in the electricity system, in accordance with the 2021 capital expenditure program.
Retained Earnings	10.8	Earnings in excess of dividends; retained to finance rate base growth.

LIQUIDITY AND CAPITAL RESOURCES

The primary sources of liquidity and capital resources are net funds generated from operations, debt capital markets and bank credit facilities. These sources are used primarily to satisfy capital and intangible asset expenditures, service and repay debt, and pay dividends. A summary of cash flows and cash position for 2021 and 2020 follows.

<i>(\$millions)</i>	2021	2020	Change
Cash, Beginning of Year	-	-	-
Operating Activities	141.2	145.8	(4.6)
Investing Activities	(108.5)	(107.7)	(0.8)
Financing Activities	(32.7)	(38.1)	5.4
Cash, End of Year	-	-	-

Operating Activities

Cash from operating activities totalled \$141.2 million in 2021 compared to \$145.8 million in 2020. The decrease is primarily the result of changes in the Company's working capital and the operation of PUB-approved regulatory mechanisms.

Investing Activities

Cash used in investing activities totalled \$108.5 million in 2021 compared to \$107.7 million in 2020. This increase primarily reflects higher capital and intangible asset expenditures, partially offset by the repayment by Fortis of a short-term demand loan.

A summary of 2021 and 2020 capital and intangible asset expenditures follows.

<i>(\$millions)</i>	2021	2020
Electricity System		
Generation	13.8	2.6
Transmission	9.3	8.4
Substations	13.1	14.5
Distribution	49.8	42.4
Other	23.8	27.6
Intangible Assets	9.6	6.3
Capital and Intangible Asset Expenditures	119.4	101.8

The Company's business is capital intensive. Capital investment is required to ensure safe, reliable electrical system performance and to meet customer growth. All costs considered to be repairs and maintenance are expensed as incurred. Capital investment is also required for information technology systems and for general facilities, equipment and vehicles. Capital expenditures, and property, plant and equipment repairs and maintenance expense, can vary from year-to-year depending upon both planned electricity system expenditures and unplanned expenditures arising from weather or other unforeseen events.

The Company's annual capital plan requires prior PUB approval. Variances between actual and planned expenditures are generally subject to PUB review prior to inclusion in the Company's rate base. In 2021, the PUB approved as filed the Company's 2021 capital expenditure plan totaling \$112.8 million. Approximately 50% of the capital expenditures for 2021 relate to capital maintenance of the electricity system. The 2021 capital expenditure plan approval includes the Company's multi-year capital project to replace its existing customer service system. The CSS Project is a three-year project that commenced in 2021 with a total cost of approximately \$31.6 million. On September 29, 2021, the PUB approved the Company's proposed supplemental 2021 capital expenditures for the deployment of EV charging stations, with a total cost of approximately \$1.5 million.

On May 18, 2021, the Company filed an application with the PUB requesting approval of its 2022 capital expenditure plan totaling \$109.7 million. The PUB advised that the proposed EV charging network project, with a total cost of approximately \$1.6 million, would be considered separately from the application at a later date. On December 20, 2021, the PUB approved as filed the remaining \$108.1 million 2022 capital expenditure plan.

Financing Activities

Cash used in financing activities totalled \$32.7 million in 2021 compared to \$38.1 million in 2020. The decrease primarily reflects lower common share dividends in 2021. In 2020, proceeds from long-term debt were used to repay related party borrowings and maturing long-term debt.

The Company has historically generated sufficient annual cash flows from operating activities to service annual interest and sinking fund payments on debt, to fund pension obligations, to pay dividends and to finance a major portion of its annual capital program. Additional financing to fully fund the annual capital program is primarily obtained through the Company's bank credit facilities and these borrowings are periodically refinanced, along with any maturing bonds, through the issuance of long-term first mortgage sinking fund bonds. The issuance of bonds is subject to prior PUB approval and to a mortgage trust deed requirement that the ratio of (i) annual earnings, before tax and bond interest, to (ii) annual bond interest incurred plus annual bond interest to be incurred on the contemplated bond issue, be two times or higher. The Company currently does not expect any material changes in these annual cash flow and financing dynamics over the foreseeable future.

Credit Facilities: The Company's credit facilities are comprised of a \$100 million committed revolving term credit facility and a \$20 million demand facility as detailed below.

<i>(\$millions)</i>	2021	2020
Total Credit Facilities	120.0	120.0
Borrowing, Committed Facility	-	-
Borrowing, Demand Facility	(14.8)	(6.7)
Credit Facilities Available	105.2	113.3

During the third quarter of 2021, the \$100 million committed credit facility was extended to a five-year term maturing in August 2026. Subject to lenders' approval, the Company may request an extension for a further period of up to, but not exceeding, five years.

Pensions: As at December 31, 2021, the fair value of the Company's funded defined benefit pension plan assets was \$482.2 million compared to \$475.4 million as at December 31, 2020. The \$6.8 million increase in fair value was mainly due to favourable market conditions in 2021. Details of the plan asset changes are included in Note 11 to the Company's 2021 annual audited financial statements.

Based on the most recent actuarial valuation report, contributions for current service amounts are estimated to be \$2.7 million in 2022. The Company expects to have sufficient cash generated from operations to meet future pension funding requirements.

Contractual Obligations: Details, as at December 31, 2021, of contractual obligations over the subsequent five years and thereafter, follow.

<i>(\$millions)</i>	Total	Due Within 1 Year	Due in Years 2 & 3	Due in Years 4 & 5	Due After 5 Years
Credit Facilities (unsecured)	14.8	14.8	-	-	-
First Mortgage Sinking Fund Bonds ¹	626.9	35.2	13.6	41.6	536.5
Interest obligations on long-term debt	531.2	33.4	63.2	60.1	374.5
Total	1,172.9	83.4	76.8	101.7	911.0

¹ First mortgage sinking fund bonds are secured by a first fixed and specific charge on property, plant and equipment owned or to be acquired by the Company, by a floating charge on all other assets and carry customary covenants.

Credit Ratings and Capital Structure: To ensure continued access to capital at reasonable cost, the Company endeavours to maintain investment grade credit ratings. Details of the Company's investment grade bond ratings as at December 31, 2021 and 2020 follow.

Rating Agency	2021		2020	
	Rating	Outlook	Rating	Outlook
Moody's Investors Service ("Moody's")	A2	Stable	A2	Stable
DBRS Morningstar ("DBRS")	A	Stable	A	Stable

Both Moody's and DBRS issued updated credit rating reports in 2021 confirming the Company's existing investment grade bond rating and rating outlook.

Newfoundland Power maintains an average annual capital structure composed of approximately 55% debt and 45% common equity. This capital structure is reflected in customer rates and is consistent with the Company's current investment grade credit ratings.

The Company's capital structure as at December 31, 2021 and 2020 follows.

	2021		2020	
	\$millions	%	\$millions	%
Total Debt ¹	639.2	54.8	638.1	55.3
Common Equity	526.4	45.2	515.7	44.7
Total	1,165.6	100.0	1,153.8	100.0

¹ Includes long-term debt, net of deferred financing costs, unamortized credit facility costs and cash. Total also includes bank indebtedness, current portion of long-term debt and credit facility borrowings.

The Company expects to maintain its current investment grade credit ratings in 2022.

Capital Stock and Dividends: In both 2021 and 2020, the weighted average number of common shares outstanding was 10,320,270. Dividends on common shares for 2021 were \$12.6 million lower than 2020. The decrease primarily reflects a lower special common share dividend paid to Fortis in 2021 than 2020. In the fourth quarter of 2021, a \$5.0 million (2020 - \$18.0 million) special common share dividend was paid to maintain an average capital structure that includes approximately 45% equity. In 2021, the quarterly common share dividends increased to \$0.69 per share compared to \$0.68 per share in 2020. The Company's common share dividend policy maintains an average capital structure that includes approximately 45% common equity.

As of the date of this MD&A, the issued and outstanding capital of the Company consisted of 10,320,270 common shares, all of which were held by Fortis.

RELATED PARTY TRANSACTIONS

The Company provides services to, and receives services from, its parent company, Fortis and other subsidiaries of Fortis. The Company also incurs charges from Fortis for the recovery of general corporate expenses incurred by Fortis. These transactions are in the normal course of business and are recorded at their exchange amounts.

Related party transactions included in operating expenses in 2021 were \$2.5 million (2020 - \$2.5 million).

During 2021, the Company advanced short-term demand loans to Fortis with an average interest rate of 1.18%. The maximum amount outstanding was \$15.0 million. The loans were fully repaid in the first quarter of 2021. Total finance charges paid to the Company by Fortis in 2021 were less than \$0.1 million.

During 2020, the Company borrowed short-term demand loans from Fortis at an average interest rate of 2.39%. The maximum amount outstanding in 2020 was \$88.0 million. The loans were fully repaid in April 2020. Total finance charges paid to Fortis in 2020 were \$0.3 million.

In December 2020 the Company advanced a \$8.0 million short-term demand loan to Fortis at an interest rate of 1.23%. The loan was repaid by Fortis in January 2021.

FINANCIAL INSTRUMENTS

The carrying values of financial instruments included in current assets, current liabilities, other assets, and other liabilities approximate their fair value, reflecting their nature, short-term maturity or normal trade credit terms.

The fair value of long-term debt is calculated by discounting the future cash flows of each debt instrument at the estimated yield-to-maturity equivalent to benchmark government bonds, with similar terms to maturity, plus a credit risk premium equal to that of issuers of similar credit quality. Since the Company does not intend to settle its debt instruments before maturity, the fair value estimate does not represent an actual liability, and therefore, does not include settlement costs.

The carrying and estimated fair values of the Company's long-term debt as at December 31, 2021 and 2020 follows.

(\$millions)	2021		2020	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Long-term debt, including current portion and committed credit facility	626.9	796.0	634.1	857.8

BUSINESS RISK MANAGEMENT

The following is a summary of the Company's significant business risks.

Regulation: The Company's key business risk is regulation. The Company is subject to normal uncertainties facing entities that operate under cost of service regulation. It is dependent on PUB approval of customer rates that permit a reasonable opportunity to recover on a timely basis the estimated costs of providing electricity service, including a fair and reasonable return on rate base. The ability to recover the actual costs of providing service and to earn the approved rate of return depends on achieving the forecasts established in the rate-setting process. There can be no assurance that rate orders issued by the PUB will permit the Company to recover the estimated costs of providing electricity service. A failure to obtain acceptable rate orders may adversely affect the operations of the Company, the timing of capital projects, and the Company's credit ratings assigned by rating agencies, which may in turn, negatively affect the results of operations and financial position of the Company.

The Company is also dependent on PUB approval of its annual capital budget. Capital expenditures are necessary to provide safe, reliable and least cost service to customers. A failure to obtain approval of its capital budget application may negatively impact operations and the financial position of the Company.

In November 2021, the Government of Newfoundland and Labrador announced a review of the Public Utilities Act (the "Act"). The Act governs the activities of utilities operating in the Province. Material changes in governing legislation could negatively affect the results of operations and financial position of the Company. The review is anticipated to commence in 2022.

Energy Supply: The Company is dependent on Hydro for approximately 93% of its electricity requirements. In the event that Hydro is unable to supply the Company with wholesale energy deliveries, Newfoundland Power would be unable to meet its customers' requirements.

The Company experienced losses of electricity supply from Hydro in January 2013 and January 2014, which disabled the Company from meeting all of its customers' requirements. The PUB conducted an investigation and hearing into the system supply issues and power interruptions which ended in December 2019. Concerns relating to near term and long-term electricity supply continue to be reviewed by the PUB as a part of Hydro's Reliability and Resource Adequacy Study Review.

Nalcor Energy's \$13.1 billion Muskrat Falls hydroelectric generation development and associated transmission assets are nearing completion. All units of the Muskrat Falls generating facility have been released for service. Commissioning of the Labrador Island Link continues to experience delays and trial operations are not expected to be complete until May 2022. Commissioning of Muskrat Falls is expected to affect both the cost and reliability of the service provided to Newfoundland Power's customers.

Energy from Muskrat Falls is expected to supply a significant portion of Hydro's, and in turn Newfoundland Power's, electricity requirements. Uncertainty remains regarding supply adequacy and reliability of the province's electrical system after commissioning of Muskrat Falls. The reliability of supply from the Muskrat Falls project is currently under review by the PUB.

Purchased Power Costs: Purchased power costs are based on a wholesale demand and energy rate structure. The demand and energy rate structure presents the risk of volatility in purchased power costs due to uncertainty in forecasting energy sales and peak billing demand. Effective January 1, 2008, the PUB ordered the operation of the demand management incentive account (the "DMI"). The DMI limits variations in the unit cost of purchased power related to demand up to 1% of total demand costs reflected in customer rates, or approximately \$0.8 million for 2021 (2020 - \$0.8 million). The disposition of balances in this account, which would be determined by a further order of the PUB, will consider the merits of the Company's conservation and demand management activities.

The marginal cost of purchased power exceeds the average cost of purchased power that is embedded in customer rates. Actual electricity sales in 2021 and 2020 were lower than forecast electricity sales used to set customer rates, resulting in lower than expected unit energy costs. These supply cost dynamics have no material effect on Company earnings because the PUB ordered that variations in purchased power expense caused by differences between the actual unit cost of energy purchased and that reflected in customer rates be recovered from or refunded to customers through the Company's RSA.

Effective July 1, 2021, there was an overall average increase in electricity rates to customers from Hydro of approximately 2.5%. This rate increase is the net result of a 4.6% increase by Hydro as a result of the annual operation of their Rate Stabilization Plan and a 2.1% decrease related to the annual operation of Newfoundland Power's RSA. The July 1, 2021 rate increase did not impact annual earnings for Newfoundland Power.

Future increases in supply costs from Hydro, including costs associated with Muskrat Falls, are expected to increase electricity rates for Newfoundland Power's customers. On July 28, 2021, the Government of Newfoundland and Labrador and the Government of Canada announced an agreement in principle for the financial restructuring of the Muskrat Falls project. The announcement indicated that both governments are working toward implementing the detailed agreement before the project is fully commissioned. Initial estimates from the Government of Newfoundland and Labrador indicate a target mitigated rate of 14.7 ¢/kWh, approximately 10% higher than current customer rates. The timing and the final impact the agreement will have on customer rates remains uncertain.

Impacts of COVID-19: In March 2020, the World Health Organization declared the novel coronavirus COVID-19 as a global pandemic. Preventative measures implemented by health authorities have caused disruption to the global economy, including the economy of Newfoundland and Labrador. The pandemic and related preventative measures implemented by health authorities could adversely affect the Company's results of operations, cash flows and financial position. These measures did not have a material impact on the Company's results of operations, cash flows or financial position for the years ended December 31, 2021 or 2020.

Uncertainty exists with respect to the extent and duration of this pandemic and its impact on the Company's future results of operations, cash flows and financial position. The Company continues to monitor developments related to the pandemic and will take reasonable and necessary actions to minimize business risk and to continue to provide service to customers. A material decrease in cash flow, a disruption to the Company's supply chain or a significant reduction in the Company's skilled workforce could adversely affect Newfoundland Power's ongoing maintenance and capital investment programs.

The Company's ability to arrange sufficient and cost-effective financing is subject to numerous factors, including the financial position of the Company, conditions in the capital and bank credit markets, ratings assigned by rating agencies and general economic conditions. The COVID-19 pandemic creates uncertainty in each of these factors which may in turn create uncertainty in the Company's ability to arrange sufficient and cost-effective financing to fund capital expenditures and repay its existing debt.

Economic Conditions: Economic conditions impact the Company's electricity sales, cost of capital and the performance of the defined benefit pension plan.

Electricity sales are influenced by economic factors such as changes in employment levels, personal disposable income and housing starts. A downturn in oil prices negatively impacts the Government of Newfoundland and Labrador's fiscal capacity as well as the broader economy. Out-migration in rural areas, as well as declining birth rates and increasing death rates associated with an aging population, also affect sales. An extended decline in economic conditions would be expected to have the effect of reducing demand for energy over time. In addition to the impact of reduced demand, an extended decline in economic conditions could also impair the ability of customers to pay for electricity consumed, thereby affecting the aging and collection of the Company's accounts receivable. The Company's electricity sales have decreased each year since 2015.

The impact of economic conditions on pensions and cost of capital are described in the Interest Rates and Defined Benefit Pension Plan Performance sections of this MD&A.

Electricity Demand: Increases in electricity rates can cause changes in customer electricity consumption, which could negatively impact the Company's sales and, therefore, earnings and cash flows. A significant portion of customer electricity rates is dependent on purchased power costs, which are outside of Newfoundland Power's control.

Health and Safety: A focus on safety is an integral and continuing component of the Company's core business strategy. The Company is subject to numerous health and safety laws, regulations and guidelines. Damages and costs could potentially arise due to a variety of events, including human error or misconduct and equipment failure. There is no assurance that any costs which might arise would be recoverable through customer rates and, if substantial, unrecovered costs could have a material adverse effect on the results of operations, cash flows and financial position of the Company.

The Company maintains a health and safety management system which complies with International Organization for Standardization ("ISO") standard 45001. Continuing to meet this standard improves the Company's ability to capture and track information related to safe work practices and hazard recognition, and enhances safety management.

Cyber Security: The Company is exposed to the risk of cyber security violations. Unauthorized access to corporate and information technology systems due to hacking, viruses and other causes could result in service disruptions and system failures. In addition, the

Company requires access to confidential customer data, including personal and credit information, which could be exposed in the event of a security breach.

In 2019, Newfoundland Power implemented a Cyber Security Risk Management Program. This program will help guide the Company's response to managing its cyber security risk. Despite implemented security measures and controls to protect corporate and information technology systems and safeguard the confidentiality of customer information, a security breach could occur. This could potentially result in service disruptions, property damage, corruption or unavailability of critical data or confidential customer information, reputational damage and increased regulation and litigation. These could impact the Company's results if the situation is not resolved in a timely manner, or the financial impacts are not alleviated through insurance policies or through recovery from customers in future rates.

Environment: The Company is subject to numerous laws, regulations and guidelines relating to the protection of the environment including those governing the management, transportation and disposal of hazardous substances and other waste materials. Environmental damage and associated costs could potentially arise due to a variety of events, including the impact of severe weather and other natural disasters, climate change, human error or misconduct and equipment failure. Costs arising from environmental protection initiatives, compliance with environmental laws, regulations and guidelines or damages may become material to the Company.

The Company's key environmental hazard relates to risks of contamination of air, soil and water primarily relating to the storage and handling of fuel, the use and/or disposal of petroleum-based products, including transformer oils containing polychlorinated biphenyls, in the day-to-day operating and maintenance activities, and emissions from the combustion of fuel required in the generation of electricity.

The Company is also subject to inherent risks, including risk of fires. Electricity transmission and distribution facilities have the potential to cause fires as a result of equipment failure, trees falling on a transmission or distribution line or lightning strikes to wooden poles.

The environmental hazards related to hydroelectric generation operations include the creation of artificial water flows that may disrupt natural habitats and the storage of large volumes of water for the purpose of electricity generation.

To identify, mitigate and monitor environmental performance the Company has established an environmental management system ("EMS"). The Company's EMS is compliant with the ISO 14001:2015 standard. As at December 31, 2021, there were no environmental liabilities recorded in the Company's 2021 annual audited financial statements and there were no material unrecorded environmental liabilities known to management.

Capital Resources and Liquidity: The Company's financial position could be adversely affected if it fails to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. There can be no assurance that sufficient capital will continue to be available on acceptable terms to repay existing debt and to fund capital expenditures. The ability to arrange sufficient and cost-effective financing is subject to numerous factors, including the financial position of the Company, conditions in the capital and bank credit markets, credit ratings assigned by rating agencies and general economic conditions.

Credit ratings affect the level of credit risk spreads on new long-term bond issues and on the Company's credit facilities. A change in credit ratings could potentially affect access to various sources of capital and increase or decrease the Company's financing costs. There were no changes to the Company's credit ratings in 2021. The Company does not anticipate any material adverse rating actions by the credit rating agencies in the near term.

The Company has been successful at securing cost-effective capital and expects to have reasonable access to capital in the near to medium terms. The Company's \$100 million committed credit facility will mature in August 2026. Further information on the Company's credit facilities, contractual obligations, including long-term debt maturities and repayments, and cash flow requirements is provided in the "Liquidity and Capital Resources" section of this MD&A.

Interest Rates: Global financial market conditions could impact the Company's cost of capital as well as impact timing of future long-term bond issues. Market driven changes in interest rates could cause fluctuations in interest costs associated with the Company's bank credit facilities. The Company periodically refinances its credit facilities in the normal course with fixed-rate first mortgage sinking fund bonds, which compose most of its long-term debt, thereby significantly mitigating exposure to short-term interest rate changes.

Labour Relations: Approximately 52% of the Company's employees are members of the International Brotherhood of Electrical Workers labour union (the "IBEW"), which has two collective bargaining agreements with the Company. The two agreements expire on June 30, 2022.

Human Resources: The ability of the Company to deliver service in a cost-effective manner is dependent on the ability of the Company to attract, develop and retain a skilled workforce. The inability to attract, develop and retain a skilled workforce could have a material adverse effect on the Company.

Operating and Maintenance: The Company's electricity system requires ongoing maintenance and capital investment to ensure its continued performance, reliability and safety. The failure of the Company to properly execute its capital expenditure programs, maintenance programs or the occurrence of significant unforeseen equipment failures could have a material adverse effect on the Company's results of operations, cash flows and financial position. There can be no assurance that any additional maintenance and capital costs will receive regulatory approval for recovery in future customer rates.

Weather: The physical assets of the Company are exposed to the effects of severe weather conditions and other acts of nature. Although the physical assets have been constructed, operated and maintained to withstand severe weather, there is no assurance that they will successfully do so in all circumstances. In the event of a material uninsured loss caused by severe weather conditions or other natural disasters, there is potential to make an application to the PUB for recovery of those costs. However, there can be no assurance that the PUB would approve any such application. Any major damage to the Company's facilities could result in loss of revenue, repair costs and customer claims that are substantial in amount and could result in a material adverse effect on the Company's results of operations, cash flows and financial position.

Information Technology Infrastructure: The ability of the Company to operate effectively is dependent upon developing and maintaining its information systems and infrastructure that support electricity operations, provide customers with billing information and support the financial and general operating aspects of the business. System failures could have a material adverse effect on the Company.

Insurance: While the Company maintains a comprehensive insurance program, the Company's transmission and distribution assets (i.e. poles and wires) are not covered under insurance for physical damage. This is customary in North America as the cost of the coverage is not considered economical. Insurance is subject to coverage limits as well as time-sensitive claims discovery and reporting provisions and there is no assurance that the types of liabilities that may be incurred by the Company, including those that may arise relating to environmental matters, will be covered by insurance.

For material uninsured losses, the Company expects that it could seek regulatory relief. However, there is no assurance that regulatory relief would be received. Any major damage to the physical assets of the Company could result in repair costs and customer claims that are substantial in amount and which could have a material adverse effect on the Company's results of operations, cash flows and financial position.

It is expected that existing insurance coverage will be maintained. However, there is no assurance that the Company will be able to obtain or maintain adequate insurance in the future at rates considered reasonable or that insurance will continue to be available on terms comparable to those now existing.

Defined Benefit Pension Plan Performance: The defined benefit pension plan is subject to judgments utilized in the actuarial determination of the projected pension benefit obligation and the related pension expense. The primary assumptions utilized are the expected long-term rate of return on pension plan assets and the discount rate used to value the projected pension benefit obligation. A discussion of the critical accounting estimates associated with pensions is provided in the "Critical Accounting Estimates – Employee Future Benefits" section of this MD&A.

There is also risk associated with measurement uncertainty inherent in the actuarial valuation process as it affects the measurement of pension expense, future funding requirements, and the projected benefit obligation.

Pension benefit obligations and related pension expense can be affected by changes in the global financial and capital markets. There is no assurance that the pension plan assets will earn the expected long-term rate of return in the future. Market driven changes impacting the performance of the pension plan assets may result in material variations in actual return on pension plan assets from the expected long-term return on the assets. This may cause material changes in future pension funding requirements from current estimates and material changes in future pension expense. Market-driven changes also impact the discount rate which may result in material variations in (i) future pension funding requirements from current estimates and (ii) future pension expense.

Pension risks are mitigated due to the PUB approved pension expense variance deferral ("PEVDA") to deal with the differences between actual defined benefit pension expense and pension expense approved by the PUB for rate-setting purposes. Differences in pension expense arising from variations in assumptions are recovered from or refunded to customers through the Company's RSA. The closure of the defined benefit pension plan in 2004 also mitigates pension risk.

Continued Reporting in Accordance with U.S. GAAP: In December 2017, the Ontario Securities Commission ("OSC") issued a relief order which permits Newfoundland Power to continue to prepare its financial statements in accordance with U.S. GAAP. The relief extends until the earliest of: (i) January 1, 2024; (ii) the first date of the financial year that commences after the Company ceases to have activities subject to rate regulation; or (iii) the effective date prescribed by the International Accounting Standards Board ("IASB") for the

mandatory application of a standard within International Financial Reporting Standards (“IFRS”) specific to entities with activities subject to rate regulation.

In January 2021, the IASB issued an Exposure Draft which proposed a permanent mandatory standard for entities with activities subject to rate regulation. If OSC relief does not continue, the Company will be required to either adopt IFRS or, take one of the following steps in order to continue to prepare its financial statements in accordance with U.S. GAAP: (i) become a U.S. Securities and Exchange Commission registrant; (ii) appeal to the OSC for a permanent exemption; or (iii) cease to be a reporting issuer.

The Company continues to monitor developments with respect to the IASB Exposure Draft.

CHANGES IN ACCOUNTING POLICIES

There were no changes to the Company’s accounting policies during 2021.

FUTURE ACCOUNTING PRONOUNCEMENTS

The Company considers the applicability and impact of all ASUs issued by the Financial Accounting Standards Board. Any upcoming ASUs were assessed and determined to be either not applicable to the Company or are not expected to have a material impact on the financial statements.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Estimates and judgments are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Additionally, certain estimates are necessary since the regulatory environment in which the Company operates often requires amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. Due to changes in facts and circumstances and the inherent uncertainty involved in making estimates, actual results may differ significantly from current estimates. Estimates and judgments are reviewed periodically and, as adjustments become necessary, are reported in earnings in the period in which they either, as appropriate, become known or included in customer rates. The critical accounting estimates are discussed below.

Depreciation and Amortization: Depreciation and amortization, by their nature, are estimates based primarily on the useful lives of assets. Estimated useful lives are based on current facts and historical information, and take into consideration the anticipated lives of the assets. Newfoundland Power’s depreciation methodology, including depreciation and amortization rates, accumulated depreciation and estimated remaining service lives, is subject to a periodic study by external experts. The difference between actual accumulated depreciation and that indicated by the depreciation study is amortized and included in customer rates in a manner prescribed by the PUB.

The most recent depreciation study, based on property, plant and equipment in service as at December 31, 2014, indicated an accumulated depreciation variance of \$12.2 million. The PUB ordered that it be amortized as an increase in depreciation expense of property, plant and equipment over the average remaining service life of the related assets.

The estimate of future removal and site restoration costs is based on historical experience and future expected cost trends. The balance of this regulatory liability as at December 31, 2021 was \$187.6 million (December 31, 2020 - \$178.5 million). The net amount of estimated future removal and site restoration costs provided for and reported in depreciation expense during 2021 was \$20.1 million (2020 - \$19.3 million).

Capitalized Overhead: Newfoundland Power capitalizes overhead costs which are not directly attributable to specific capital assets, but which relate to the overall capital expenditure program (“general expenses capitalized” or “GEC”). Capitalization reflects estimates of the portions of various general expenses that relate to the overall capital expenditure program in accordance with a methodology ordered by the PUB. GEC is allocated over constructed property, plant and equipment, and amortized over their estimated service lives. In 2021, GEC totalled \$6.8 million (2020 - \$6.6 million). Changes to the methodology for calculating and allocating general overhead costs to property, plant and equipment could have a material impact on the amounts recorded as operating expenses versus property, plant and equipment. However, any change in the fundamental methodology for the calculation and allocation of GEC would require the approval of the PUB.

Employee Future Benefits: The Company’s primary defined benefit pension and OPEB plans are subject to judgments utilized in the actuarial determination of the expense and related obligations. The primary assumptions utilized in determining the pension expense and the projected pension benefit obligation are the discount rate and the expected long-term rate of return on plan assets. The primary

assumptions utilized in determining the OPEB expense and the projected OPEB benefit obligation are the discount rate and the health care cost trend rate. All assumptions are assessed and concluded in consultation with the Company's external actuarial advisor.

The discount rate as at December 31, 2021, which is utilized to determine the projected pension benefit obligation and the 2022 pension expense was 3.2% compared to the discount rate of 2.6% as at December 31, 2020. The discount rate as at December 31, 2021, utilized to determine the projected OPEB obligation and the 2022 OPEB expense was 3.2% compared to the discount rate of 2.7% as at December 31, 2020. Discount rates reflect market interest rates on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments.

The expected long-term rate of return on pension plan assets which is used to estimate the 2022 defined benefit pension expense is 4.50%, consistent with the rate used for the 2021 defined benefit pension expense. The expected long-term rate of return reflects global market conditions and the Company's long-term investment strategy. As in previous years, the Company's actuary provided a range of expected long-term pension asset returns based on their internal modelling. The expected long-term return on pension plan assets of 4.50% falls within this range. The Company completed its asset mix study in the second quarter of 2021. The key focus of the study was around reducing the risk associated with the Company's DB Pension Plan, driven by the closed status of the plan, the changing demographics of plan participants and the funded status of the plan. As a result of the study, the allocation of fixed income investments to incorporate longer duration bonds was completed to reduce interest rate risk and pension expense volatility, while maintaining the opportunity to earn a reasonable return on pension plan assets. The updated asset mix was completed in the fourth quarter of 2021.

The health care cost trend rate as at December 31, 2021, which is utilized to determine the projected OPEB benefit obligation and the 2022 OPEB expense, is 4.0%, consistent with December 31, 2020.

The following table provides sensitivity to the changes in the 2021 primary assumptions associated with the Company's primary defined benefit pension and OPEB plans.

(\$millions)	Defined Benefit Pension Plan		OPEB Plan	
	Pension Expense ¹	Benefit Obligation ²	OPEB Expense ¹	Benefit Obligation ²
Rate of return on plan assets:				
Increase by 1.0%	(4.4)	-	-	-
Decrease by 1.0%	4.4	-	-	-
Discount rate:				
Increase by 1.0%	(5.5)	(47.4)	(0.5)	(12.8)
Decrease by 1.0%	2.2	58.1	1.5	16.7
Health care cost trend rate:				
Increase by 1.0%	-	-	1.9	12.2
Decrease by 1.0%	-	-	(0.9)	(9.6)

¹ For the year ended December 31, 2021. The volatility of future pension and OPEB expense has been mitigated by the PUB approved PEVDA and OPEB cost variance deferrals, in which the difference arising from variations in assumptions between actual pension and OPEB expense and pension and OPEB expense approved by the PUB for rate-setting purposes would be recovered from or refunded to customers through the Company's RSA.

² As at December 31, 2021.

Other assumptions applied in measuring the defined benefit pension expense and/or the projected pension benefit obligation were the average rate of compensation increase, average remaining service life of the active employee group, and employee and retiree mortality rates. Other assumptions utilized in determining OPEB costs and obligations include the foregoing assumptions, excluding the average rate of compensation increase.

Income Taxes: Deferred income tax assets and liabilities are based upon temporary differences between the accounting and tax basis of existing assets and liabilities, the benefit of income tax reductions or tax losses available to be carried forward and the effects of changes in tax laws. The carrying amounts of assets and liabilities are based upon the amounts recorded in the financial statements and are, therefore, subject to accounting estimates that are inherent to those balances. The timing of the reversal of temporary differences is estimated based upon assumptions of expectations of future results of operations. The composition of deferred income tax assets and liabilities are reasonably likely to change from period to period because of changes in the estimation of these expectations.

Asset Retirement Obligations: The measurement of the fair value of asset retirement obligations ("AROs") requires the Company to make reasonable estimates about the method of settlement and settlement dates associated with legally obligated asset retirement costs. While the Company has AROs for its generation assets and certain distribution and transmission assets, there were no amounts recognized as at December 31, 2021 and 2020.

The nature, amount and timing of AROs for hydroelectric generation assets cannot be reasonably estimated at this time as these assets are expected to effectively operate in perpetuity given their nature. In the event that environmental issues are identified or hydroelectric generation assets are decommissioned, AROs will be recorded at that time provided the costs can be reasonably estimated. It is management's judgment that identified AROs for its remaining assets are immaterial.

Revenue Recognition: The development of the electricity sales estimates requires analysis of electricity consumption on a historical basis in relation to key inputs such as the current price of electricity, population growth, economic activity, weather conditions and electricity system losses. The estimation process for accrued unbilled electricity consumption will result in adjustments to electricity revenue in the period during which the difference between actual results and those estimated becomes known. As at December 31, 2021, the amount of accrued unbilled revenue recorded in accounts receivable was approximately \$37.6 million (December 31, 2020 - \$32.1 million).

Contingencies: The Company is subject to various legal proceedings and claims associated with the ordinary course of business operations. It is management's judgment that the amount of liability, if any, from these actions would not have a material adverse effect on the Company's financial position or results of operations.

SELECTED ANNUAL INFORMATION

The following table sets forth annual information for the years ended December 31, 2021, 2020 and 2019. The financial information reflects Canadian dollars and has been prepared in accordance with U.S. GAAP.

<i>(\$millions, except per share amounts)</i>	2021	2020	2019
Results of Operations:			
Revenue	713.3	718.6	683.9
Net Earnings Applicable to Common Shares	43.8	43.2	42.3
Financial Position:			
Total Assets	1,764.4	1,719.7	1,703.4
Total Long-term Liabilities	1,068.3	1,094.6	976.9
Shareholders' Equity	526.4	515.7	526.7
Per Share Data:			
Earnings Applicable to Common Shares ¹	4.24	4.19	4.10
Common Dividends Declared ¹	3.24	4.46	2.68
Preference Dividends Declared ²	-	-	0.62

¹ Basic and fully diluted. Based on the weighted average number of common shares outstanding, which was 10,320,270 common shares in each year.

² Based on the aggregate number of preference shares outstanding in each year, which was 884,877 in 2019. During the first quarter of 2020, all of the issued and outstanding preference shares were redeemed.

The changes from 2020 to 2021 have been discussed previously in this MD&A. The increase in revenue from 2019 to 2020 was primarily due to the flow through of higher wholesale electricity rates effective October 1, 2019 and changes in regulatory deferrals and amortizations recognized pursuant to PUB orders. These factors were partially offset by the impact of lower electricity sales. The increase in earnings from 2019 to 2020 was primarily due to (i) the implementation of the Company's 2019/2020 GRA order which reflected continued investment in the electricity system, and (ii) the impact of lower generation than water inflows at the Company's hydroelectric generating stations in 2019. These factors were partially offset by lower electricity sales.

The increase in total assets from 2019 to 2020 primarily reflects continued investment in the electricity system and an increase in pension assets, partially offset by a reduction in accounts receivable and regulatory assets associated with PUB-approved regulatory mechanisms. The change in long-term liabilities primarily reflects an increase in long-term debt and the operation of PUB approved regulatory mechanisms.

FOURTH QUARTER RESULTS

	2021	2020	Change
Electricity Sales (GWh) ¹	1,567.7	1,532.2	35.5
Net Earnings Applicable to Common Shares			
\$ Millions	15.0	15.6	(0.6)
\$ Per Share	1.46	1.51	(0.05)
Cash Flow from Operating Activities (\$millions)	32.6	39.5	(6.9)
Cash Flow used in Investing Activities (\$millions)	(39.8)	(36.1)	(3.7)
Cash Flow used in Financing Activities (\$millions)	(4.5)	(55.5)	51.0

¹ Reflects normalized electricity sales.

Electricity sales for the fourth quarter of 2021 increased by 35.5 GWh, or approximately 2.3% compared to the fourth quarter of 2020. The increase in electricity sales reflects 1.6% higher average consumption by commercial customers and customer growth of 0.7%.

Earnings for the fourth quarter of 2021 decreased by \$0.6 million compared to the fourth quarter of 2020. The decrease in earnings was primarily the result of higher depreciation costs reflecting continued investment in the electricity system and higher corporate costs associated with regulatory proceedings. These factors were partially offset by lower electricity system losses and higher electricity sales.

Cash from operating activities for the fourth quarter of 2021 decreased by \$6.9 million compared to the fourth quarter of 2020. The decrease primarily reflects the operation of PUB-approved regulatory mechanisms and changes in the Company's working capital.

Cash used in investing activities for the fourth quarter of 2021 increased by \$3.7 million compared to the fourth quarter of 2020. The increase primarily reflects higher capital and intangible asset expenditures in the fourth quarter of 2021, partially offset by a short-term demand loan to Fortis in the fourth quarter of 2020.

Cash used in financing activities for the fourth quarter of 2021 decreased by \$51.0 million compared to the fourth quarter of 2020. The decrease primarily reflects lower long-term debt repayments and lower common share dividends. These factors were partially offset by an increase in short-term borrowings.

QUARTERLY RESULTS

The following table sets forth unaudited quarterly information for each of the eight quarters ended March 31, 2020, through December 31, 2021. The quarterly information reflects Canadian dollars and has been obtained from the Company's interim unaudited financial statements which have been prepared in accordance with U.S. GAAP. These financial results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

(unaudited)	First Quarter March 31		Second Quarter June 30		Third Quarter September 30		Fourth Quarter December 31	
	2021	2020	2021	2020	2021	2020	2021	2020
Electricity Sales (GWh) ¹	1,911.1	1,980.9	1,307.5	1,299.8	928.7	916.1	1,567.7	1,532.2
Revenue (\$millions)	226.2	242.9	164.5	163.0	124.4	121.4	198.3	191.3
Net Earnings Applicable to Common Shares (\$millions)	5.7	6.1	13.2	11.9	9.8	9.5	15.0	15.6
Earnings per Common Share (\$) ²	0.55	0.59	1.28	1.16	0.95	0.92	1.46	1.51

¹ Reflects normalized electricity sales.

² Basic and fully diluted.

Seasonality

Sales and Revenue: Quarterly sales and revenue are impacted by the seasonality of electricity sales for heating. As a result, sales and revenue are significantly higher in the first quarter and significantly lower in the third quarter compared to the remaining quarters.

Earnings: In addition to the seasonality of electricity consumption for heating, quarterly earnings are impacted by the purchased power rate structure. The Company pays more, on average, for each kilowatt hour ("kWh") of purchased power in the winter months and less, on average, for each kWh of purchased power in the summer months. Changes in the purchased power rate structure may impact quarterly

earnings. Overall, these sales, revenue and cost dynamics are such that earnings will generally be lower in the first quarter than the remaining quarters in the year.

Trending

Sales and Revenue: Changes in quarterly electricity sales year-over-year reflect fluctuations in average consumption and growth in the number of customers served by the Company. The Company expects growth in the number of customers to be modest. Trends in future sales are expected to be comparable with recent years.

Earnings: Beyond the impact of fluctuations in electricity sales, future quarterly earnings and earnings per share are expected to trend with the return on equity reflected in customer rates and rate base growth.

OUTLOOK

Newfoundland Power's vision is to be a leader among North American electricity utilities in terms of safety, reliability, customer service and efficiency. The key goals of the Company are to operate sound electricity distribution systems, deliver safe, reliable electricity to customers at the lowest reasonable cost, and conduct business in a sustainable manner.

Newfoundland Power is regulated under a cost of service regime. Cost of service regulation entitles the Company to an opportunity to recover its reasonable cost of providing service, including its cost of capital, in each year.

2022/2023 General Rate Application: On November 22, 2021, the Company and intervenors reached a full Settlement Agreement with respect to the Company's 2022/2023 GRA. As a result of the 2022/2023 GRA, it is expected that there will be an overall 1.1% average decrease in electricity rates to customers effective March 1, 2022. See the "Regulation" section of this MD&A.

Energy Supply and Customer Rates: Newfoundland Power purchases approximately 93% of its electricity requirements from Hydro. In the event that Hydro is unable to supply the Company with wholesale energy deliveries, Newfoundland Power would be unable to meet its customers' requirements. A significant portion of customer electricity rates is dependent on purchased power costs, which are outside of the Company's control.

Nalcor Energy's \$13.1 billion Muskrat Falls hydroelectric generation development and associated transmission assets are nearing completion. All units of the Muskrat Falls generating facility have been released for service. Commissioning of the Labrador Island Link continues to experience delays and trial operations are not expected to be complete until May 2022. Commissioning of Muskrat Falls is expected to affect both the cost and reliability of the service provided to Newfoundland Power's customers.

Future increases in supply costs from Hydro, including costs associated with Muskrat Falls, are expected to increase electricity rates for Newfoundland Power's customers. On July 28, 2021, the Government of Newfoundland and Labrador and the Government of Canada announced an agreement in principle for the financial restructuring of the Muskrat Falls project. The announcement indicated that both governments are working toward implementing the detailed agreement before the project is fully commissioned. Initial estimates from the Government of Newfoundland and Labrador indicate a target mitigated rate of 14.7 ¢/kWh, approximately 10% higher than current customer rates. The timing and the final impact the agreement will have on customer rates remains uncertain.

Energy from Muskrat Falls is expected to supply a significant portion of Hydro's, and in turn Newfoundland Power's, electricity requirements. Uncertainty remains regarding supply adequacy and reliability of the province's electrical system after commissioning of Muskrat Falls. The reliability of supply from the Muskrat Falls project is currently under review by the PUB.

OUTSTANDING SHARES

As at the filing date of this MD&A the Company had issued and outstanding 10,320,270 common shares. Each of the common shares carry voting rights equal to one vote per share.

CORPORATE INFORMATION

Additional information about Newfoundland Power, including its quarterly and annual financial statements and Annual Information Form, is available on SEDAR at www.sedar.com.

All the common shares of Newfoundland Power Inc. are owned by Fortis Inc. Fortis (TSX/NYSE: FTS) is a well-diversified leader in the North American regulated electric and gas utility industry, with revenue of \$9.4 billion and total assets of \$58 billion as at December 31, 2021. Fortis Inc.'s 9,100 employees serve 3.4 million utility customers in five Canadian provinces, nine US states and three Caribbean countries.

Additional information about Fortis can be accessed at www.fortisinc.com, www.sedar.com, or www.sec.gov.

For further information, contact:

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INDEPENDENT AUDITOR'S REPORT //

Independent Auditor's Report

To the Shareholders and the Board of Directors of
Newfoundland Power Inc.

Opinion

We have audited the financial statements of Newfoundland Power Inc. (the "Company"), which comprise the balance sheets as at December 31, 2021 and 2020, and the statements of earnings, changes in shareholders' equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (US GAAP).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with US GAAP, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Brian Groves.

/s/ Deloitte LLP

Chartered Professional Accountants
St. John's, Newfoundland and Labrador
February 10, 2022

**ANNUAL AUDITED FINANCIAL
STATEMENTS & NOTES//**

Statements of Earnings
For the years ended December 31
(in thousands of Canadian dollars, except per share amounts)

	2021	2020
Revenue (Note 4)	\$ 713,331	\$ 718,614
Expenses		
Purchased power	461,393	468,844
Operating expenses	82,335	80,766
Employee future benefits (Note 11)	5,815	6,077
Depreciation and amortization	73,993	71,187
Amortization of cost recovery deferrals (Note 7)	(876)	(876)
Finance charges	<u>35,311</u>	<u>37,146</u>
	<u>657,971</u>	<u>663,144</u>
Earnings Before Income Taxes	55,360	55,470
Income tax expense (Note 8)	<u>11,603</u>	<u>11,893</u>
Net Earnings	43,757	43,577
Preference share dividends (Note 15)	<u>-</u>	<u>347</u>
Net Earnings Applicable to Common Shares	<u>\$ 43,757</u>	<u>\$ 43,230</u>
Basic and Diluted Earnings per Common Share	<u>\$ 4.24</u>	<u>\$ 4.19</u>

Statements of Changes in Shareholders' Equity
For the years ended December 31
(in thousands of Canadian dollars, except per share amounts)

	Common Shares	Preference Shares	Retained Earnings	Total Equity
As at January 1, 2021	\$ 70,321	\$ -	\$ 445,330	\$ 515,651
Net earnings	-	-	43,757	43,757
Allocation of Part VI.1 tax	-	-	520	520
Dividends on common shares (\$3.24 per share)	-	-	(33,484)	(33,484)
As at December 31, 2021	<u>\$ 70,321</u>	<u>\$ -</u>	<u>\$ 456,123</u>	<u>\$ 526,444</u>
As at January 1, 2020	\$ 70,321	\$ 8,849	\$ 447,546	\$ 526,716
Net earnings	-	-	43,577	43,577
Allocation of Part VI.1 tax	-	-	625	625
Dividends on common shares (\$4.46 per share)	-	-	(46,071)	(46,071)
Dividends on preference shares (Note 15)	-	-	(347)	(347)
Redemption of preference shares (Note 15)	-	(8,849)	-	(8,849)
As at December 31, 2020	<u>\$ 70,321</u>	<u>\$ -</u>	<u>\$ 445,330</u>	<u>\$ 515,651</u>


See accompanying notes to financial statements.

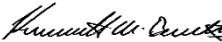
Balance Sheets
As at December 31
(in thousands of Canadian dollars)

	2021	2020
Assets		
Current assets		
Accounts receivable (Note 5)	\$ 72,603	\$ 65,681
Income taxes receivable	713	-
Materials and supplies (Note 6)	1,839	1,705
Prepaid expenses	2,745	2,522
Regulatory assets (Note 7)	7,578	14,560
Related party notes receivable (Note 17)	-	8,000
	<u>85,478</u>	<u>92,468</u>
Property, plant and equipment (net) (Note 9)	1,284,420	1,237,470
Intangible assets (Note 10)	35,922	30,592
Defined benefit pension plans (Note 11)	68,844	25,705
Regulatory assets (Note 7)	287,925	331,302
Other assets (Note 12)	1,855	2,169
	<u>\$ 1,764,444</u>	<u>\$ 1,719,706</u>
Liabilities and Shareholder's Equity		
Current liabilities		
Short-term borrowings (Note 13)	\$ 14,820	\$ 6,728
Accounts payable and accrued charges	90,279	74,110
Interest payable	6,517	6,596
Income taxes payable	-	1,842
Defined benefit pension plans (Note 11)	280	438
Other post-employment benefits (Note 11)	3,647	3,782
Regulatory liabilities (Note 7)	18,997	8,769
Current instalments of long-term debt (Note 13)	35,200	7,200
	<u>169,740</u>	<u>109,465</u>
Regulatory liabilities (Note 7)	203,976	197,944
Defined benefit pension plans (Note 11)	5,148	5,180
Other post-employment benefits (Note 11)	85,028	90,676
Other liabilities (Note 14)	1,401	1,212
Deferred income taxes (Note 8)	183,510	175,356
Long-term debt (Note 13)	589,197	624,222
	<u>1,238,000</u>	<u>1,204,055</u>
Shareholder's equity		
Common shares, no par value, unlimited authorized shares, 10.3 million shares issued and outstanding (Note 15)	70,321	70,321
Retained earnings	456,123	445,330
	<u>526,444</u>	<u>515,651</u>
	<u>\$ 1,764,444</u>	<u>\$ 1,719,706</u>

See accompanying notes to financial statements.

APPROVED ON BEHALF OF THE BOARD:


Glenn Miffin
Director


Kenneth Bennett
Director

Statements of Cash Flows
For the years ended December 31
(in thousands of Canadian dollars)

	2021	2020
Operating Activities		
Net earnings	\$ 43,757	\$ 43,577
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation of property, plant and equipment	69,739	67,327
Amortization of intangible assets and other	4,470	4,092
Change in long-term regulatory assets and liabilities	25,719	24,029
Deferred income taxes <i>(Note 8)</i>	889	(5,111)
Employee future benefits	3,421	2,697
Other	74	197
Change in working capital <i>(Note 16)</i>	(6,861)	8,957
	<u>141,208</u>	<u>145,765</u>
Investing Activities		
Capital expenditures <i>(Note 16)</i>	(109,785)	(95,437)
Intangible asset expenditures	(9,583)	(6,320)
Contributions from customers	2,823	2,102
Net repayment (advance) of related party receivable <i>(Note 17)</i>	8,000	(8,000)
	<u>(108,545)</u>	<u>(107,655)</u>
Financing Activities		
Change in short-term borrowings	8,092	5,316
Proceeds from long-term debt <i>(Note 13)</i>	-	100,000
Repayments of long-term debt <i>(Note 13)</i>	(7,200)	(37,200)
Net repayment of related party borrowings <i>(Note 17)</i>	-	(50,500)
Redemption of preference shares <i>(Note 15)</i>	-	(8,849)
Payment of debt financing costs	(71)	(459)
Dividends		
Preference shares	-	(347)
Common shares	(33,484)	(46,071)
	<u>(32,663)</u>	<u>(38,110)</u>
Change in Cash	-	-
Cash, Beginning of Year	-	-
Cash, End of Year	<u>\$ -</u>	<u>\$ -</u>
Cash Flows Include the Following:		
Interest paid	\$ 35,555	\$ 37,300
Income taxes paid	\$ 12,738	\$ 12,500

See accompanying notes to financial statements.

Notes to Financial Statements

December 31, 2021

Tabular amounts are in thousands of Canadian dollars unless otherwise noted.

1. Description of the Business

Newfoundland Power Inc. (the “Company” or “Newfoundland Power”) is a regulated electricity utility that operates an integrated generation, transmission and distribution system throughout the island portion of Newfoundland and Labrador. The Company is regulated by the Newfoundland and Labrador Board of Commissioners of Public Utilities (the “PUB”) and serves approximately 272,000 customers comprising approximately 87% of all electricity consumers in the Province. All of the common shares of the Company are owned by Fortis Inc. (“Fortis”). Newfoundland Power has an installed generating capacity of 143 megawatts (“MW”), of which approximately 97 MW is hydroelectric generation. It generates approximately 7% of its energy needs and purchases the remainder from Newfoundland and Labrador Hydro (“Hydro”).

The Company operates under cost of service regulation as administered by the PUB under the *Public Utilities Act (Newfoundland and Labrador)* (“Public Utilities Act”). The Public Utilities Act provides for the PUB’s general supervision of the Company’s utility operations and requires the PUB to approve, among other things, customer rates, capital expenditures and the issuance of securities. The Public Utilities Act also entitles the Company an opportunity to recover all reasonable and prudent costs incurred in providing electricity service to its customers, including a just and reasonable return on its rate base. The rate base consists of the net assets required by the Company to provide electricity service to customers.

The determination of the forecast return on rate base, together with the forecast of all reasonable and prudent costs, establishes the revenue requirement upon which the Company’s customer rates are determined through a general rate hearing. Rates are bundled to include generation, transmission and distribution services.

Newfoundland Power maintains a capital structure comprised of approximately 55% debt and preference equity and 45% common equity.

On January 24, 2019, the PUB issued an order on the Company’s 2019/2020 General Rate Application (“GRA”) which established the Company’s cost of capital for rate making purposes for 2019 through 2021 based upon an 8.5% return on equity and 45% common equity. The Company’s rate of return on rate base for 2019 and 2020 was established at 7.01% and 7.04%, respectively, with a range of ± 18 basis points. On December 14, 2020, the PUB approved the Company’s rate of return on rate base for 2021 at 6.65% with a range of ± 18 basis points.

On November 22, 2021, the Company and intervenors reached a full Settlement Agreement with respect to the Company’s 2022/2023 GRA. The Settlement Agreement reflects recovery of the Company’s forecast costs of service and maintains the cost of capital for rate making purposes for 2022 through 2024 based upon an 8.5% return on equity and 45% common equity. This results in a rate of return on rate base for 2022 and 2023 of 6.61% and 6.39%, respectively, with a range of ± 18 basis points. The Settlement Agreement is subject to approval by the Board and an order is expected in February 2022.

2. Summary of Significant Accounting Policies

The significant accounting policies of the Company are as follows.

Basis of Presentation

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”). In December 2017, the Ontario Securities Commission approved the extension of the Company’s exemptive relief to continue reporting under U.S. GAAP rather than International Financial Reporting Standards (“IFRS”) until the earlier of January 1, 2024 and the effective date prescribed by the International Accounting Standards Board for the mandatory application of a standard within IFRS specific to entities with activities subject to rate regulation.

2. Summary of Significant Accounting Policies (cont'd)

Revenue Recognition

The majority of the Company's revenue is generated from electricity sales to customers based on published tariff rates, as approved by the PUB. Electricity is metered upon delivery to customers and recognized as revenue using approved rates when consumed. Meters are read periodically and bills are issued to customers based on these readings. At the end of each period, an estimate of electricity consumed but not yet billed is accrued as revenue. The unbilled revenue accrual for each period is based on estimated electricity sales to customers for the period since the last meter reading at the rates approved by the PUB. The development of the electricity sales estimates requires analysis of electricity consumption on a historical basis in relation to key inputs such as the current price of electricity, population growth, economic activity, weather conditions and electricity system losses.

Revenue arising from the amortization of certain regulatory assets and liabilities is recognized in the manner prescribed by the PUB (Note 7). Other revenue is recognized when the service is rendered.

Sales Taxes

In the course of its operations, the Company collects municipal taxes and sales taxes from its customers. When customers are billed, a current liability is recognized for municipal taxes included in electricity rates charged to customers and sales taxes included on customers' bills. The liability is settled when the taxes are remitted to the appropriate government authority. The Company's revenue excludes municipal taxes and sales taxes.

Allowance for Credit Losses

Effective January 1, 2020, the Company adopted Accounting Standards Update ("ASU") No. 2016-13, Measurement of Credit Losses on Financial Instruments. This standard requires the use of reasonable and supportable forecasts in the estimate of credit losses and the recognition of expected losses upon initial recognition of a financial instrument, in addition to using past events and current conditions. The new guidance also requires quantitative and qualitative disclosures regarding the activity in the allowance for credit losses for financial assets within the scope of the guidance (Note 5). The adoption of this standard did not have a material impact on Newfoundland Power's financial statements and related disclosures.

The Company records an allowance for credit losses to reduce accounts receivable for amounts estimated to be uncollectible from customers. The allowance is estimated based on historical collection patterns, sales, and current and forecasted economic and other conditions.

Materials and Supplies

Materials and supplies, representing fuel and materials required for maintenance activities, are measured at the lower of average cost and net realizable value.

Regulatory Assets and Liabilities

Regulatory assets and liabilities arise as a result of the rate-setting process. Regulatory assets represent future revenues associated with certain costs incurred in the current or prior periods that will be, or are expected to be, recovered from customers in future periods through the rate-setting process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that will be, or are expected to be, refunded to customers through the rate-setting process. The accounting methods underlying regulatory assets and liabilities, and their eventual settlement through the rate-setting process, are approved by the PUB and impact the Company's cash flows.

Property, Plant and Equipment

Property, plant and equipment are stated at values approved by the PUB as at June 30, 1966, with subsequent additions at cost.

Maintenance and repairs of utility capital assets are charged to expense in the period incurred, while replacements and betterments which extend the useful lives are capitalized.

Contributions in aid of construction represent the cost of utility property, plant and equipment contributed by customers and government. These contributions are recorded as a reduction in the cost of utility property, plant and equipment.

The Company capitalizes certain overhead costs not directly attributable to specific property, plant and equipment but which do relate to its overall capital expenditure program ("general expenses capitalized" or "GEC"). The methodology for calculating and allocating GEC among classes of property, plant and equipment is established by PUB Order. In 2021, GEC totalled \$6.8 million (2020 - \$6.6 million).

2. Summary of Significant Accounting Policies (cont'd)

Property, Plant and Equipment (cont'd)

The Company capitalizes an allowance for funds used during construction ("AFUDC"), which represents the cost of debt and equity financing incurred during construction of property, plant and equipment. AFUDC is calculated in a manner prescribed by the PUB based on a capitalization rate that is the Company's weighted average cost of capital. In 2021, the cost of equity financing capitalized as AFUDC and recorded in other revenue was approximately \$0.4 million (2020 - \$0.4 million). The debt component of AFUDC totalling \$0.5 million in 2021 (2020 - \$0.5 million) is recorded as a reduction of finance charges.

Property, plant and equipment are depreciated using the straight-line method by applying the depreciation rates approved by the PUB and disclosed below to the average original cost of the related assets, including GEC and AFUDC.

The Company's depreciation methodology, including depreciation rates, accumulated depreciation and estimated remaining service lives, is subject to periodic review by external experts (a "Depreciation Study").

Based on the 2014 Depreciation Study, and as approved by the PUB, the composite depreciation rates for the Company's property, plant and equipment, as well as their service life ranges and average remaining service lives are as follows.

	Composite Depreciation Rate (%)	Service Life (Years)	
		Range	Average Remaining
Distribution	3.2	18-65	27
Transmission and substations	3.0	31-65	27
Generation	2.8	17-75	30
Transportation and communications	8.2	6-30	5
Buildings	2.4	37-70	26
Equipment	8.9	5-25	5

The difference between actual accumulated depreciation and that indicated by a Depreciation Study is treated as a depreciation variance which is used to increase or decrease depreciation expense and is included in customer rates in a manner prescribed by the PUB. The 2014 Depreciation Study, which was based on property, plant and equipment in service as at December 31, 2014, indicated an accumulated depreciation variance of \$12.2 million. The PUB ordered that it be amortized as an increase in depreciation expense of property, plant and equipment over the average remaining service life of the related assets.

Upon disposition, the original cost of property, plant and equipment is removed from the asset accounts. That amount, net of salvage proceeds, is also removed from accumulated depreciation. As a result, any gain or loss is charged to accumulated depreciation and is effectively included in the depreciation variance arising from the next Depreciation Study.

Intangible Assets

Intangible assets are recorded at cost and amortized over their estimated useful lives using the straight-line method by applying the amortization rates approved by the PUB to the cost of the related assets. The weighted average amortization rates for intangible assets in 2021 were 10.0% for computer software (2020 - 10.0%) and 1.6% for land rights (2020 - 1.6%).

Upon disposition, the original cost of the intangible asset is removed from the asset accounts. That amount, net of salvage proceeds, is also removed from accumulated amortization. As a result, any gain or loss is charged to accumulated amortization and is effectively included in the accumulated amortization variance arising from the next Depreciation Study.

Impairment of Long-Lived Assets

The Company reviews the valuation of property, plant and equipment, intangible assets and other long-term assets when events or changes in circumstances indicate that the assets' carrying values exceed the total undiscounted cash flows expected from their use and eventual disposition. An impairment loss, calculated as the difference between the assets' carrying value and their fair values, which is determined using present value techniques, is recognized in earnings in the period in which it is identified. There was no impairment of long-lived assets for the years ended December 31, 2021 and 2020.

2. Summary of Significant Accounting Policies (cont'd)

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities. The deferred income tax assets and liabilities are measured using enacted income tax rates and laws that are expected to be in effect when the differences are expected to be recovered or settled. The effect of a change in income tax rates on deferred income tax assets and liabilities is recognized in earnings in the period that the change occurs. Current income tax expense is recognized for the estimated income taxes payable or receivable in the current year.

Newfoundland Power recovers current income tax expense in customer rates. The Company is permitted to recover deferred income tax expense by the PUB as follows.

Effective January 1, 1981, deferred income tax liabilities are recognized and recovered in customer rates on temporary differences associated with the cumulative excess of capital cost allowance over depreciation of property, plant and equipment.

Effective January 1, 1987, the PUB order noted above was modified to exclude GEC from the depreciation of property, plant and equipment.

Effective January 1, 2008, deferred income taxes are recognized and recovered in customer rates on temporary differences between pension expense and pension funding.

Effective January 1, 2011, deferred income taxes are recognized and recovered in customer rates on temporary timing differences between other post-employment benefits ("OPEB") costs recovered using the accrual method and cash payments.

Deferred income taxes associated with the Company's regulatory reserves and certain regulatory deferrals are also recognized and included in the determination of customer rates (Note 7).

Deferred income tax assets and liabilities associated with other temporary differences between the tax basis of assets and liabilities and their carrying amounts are not included in customer rates. These amounts are expected to be recovered from (refunded to) customers through rates when the income taxes actually become payable (recoverable). The Company has recognized these deferred income tax liabilities with an offsetting increase in regulatory assets. The Company's regulatory asset for deferred income taxes as at December 31, 2021 was \$234.7 million (2020 - \$227.5 million) (Note 7).

The allocation of Part VI.1 tax to Newfoundland Power from Fortis associated with preference share dividends is recognized in retained earnings upon signing the respective agreement.

Tax benefits associated with income tax positions taken, or expected to be taken, in an income tax return are recognized only when the more likely than not recognition threshold is met.

Interest related to unrecognized tax benefits is recognized in finance charges and any associated penalties are recognized in operating expenses.

Employee Future Benefits

Newfoundland Power maintains defined contribution and defined benefit pension plans for its employees and also provides an OPEB plan. The OPEB plan is composed of retirement allowances for retiring employees as well as health, medical and life insurance for retirees and their dependants.

Defined Contribution and Defined Benefit Pension Plans

The Company's defined contribution plans are its individual and group registered retirement savings plans. Defined contribution pension plan costs are expensed as incurred.

The Company's defined benefit plans are its funded defined benefit pension plan, an unfunded pension uniformity plan ("PUP"), and an unfunded supplementary employee retirement plan ("SERP"). Both the funded defined benefit pension plan and the PUP are closed to new entrants.

2. Summary of Significant Accounting Policies (cont'd)

Employee Future Benefits (cont'd)

The net benefit costs and projected benefit obligations of the funded defined benefit pension plan and the PUP are actuarially determined using the projected benefits method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees. Discount rates reflect market interest rates on high-quality bonds with cash flows that match the timing and amount of pension payments. The net benefit costs and projected benefit obligations of the SERP are determined based upon employee earnings and years of service. Net benefit costs are also impacted by the amortization of various regulatory assets (Note 7 (iv)).

Pension plan assets of the funded defined benefit pension plan are valued at market-related value, where investment returns in excess of or below expected returns are recognized in the asset value over a period of three years. The excess of the cumulative net actuarial gain or loss over 10% of the greater of the benefit obligation and the market-related value of plan assets is amortized over the estimated average remaining service period of active employees.

Other Post-Employment Benefits

The net benefit cost and projected benefit obligation of the OPEB plan are actuarially determined using the projected benefits method pro-rated on service and best estimate of health care costs. Discount rates reflect market interest rates on high-quality bonds with cash flows that match the timing and amount of OPEB payments. Net benefit costs are also impacted by the amortization of various regulatory assets (Note 7 (ii)). The excess of any cumulative net actuarial gain or loss over 10% of the benefit obligation, along with unamortized past service costs is amortized over the estimated average remaining service period of active employees.

Asset Retirement Obligations

The Company is required to record the fair value of future expenditures necessary to settle legal obligations associated with asset retirements even though the timing or method of settlement is conditional on future events. Newfoundland Power has determined that there are asset retirement obligations ("AROs") associated with its hydroelectric generation assets and some parts of its transmission and distribution system.

For hydroelectric generation assets, the legal obligation is the environmental remediation of the land and waterways to protect fish habitat. However, this obligation is conditional on the decision to decommission generation assets. The Company currently has no plans to decommission any of its hydroelectric generation assets as they are effectively operated in perpetuity. Therefore, the nature and fair value of any ARO is not currently determinable.

The legal obligations for the transmission and distribution system pertain to the proper disposal of used oil and polychlorinated biphenyl contaminated assets. Obligations related to other Company facilities consist of the removal of fuel storage tanks and asbestos. These obligations were determined to be immaterial and therefore no AROs have been recognized.

The Company will recognize AROs and offsetting property, plant and equipment if the nature and timing can reasonably be determined and the amount is material.

Leases

A right-of-use asset and lease liability is recognized for all leases with a lease term greater than 12 months. The right-of-use asset and liability are both measured at the present value of future lease payments, excluding variable payments that are based on usage or performance.

Use of Accounting Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Estimates and judgments are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Additionally, certain estimates are necessary since the regulatory environment in which the Company operates often requires amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. Due to changes in facts and circumstances and the inherent uncertainty involved in making estimates, actual results may differ significantly from current estimates. Estimates are reviewed periodically and, as adjustments become necessary, are reported in earnings in the period in which they either, as appropriate, become known or included in customer rates.

3. Future Accounting Pronouncements

The Company considers the applicability and impact of all ASUs issued by the Financial Accounting Standard's Board. Any upcoming ASUs were assessed and determined to be either not applicable to the Company or are not expected to have a material impact on the financial statements.

4. Revenue

The composition of the Company's revenue follows.

	2021	2020
Electricity revenue		
Residential	\$ 455,202	\$ 460,507
Commercial	241,143	238,136
Street lighting	16,958	16,983
Regulatory deferrals and amortizations (Note 7)	(12,564)	(8,785)
	700,739	706,841
Other contract revenue	10,979	9,759
Other revenue	1,613	2,014
Total revenue	\$ 713,331	\$ 718,614

Electricity revenue

Electricity revenue includes revenue from the delivery of electricity to residential and commercial customers and the provision of street lighting service to municipalities.

Other contract revenue

Other contract revenue is primarily the result of other contracts with customers including: (i) revenue from telecommunication companies for pole attachments and other pole-related services; (ii) wheeling revenue from Hydro for transmitting electricity to its customers using Newfoundland Power's electrical system; and, (iii) revenue from customers for services other than those directly related to delivery of electricity service.

Other revenue

Other revenue includes interest revenue, the equity portion of AFUDC and other miscellaneous amounts.

5. Accounts Receivable

The timing of revenue recognition, billings and cash collections from contracts with customers results in trade accounts receivable and unbilled accounts receivable. The composition of the Company's accounts receivable follows.

	2021	2020
Trade accounts receivable	\$ 36,727	\$ 34,944
Unbilled accounts receivable	37,626	32,077
Other	1,549	1,566
Allowance for credit losses	(3,299)	(2,906)
	\$ 72,603	\$ 65,681

Accounts receivable is recorded net of an allowance for credit losses. The change in the allowance for credit losses balance from December 31, 2020 follows.

	2021	2020
Balance, beginning of year	\$ (2,906)	\$ (2,323)
Credit loss expense	(1,111)	(2,290)
Write-offs	1,595	2,475
Recoveries	(877)	(768)
Balance, end of year	\$ (3,299)	\$ (2,906)

6. Materials and Supplies

	2021	2020
Materials and supplies	\$ 1,459	\$ 1,397
Fuel in storage	380	308
	\$ 1,839	\$ 1,705

7. Regulatory Assets and Liabilities

The Company's regulatory assets and liabilities which will be, or are expected to be, reflected in customer rates in future periods, follow.

	2021	2020	Remaining Recovery Period (Years)
Regulatory assets			
OPEB (ii)	\$ 14,016	\$ 17,520	4
Conservation and demand management deferral (iii)	23,458	24,356	7
Employee future benefits (iv)	21,397	74,752	Benefit payment period
Deferred GRA costs (vi)	-	353	-
Demand management incentive ("DMI") (vii)	1,917	1,431	2
Deferred income taxes (Note 8)	234,715	227,450	Life of related assets
Total regulatory assets	\$ 295,503	\$ 345,862	
Less: current portion	(7,578)	(14,560)	
Long-term regulatory assets	\$ 287,925	\$ 331,302	

	2021	2020	Remaining Settlement Period (Years)
Regulatory liabilities			
RSA (i)	\$ 32,466	\$ 22,035	2
Cost recovery deferrals (viii)	-	876	-
Weather normalization account (v)	2,885	5,333	2
Future removal and site restoration provision (ix)	187,622	178,469	Life of related assets
Total regulatory liabilities	\$ 222,973	\$ 206,713	
Less: current portion	(18,997)	(8,769)	
Long-term regulatory liabilities	\$ 203,976	\$ 197,944	

(i) Rate Stabilization Account

On July 1 of each year, customer rates are recalculated in order to recover from or refund to customers, over the subsequent twelve months, the balance in the RSA as of March 31 of the current year. The amount and timing of the recovery or refund is subject to PUB approval.

The RSA passes through, to the Company's customers, amounts primarily related to changes in the cost and quantity of fuel used by Hydro to produce the electricity sold to the Company.

The RSA also passes through, to the Company's customers, variations in purchased power expense caused by differences between the actual unit cost of energy and that reflected in customer rates ("Energy Supply Cost Variance"). The marginal cost of purchased power for the Company currently exceeds the average cost that is embedded in customer rates. Actual electricity sales in 2021 and 2020 were lower than forecast electricity sales used to set customer rates, resulting in lower than expected unit energy costs. The amount transferred to the RSA in 2021 for refund to customers due to the Energy Supply Cost Variance was \$25.4 million (2020 - \$21.4 million).

7. Regulatory Assets and Liabilities (cont'd)

(i) Rate Stabilization Account (cont'd)

The pension expense variance deferral account ("PEVDA") is charged or credited with the amount by which actual pension expense differs from amounts approved in customer rates by the PUB due to variations in assumptions. Each year, at March 31, the balance in the PEVDA is transferred to the Company's RSA and disposed of in accordance with the operation of the RSA. The amount transferred from the PEVDA to the RSA in 2021 for recovery from customers was \$5.5 million (2020 - \$6.6 million).

The OPEB cost variance deferral account is charged or credited with the amount by which actual OPEB expense differs from amounts approved in customer rates by the PUB due to variations in assumptions. Each year, at March 31, the balance in the OPEB cost variance deferral account is transferred to the Company's RSA and disposed of in accordance with the operation of the RSA. The amount transferred from the OPEB cost variance deferral account to the RSA in 2021 for recovery from customers was \$1.4 million (2020 - \$0.3 million).

Customer energy conservation program costs and balances in the weather normalization account are also transferred to the RSA (Notes 7 (iii) and (v)). The RSA is also adjusted from time-to-time by other amounts as approved by the PUB.

On June 17, 2020, in Order P.U. 16 (2020), the PUB approved a July 2020 wholesale bill credit from Hydro to the Company of approximately \$50.6 million. In Order P.U. 17 (2020), the PUB approved, as filed, the Company's plan to provide the one-time bill credit to eligible customers in July 2020. As a result, customer electricity rates remained unchanged effective July 1, 2020. The plan reflects a total bill credit fund of approximately \$47.7 million. This fund reflects the \$50.6 million wholesale bill credit from Hydro and \$2.9 million associated with the Company's RSA balance and Municipal Tax Adjustment Factor. The one-time bill credit was provided to customers in the third quarter of 2020, as approved by the PUB. The amount of the one-time bill credit that customers received varied based on their energy usage. The one-time customer bill credit did not have a material impact on annual earnings for Newfoundland Power. Undistributed bill credits of \$0.3 million were transferred to the RSA in December 2020 for refund to customers in accordance with P.U. 17 (2020).

(ii) OPEB

This regulatory asset represents the accumulated difference between OPEB expense recognized on a cash basis for regulatory purposes and an accrual basis for financial reporting purposes from 2000 through 2010. Effective January 1, 2011, the PUB ordered the adoption of the accrual method of accounting for OPEB and the \$52.6 million regulatory asset be amortized evenly over 15 years.

(iii) Conservation and Demand Management Deferral

As ordered by the PUB, annual customer energy conservation program costs are deferred and amortized to operating expenses over the subsequent seven-year period, consistent with the period these costs are recovered from customers. Conservation program costs of \$5.0 million were deferred in 2021 (2020 - \$5.1 million). The amount transferred to the RSA in 2021 for recovery from customers was \$5.9 million (2020 - \$5.6 million).

(iv) Employee Future Benefits

Upon transition to U.S. GAAP in 2012, the PUB approved the following with respect to the accounting for employee future benefits.

- (a) Opening unamortized balances and future amounts of past service costs and actuarial gains or losses are recorded as a regulatory asset, rather than accumulated other comprehensive loss. The amortization of these balances will continue to be included in the calculation of employee future benefit expense.
- (b) The period over which pension expense had been recognized differed between that used for regulatory purposes and that used for U.S. GAAP. Therefore, the cumulative difference was recorded as a regulatory asset to be recovered from customers in future rates. The PUB ordered that pension expense for regulatory purposes be recognized in accordance with U.S. GAAP effective January 1, 2013 and that the accumulated difference in pension expense to December 31, 2012 of \$12.4 million be amortized evenly over 15 years to pension expense.

(v) Weather Normalization Account

The Weather Normalization Account reduces earnings volatility by adjusting purchased power expense and electricity sales revenue to eliminate variances in purchases and sales caused by the difference between normal weather conditions, based on long-term averages, and actual weather conditions. The PUB has ordered that balances in the weather normalization account be recovered through the RSA (Note 7 (i)). The amount transferred to the RSA in 2021 for refund to customers was \$5.3 million (2020 - \$8.1 million for recovery from customers).

7. Regulatory Assets and Liabilities (cont'd)

(vi) Deferred GRA Costs

As approved in the 2019/2020 GRA Order, a \$1.0 million cost deferral related to 2019/2020 GRA hearing costs was recognized on March 1, 2019. The deferral was amortized to operating expenses over a 34-month period from March 1, 2019 through December 31, 2021. Amortization of \$0.4 million was recorded in 2021 (2020 - \$0.3 million).

(vii) Demand Management Incentive

Through the DMI, variations in the unit cost of purchased power related to demand are limited, at the discretion of the PUB, to 1% of demand costs reflected in customer rates. The disposition of balances in this account to the RSA are determined by orders of the PUB following consideration of the Company's conservation and demand management activities. The amount transferred to the RSA in 2021 for recovery from customers was \$1.4 million (2020 - \$2.7 million).

(viii) Cost Recovery Deferrals

As approved in the 2019/2020 GRA Order, the Company recorded a \$2.5 million over-recovery from customers in 2019. This over-recovery was ordered to be amortized in customer rates over a 34-month period from March 1, 2019 through December 31, 2021. Amortization of \$0.9 million was recorded in 2021 (2020 - \$0.9 million).

(ix) Future Removal and Site Restoration Provision

This regulatory liability represents amounts collected in customer electricity rates over the life of certain property, plant and equipment which are attributable to removal and site restoration costs that are expected to be incurred in the future. Actual removal and site restoration costs are recorded against the regulatory liability when incurred. The regulatory liability represents the amount of expected future removal and site restoration costs associated with the applicable property, plant and equipment in service as at December 31, calculated using current depreciation rates as approved by the PUB.

8. Income Taxes

The composition of the Company's income tax expense follows.

	2021	2020
Current income tax expense	\$ 10,714	\$ 17,004
Deferred income tax expense	8,155	2,106
Less: regulatory adjustment	(7,266)	(7,217)
	\$ 11,603	\$ 11,893

Income taxes differ from the amount that would be determined by applying the enacted combined Canadian federal and provincial statutory income tax rate to earnings before income taxes. A reconciliation of the combined statutory income tax rate to the Company's effective income tax rate follows.

	2021	2020
Earnings before income taxes	\$ 55,360	\$ 55,470
Statutory tax rate	30.0%	30.0%
Income taxes, at statutory rate	16,608	16,641
Items capitalized for accounting purposes but expensed for income tax purposes	(2,336)	(2,258)
Difference between capital cost allowance and depreciation and amortization expense	(2,989)	(2,724)
Other	320	234
Income tax expense	\$ 11,603	\$ 11,893
Effective income tax rate	21.0%	21.4%

8. Income Taxes (cont'd)

Deferred Income Taxes

The composition of the Company's net deferred income tax liability follows.

	2021	2020
Deferred income tax liabilities		
Property, plant and equipment	\$ 200,298	\$ 188,335
Intangible assets	11,778	10,990
Regulatory assets	22,791	47,387
Defined benefit pension plans	29,082	10,400
Total deferred income tax liabilities	\$ 263,949	\$ 257,112
Deferred income tax assets		
Regulatory liabilities	\$ (49,589)	\$ (48,021)
OPEB	(29,894)	(33,053)
Other	(956)	(682)
Total deferred income tax assets	(80,439)	(81,756)
Net deferred income tax liability	\$ 183,510	\$ 175,356

The net deferred income tax liability includes a gross up to reflect the income tax associated with future revenue required to fund the net deferred income tax liability (Note 7).

As at December 31, 2021 and 2020, the Company had no non-capital or capital losses carried forward.

As at December 31, 2021 and 2020, the Company had no material unrecognized tax benefits related to uncertain tax positions.

As at December 31, 2021, the Company's tax years still open to examination by taxing authorities include 2017 and subsequent years.

9. Property, Plant and Equipment

	Cost		Accumulated Depreciation		Net Book Value	
	2021	2020	2021	2020	2021	2020
Distribution	\$ 1,093,479	\$ 1,053,320	\$ (383,059)	\$ (366,465)	\$ 710,420	\$ 686,855
Transmission and substations	442,082	423,638	(121,056)	(113,571)	321,026	310,067
Generation	266,450	252,213	(101,335)	(96,345)	165,115	155,868
Transportation and communications	42,774	41,181	(21,023)	(19,947)	21,751	21,234
Land, buildings and equipment	86,894	86,051	(34,571)	(33,945)	52,323	52,106
Construction in progress	4,583	2,523	-	-	4,583	2,523
Construction materials	9,202	8,817	-	-	9,202	8,817
	\$1,945,464	\$ 1,867,743	\$ (661,044)	\$ (630,273)	\$ 1,284,420	\$ 1,237,470

9. Property, Plant and Equipment (cont'd)

Distribution assets are used to distribute low voltage electricity to customers and include poles, towers and fixtures, low voltage wires, transformers, overhead and underground conductors, street lighting, metering equipment and other related equipment. Transmission and substations assets are used to transmit high voltage electricity to distribution assets and include poles, high voltage wires, switching equipment, transformers and other related equipment. Generation assets are used to generate electricity and include hydroelectric and thermal generating stations, gas and combustion turbines, dams, reservoirs and other related equipment. Transportation and communications assets include vehicles as well as telephone, radio and other communications equipment. Land, buildings and equipment are used generally in the provision of electricity service, but not specifically in the distribution, transmission or generation of electricity or specifically related to transportation and communication activities.

10. Intangible Assets

	Cost		Accumulated Amortization		Net Book Value	
	2021	2020	2021	2020	2021	2020
Computer software	\$ 47,363	\$ 41,714	\$ (19,235)	\$ (17,103)	\$ 28,128	\$ 24,611
Land rights	13,135	11,190	(5,341)	(5,209)	7,794	5,981
	\$ 60,498	\$ 52,904	\$ (24,576)	\$ (22,312)	\$ 35,922	\$ 30,592

Amortization expense related to intangibles was \$4.3 million for 2021 (2020 - \$3.9 million).

11. Employee Future Benefits

The projected benefit obligation for all of the Company's defined benefit plans, and the market-related value of plan assets for the Company's funded defined benefit pension plan, are measured for accounting purposes as at December 31 of each year. The latest actuarial valuation of the Company's defined benefit pension plan for funding purposes was as of December 31, 2019. The valuation indicated the funded status of the plan as at December 31, 2019 on a going concern and solvency basis. On a going concern basis, the surplus decreased from \$69.7 million as at December 31, 2017 to \$67.6 million as at December 31, 2019. On a solvency basis, the funding surplus increased from \$8.6 million as at December 31, 2017 to \$19.2 million as at December 31, 2019. The increase was primarily due to contributions to the plan since 2017 and favorable market returns, partially offset by a lower estimated discount rate.

The next funding valuation for the defined benefit pension plan is expected to be as of December 31, 2022. The most recent actuarial valuation of the Company's OPEB plan was as at December 31, 2020.

11. Employee Future Benefits (cont'd)

Details of the Company's defined benefit plans follow.

	2021		2020	
	Defined Benefit Pension Plans ¹	OPEB Plan	Defined Benefit Pension Plans ¹	OPEB Plan
Change in projected benefit obligation				
Balance, beginning of year	\$ 455,287	\$ 94,458	\$ 434,620	\$ 92,026
Service costs	4,380	3,113	4,334	2,457
Employee contributions	570	-	646	-
Interest costs	11,626	2,499	13,181	2,886
Benefits paid	(19,702)	(2,331)	(20,755)	(2,748)
Actuarial (gain) loss	(33,423)	(9,064)	23,261	(163)
Balance, end of year ^{2,3}	\$ 418,738	\$ 88,675	\$ 455,287	\$ 94,458
Change in fair value of plan assets				
Balance, beginning of year	\$ 475,374	\$ -	\$ 444,185	\$ -
Actual return on assets	22,680	-	48,213	-
Benefits paid	(19,702)	(2,331)	(20,755)	(2,748)
Employee contributions	570	-	646	-
Employer contributions	3,232	2,331	3,085	2,748
Balance, end of year ⁴	\$ 482,154	\$ -	\$ 475,374	\$ -
Funded status, net asset (liability), end of year	\$ 63,416	\$ (88,675)	\$ 20,087	\$ (94,458)
Balance Sheet Presentation				
Long-term assets	\$ 68,844	\$ -	\$ 25,705	\$ -
Current liabilities	(280)	(3,647)	(438)	(3,782)
Long-term liabilities	(5,148)	(85,028)	(5,180)	(90,676)
	\$ 63,416	\$ (88,675)	\$ 20,087	\$ (94,458)

¹ The Company's defined benefit plans include the funded defined benefit pension plan, the PUP and the SERP.

² The accumulated benefit obligation for defined benefit pension plans, which includes no assumption about future salary levels, was \$398.3 million at December 31, 2021 (December 31, 2020 - \$430.4 million).

³ The decrease in the projected benefit obligation is due to an actuarial gain recorded at December 31, 2021 as a result of an increase in discount rate. Further detail is provided in the significant assumptions table on the following page.

⁴ The increase in the fair value of plan assets is due to a higher actual return on assets, as a result of favourable market conditions.

11. Employee Future Benefits (cont'd)

Newfoundland Power's net benefit costs for its defined benefit pension and OPEB plans included in regulatory assets and yet to be recognized are as follows.

	2021			2020		
	Defined Benefit Pension Plans	OPEB Plan	Total	Defined Benefit Pension Plans	OPEB Plan	Total
Employee future benefits regulatory asset (Note 7 (iv))						
Unrecognized actuarial losses	\$ 15,358	\$ 1,093	\$ 16,451	\$ 58,784	\$ 10,198	\$ 68,982
Unrecognized transitional obligations	4,946	-	4,946	5,770	-	5,770
	\$ 20,304	\$ 1,093	\$ 21,397	\$ 64,554	\$ 10,198	\$ 74,752
OPEB regulatory asset (Note 7 (ii))	\$ -	\$ 14,016	\$ 14,016	\$ -	\$ 17,520	\$ 17,520

The change in regulatory assets associated with the Company's defined benefit pension and OPEB plans for 2021 and 2020 follow.

	2021		2020	
	Defined Benefit Pension Plans	OPEB Plan	Defined Benefit Pension Plans	OPEB Plan
Actuarial gains	\$ (36,515)	\$ (9,064)	\$ (5,072)	\$ (163)
Amortization of OPEB regulatory asset	-	(3,504)	-	(3,504)
Amortization of actuarial losses	(6,911)	(41)	(6,493)	(72)
Amortization of pension deferral costs	(824)	-	(824)	-
Amortization of past service (costs) credits	-	-	(212)	1,224
Total	\$ (44,250)	\$ (12,609)	\$ (12,601)	\$ (2,515)

Significant Assumptions

The following table provides the weighted-average assumptions used to determine benefit obligations for the Company's defined benefit pension and OPEB plans. These rates are used in determining the net benefit costs in the following year.

	2021		2020	
	Defined Benefit Pension Plans	OPEB Plan	Defined Benefit Pension Plans	OPEB Plan
Discount rate (%)	3.20	3.20	2.60	2.70
Rate of compensation increase (%)	3.50	-	3.50	-
Expected long-term rate of return on plan assets (%) ¹	4.50	-	4.50	-
Health care cost trend increase (%) ²	-	4.00	-	4.00

¹ Developed by management with assistance from an independent actuary. The best estimates are based on historical performance, future expectations and periodic portfolio rebalancing among the diversified asset classes.

² The projected 2021 health care cost trend rate is 6.9% for the OPEB plan and is assumed to decrease over the next 20 years to the ultimate health care cost trend rate of 4.0%.

11. Employee Future Benefits (cont'd)

Plan Assets

The investment strategy of the Company's funded defined benefit pension plan is to ensure that the pension plan assets, together with expected contributions, are invested in a prudent and cost-effective manner so as to optimally meet the liabilities of the plan for its members.

The investment objective of the pension plan is to maximize return in order to manage the funded status of the plan, and minimize the Company's cost over the long-term, as measured by both cash contributions and pension expense for financial statement purposes.

The Company's funded primary defined benefit pension plan asset allocation is as follows.

Plan assets as at December 31 (%)	2021		2020	
	Target Allocation	Actual ¹	Target Allocation	Actual ¹
Canadian equities	10	10	10	10
International equities	30	30	30	30
Fixed income	60	60	60	60
Total	100	100	100	100

¹ The defined benefit pension plan assets will be rebalanced to target only if actual results are +/- 5% outside of target allocation.

Newfoundland Power periodically reviews its investment strategy and asset allocation. Based on the review completed in 2021, the allocation of fixed income investments was updated to incorporate longer duration bonds to reduce interest rate risk and pension expense volatility, while maintaining the opportunity to earn a reasonable return on pension plan assets.

Fair Value of Plan Assets

The guidance on fair value measurements emphasizes that plan asset measurement should be based on assumptions that market participants would use to price the plan assets. The Company's funded defined benefit pension plan assets are measured using the market approach valuation technique. The assumptions or inputs to the valuation technique are categorized into three levels. Level 1 provides the most reliable measure of fair value, whereas Level 3 generally requires significant management judgment.

The fair value measurements for all of the Company's equity and debt securities, as held in various pooled funds, are classified as Level 2 inputs based on the three level hierarchy that distinguishes the level of pricing observability utilized in measuring fair value. Level 2 includes inputs other than quoted market prices in active markets that are either directly or indirectly observable for the asset or liability.

The fair value of the Company's primary defined benefit pension plan assets are as follows.

	2021	2020
Canadian equities	\$ 49,669	\$ 48,051
International equities	143,460	144,717
Fixed income	289,025	282,606
Total fair value	\$ 482,154	\$ 475,374

11. Employee Future Benefits (cont'd)

Expected Cash Flows

The estimated future benefit payments for the defined benefit pension and OPEB plans follow.

	Defined Benefit Pension Plans	OPEB Plan
2022	\$ 20,304	\$ 3,647
2023	20,186	3,922
2024	20,780	4,174
2025	21,277	4,371
2026	22,230	4,579
2027-2031	117,208	23,388

The Company's contributions to the defined benefit pension plans are estimated to be \$3.0 million for 2022.

Employee Future Benefits Cost

The Company's employee future benefits cost includes the net benefit costs of its defined benefit, defined contribution and OPEB plans.

The components of net benefit costs associated with the Company's defined benefit pension and OPEB plans, prior to capitalization, are as follows.

	2021		2020	
	Defined Benefit Pension Plans	OPEB Plan	Defined Benefit Pension Plans	OPEB Plan
Service costs	\$ 4,360	\$ 3,113	\$ 4,328	\$ 2,457
Interest costs	11,626	2,499	13,181	2,886
Expected return on plan assets	(19,588)	-	(19,880)	-
Amortization of actuarial losses	6,911	41	6,493	72
Amortization of past service costs (credits)	-	-	212	(1,224)
	\$ 3,309	\$ 5,653	\$ 4,334	\$ 4,191
Regulatory adjustments (Note 7)				
Amortization of pension deferrals	824	-	824	-
Amortization of OPEB regulatory asset	-	3,504	-	3,504
Net benefit cost	\$ 4,133	\$ 9,157	\$ 5,158	\$ 7,695

During 2021, the Company expensed approximately \$2.8 million (2020 - \$2.7 million) related to its defined contribution pension plans.

12. Other Assets

	2021	2020
Customer finance plans	\$ 1,755	\$ 2,098
Other	100	71
	\$ 1,855	\$ 2,169

Customer finance plans represent the non-current portion of loans to customers for certain new service requests and energy efficiency upgrades. The current portion of these loans is presented as other accounts receivable. In the case of new service requests, and as prescribed by the PUB, interest is charged at a fixed rate of prime plus 3% for repayment periods up to 60 months and prime plus 4% for repayment periods of 61 months to 120 months. In the case of energy efficiency upgrades, interest is charged at a fixed rate of prime plus 4% for a maximum repayment period of 60 months. All loan instalments are made through the customers' monthly electricity bill payments. The balance of any loan may be repaid at any time without penalty.

13. Long-term Debt

	Maturity Date	2021	2020
First mortgage sinking fund bonds			
10.125% \$40 million Series AF	2022	\$ 28,400	\$ 28,800
8.900% \$40 million Series AH	2026	30,035	30,435
6.800% \$50 million Series AI	2028	38,500	39,000
7.520% \$75 million Series AJ	2032	60,750	61,500
5.441% \$60 million Series AK	2035	49,800	50,400
5.901% \$70 million Series AL	2037	59,500	60,200
6.606% \$65 million Series AM	2039	56,550	57,200
4.805% \$70 million Series AN	2043	64,400	65,100
4.446% \$75 million Series AO	2045	69,750	70,500
3.815% \$75 million Series AP	2057	71,250	72,000
3.608% \$100 million Series AQ	2060	98,000	99,000
Committed credit facility	2026	-	-
		626,935	634,135
Less: current portion		(35,200)	(7,200)
		\$ 591,735	\$ 626,935
Less: deferred financing costs		(2,538)	(2,713)
		\$ 589,197	\$ 624,222

First mortgage sinking fund bonds are secured by a first fixed and specific charge on property, plant and equipment owned or to be acquired by the Company and by a floating charge on all other assets. They require an annual sinking fund payment of 1% of the original principal balance.

Newfoundland Power has unsecured bank credit facilities of \$120 million comprised of a \$100 million committed credit facility and a \$20 million demand facility. During the third quarter, the committed facility was extended to a five-year term maturing in August 2026. Subject to lenders' approval, the Company may request an extension for a further period of up to, but not exceeding, a five-year term.

13. Long-term Debt (cont'd)

Borrowings under the committed credit facility are in the form of bankers acceptances that primarily have a maturity of 30 days or less, bearing interest based on the daily Canadian Deposit Offering Rate for the date of borrowing plus a stamping fee. Standby fees on the unutilized portion of the committed credit facility are payable quarterly in arrears at a fixed rate of 0.16%. Interest on borrowings under the demand facility is calculated at the daily prime rate and is payable monthly in arrears.

The utilized and unutilized credit facilities as at December 31 follow.

	2021	2020
Total credit facilities	\$ 120,000	\$ 120,000
Borrowings under committed credit facility	-	-
Borrowings under demand facility	(14,820)	(6,728)
Credit facilities available	\$ 105,180	\$ 113,272

Deferred financing costs are recorded at cost and are amortized to earnings using the effective interest rate method over the life of the related debt.

Future payments required to meet sinking fund instalments, maturities of long-term debt and long-term credit facilities follow.

Year	(\$ thousands)
2022	35,200
2023	6,800
2024	6,800
2025	6,800
2026	34,835
Thereafter	536,500

The issuance of debt with a maturity that exceeds one year requires prior approval of the PUB. The issuance of first mortgage sinking fund bonds is subject to an earnings covenant whereby the ratio of (i) annual earnings applicable to common shares, before bond interest and tax, to (ii) annual bond interest incurred plus annual bond interest to be incurred on the contemplated bond issue, must be two times or higher. Under its committed credit facility, the Company must also ensure that its debt to capitalization ratio does not exceed 0.65:1.00 at any time. During 2021, and as at December 31, 2021, the Company was in compliance with all of its debt covenants.

14. Other Liabilities

	2021	2020
Security deposits	\$ 1,401	\$ 1,212

Security deposits are advance cash collections from certain customers to guarantee the payment of electricity bills. The security deposit liability includes interest credited to customer deposits. The current portion of security deposits is reported in accounts payable and accrued charges.

15. Capital Stock

Authorized

- an unlimited number of Class A and Class B Common Shares without nominal or par value. The shares of each class are inter-convertible on a share-for-share basis and rank equally in all respects including dividends. The Board of Directors may provide for the payment, in whole or in part, of any dividends to Class B shareholders by way of a stock dividend;
- an unlimited number of First Preference Shares and Second Preference Shares without nominal or par value. First Preference Shares are entitled to cumulative preferential dividends and are redeemable at the option of the Company at a premium not in excess of the annual dividend rate.

15. Capital Stock (cont'd)

<i>Issued</i>	2021		2020	
	Number of Shares	Amount	Number of Shares	Amount
Class A common shares	10,320,270	\$ 70,321	10,320,270	\$ 70,321

In February 2020, the Company redeemed all of the issued and outstanding First Preference Shares. The redemption prices included \$10 par value per share, plus all accrued and unpaid dividends and the respective redemption premiums, as applicable. Total preference share dividends paid in 2020 included \$0.3 million of redemption premiums.

16. Change in Working Capital

The composition of the Company's change in working capital follows.

	2021	2020
Accounts receivable	\$ (6,579)	\$ 18,267
Income taxes receivable	(2,555)	3,880
Materials and supplies	(134)	(226)
Prepaid expenses	(223)	(332)
Current regulatory assets	353	15,275
Accounts payable and accrued charges	16,230	(13,430)
Interest payable	(80)	(31)
Current regulatory liabilities	(13,873)	(14,446)
	\$ (6,861)	\$ 8,957

Non-cash investing activities balances as at December 31 follows.

	2021	2020
Capital expenditures included in accounts payable and accrued charges	\$ 7,510	\$ 7,383

17. Related Party Transactions

The Company provides services to, and receives services from, its parent company, Fortis and other subsidiaries of Fortis. The Company also incurs charges from Fortis for the recovery of general corporate expenses incurred by Fortis. These transactions are in the normal course of business and are recorded at their exchange amounts.

Related party transactions included in operating expenses in 2021 were \$2.5 million (2020 - \$2.5 million).

During 2021, the Company advanced short-term demand loans to Fortis with an average interest rate of 1.18%. The maximum amount outstanding was \$15.0 million. The loans were fully repaid in the first quarter of 2021. Total finance charges paid to the Company by Fortis in 2021 were less than \$0.1 million.

During 2020, the Company borrowed short-term demand loans from Fortis at an average interest rate of 2.39%. The maximum amount outstanding in 2020 was \$88.0 million. The loans were fully repaid in April 2020. Total finance charges paid to Fortis in 2020 were \$0.3 million.

In December 2020 the Company advanced a \$8.0 million short-term demand loan to Fortis at an interest rate of 1.23%. The loan was repaid by Fortis in January 2021.

18. Fair Value Measurement

Fair value is the price at which a market participant could sell an asset or transfer a liability to an unrelated party. A fair value measurement is required to reflect the assumptions that market participants would use in pricing an asset or a liability based on the best available information. These assumptions include the risks inherent in a particular valuation technique, such as a pricing model, and the risks inherent in the inputs to the model.

The fair value of long-term debt, including current portion and committed credit facility, is classified as Level 2 based on the three level hierarchy utilized in measuring fair value. The fair value is calculated by discounting the future cash flows of each debt instrument at the estimated yield-to-maturity equivalent to benchmark government bonds, with similar terms to maturity, plus a credit risk premium equal to that of issuers of similar credit quality. Since the Company does not intend to settle its debt instruments before maturity, the fair value estimate does not represent an actual liability and, therefore, does not include settlement costs.

The fair value of long-term debt, including current portion and committed credit facility, as at December 31, 2021 and 2020 is as follows.

	2021		2020	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Long-term debt, including current portion and committed credit facility (Note 13)	\$ 626,935	\$ 796,014	\$ 634,135	\$ 857,763

The fair value of the Company's defined benefit pension plan assets is discussed in Note 11. The fair value of the Company's remaining financial instruments included in current assets, current liabilities, other assets and other liabilities approximate their carrying value, reflecting their nature, short-term maturity or normal trade credit terms.

The fair value of the Company's financial instruments reflects a point-in-time estimate based on current and relevant market information about the instruments as at the balance sheet date. The estimates cannot be determined with precision as they involve uncertainties and matters of judgment, and therefore, may not be relevant in predicting the Company's future earnings or cash flows.

IN THE MATTER OF
the 2021 Annual Returns
of Newfoundland Power
Inc. filed pursuant to
Section 59(2) of the
Public Utilities Act.

AFFIDAVIT

I, Paige London, of the city of St. John's, in the Province of Newfoundland and Labrador, make oath
and say as follows:

1. That I am Vice President, Finance and Chief Financial Officer of Newfoundland Power Inc.;
2. That I have read and understood the 2021 Annual Report and accompanying returns of
Newfoundland Power Inc., filed with the Board of Commissioners of Public Utilities
pursuant to section 59(2) of the *Public Utilities Act* (the "Filing"); and
3. That to the best of my knowledge, information and belief, the information contained in the
Filing is accurate.

SWORN to before me at St. John's
in the Province of Newfoundland and Labrador
this 31st day of March, 2022:



Barrister

Lindsay S. Hollett
Barrister, NL



Paige London

Newfoundland Power Inc.
Names and Place of Residence of Officers and Directors
as of December 31, 2021

Name	Place of Residence	Position Held
Ken Bennett	St. John's, NL	Director
Fred Cahill	St. John's, NL	Director
Byron Chubbs	Paradise, NL	Vice President, Engineering and Energy Supply
Charles Freni	Rhinebeck, NY USA	Director
Lynn Healey	St. John's, NL	Director
Susan Hollett	Clarenville, NL	Director
Lindsay Hollett	St. John's, NL	Assistant Corporate Secretary
Sean LaCour	Conception Bay South, NL	Vice President, Customer Operations
Paige London	St. John's, NL	Vice President, Finance and Chief Financial Officer
Michelle Melendy	Little Rapids, NL	Director
Glenn Mifflin	St. John's, NL	Director

Newfoundland Power Inc.
Names and Place of Residence of Officers and Directors
as of December 31, 2021

Name	Place of Residence	Position Held
Gary Murray	St. John's, NL	President and Chief Executive Officer, Director
Gina Pecore	Conception Bay South, NL	Director
Jason Roberts	Suffolk, PE	Director
Gary Smith	St. John's, NL	Director
Diane Whalen	St. John's, NL	Corporate Secretary

Newfoundland Power Inc.
Computation of Average Rate Base
For The Years Ended December 31
(\$000s)

	<u>2021</u>	<u>2020</u>
1 Net Plant Investment		
2 Plant Investment - Return 4	2,104,248	2,020,501
3 Accumulated Depreciation - Return 6	(869,423)	(828,004)
4 Contributions in Aid of Construction - Return 7	<u>(44,780)</u>	<u>(44,357)</u>
5	1,190,045	1,148,140
6		
7 Additions to Rate Base		
8 Deferred Pension Costs - Return 8	88,888	89,900
9 Credit Facility Costs - Return 8	96	46
10 Cost Recovery Deferral - Hearing Costs - Return 9	-	247
11 Cost Recovery Deferral - Conservation - Return 9	16,421	17,049
12 Customer Finance Programs - Return 10	1,755	2,098
13 Demand Management Incentive Account - Return 18	<u>1,342</u>	<u>1,002</u>
14	108,502	110,342
15		
16 Deductions from Rate Base		
17 Weather Normalization Reserve - Return 17	2,020	3,734
18 Other Post Employment Benefits - Return 10	73,566	66,739
19 Customer Security Deposits - Return 10	1,401	1,212
20 Accrued Pension Obligation - Return 10	5,168	5,258
21 Accumulated Deferred Income Taxes - Return 23	15,976	12,683
22 Cost Recovery Deferral - Return 9	<u>-</u>	<u>613</u>
23	98,131	90,239
24		
25 Year End Rate Base	1,200,416	1,168,243
26		
27 Average Rate Base Before Allowances	1,184,330	1,164,124
28		
29 Rate Base Allowances		
30 Materials and Supplies Allowance - Return 11	8,339	7,270
31 Cash Working Capital Allowance - Return 12	10,277	10,503
32		
33 Average Rate Base at Year End	<u>1,202,946</u>	<u>1,181,897</u>

Newfoundland Power Inc.
Plant Investment
For The Year Ended December 31, 2021
(\$000s)

	Opening Balance	Adjustments	Additions	Retirements	Year End Balance
1 Power Generation					
2 Hydro	212,095	(112)	15,090	1,008	226,065
3 Diesel	4,150	305	134	115	4,474
4 Gas Turbine	35,967	370	294	157	36,474
5	<u>252,212</u>	<u>563</u>	<u>15,518</u>	<u>1,280</u>	<u>267,013</u>
6					
7 Substations	277,917	(2,503)	11,580	1,969	285,025
8 Transmission	164,076		11,446	563	174,959
9 Distribution	1,134,706	1,721	52,925	9,975	1,179,377
10 General Property	63,545	(103)	2,385	1,327	64,500
11 Transportation	32,840		3,793	1,460	35,173
12 Communications	8,425	235	78	818	7,920
13 Computer Software	41,165		5,690	1,990	44,865
14 Computer Hardware	12,701		1,507	1,884	12,324
15 Government Contributions	23,109		-	-	23,109
16	<u>1,758,484</u>	<u>(650)</u>	<u>89,404</u>	<u>19,986</u>	<u>1,827,252</u>
17					
18 Total Depreciable Plant	2,010,696	(87)	104,922	21,266	2,094,265
19					
20 Non Depreciable Land	9,805	87	129	38	9,983
21					
22 Plant Investment Included In Rate Base	<u>2,020,501</u>	<u>-</u>	<u>105,051</u>	<u>21,304</u>	<u>2,104,248</u>
23					
24 Construction Work In Progress					7,393
25					
26 Total Plant Investment ¹					<u>2,111,641</u>

¹ A reconciliation of the total plant investment to the plant investment shown in Return 1 follows:

	(\$000s)
2021 Capital Assets shown in Return 1 (Note 9 to Financial Statements)	1,945,464
Add: Contributions in Aid of Construction - Return 7	114,877
Add: Plant Investment classified as Intangibles in Return 1 (Note 10 to Financial Statements)	60,498
Deduct: Inventories included in Plant Investment for financial reporting purposes	(9,198)
2021 Total Plant Investment for Average Rate Base	<u>2,111,641</u>

Newfoundland Power Inc.
Capital Expenditure
For The Year Ended December 31, 2021
(\$000s)

	Approved By Board ¹	Actual	Variance ²
1 Generation			
2 Hydro	11,180	9,557	(1,623)
3 Thermal	330	300	(30)
4	<u>11,510</u>	<u>9,857</u>	<u>(1,653)</u>
5			
6 Substations	14,280	15,459	1,179
7			
8 Transmission	9,751	10,395	644
9			
10 Distribution	47,413	50,766	3,353
11			
12 General Property	2,776	2,671	(105)
13			
14 Transportation	4,032	4,098	66
15			
16 Telecommunications	462	424	(38)
17			
18 Information Systems	15,362	15,460	98
19			
20 Unforeseen	750	-	(750)
21			
22 General Expenses Capital	<u>6,500</u>	<u>6,795</u>	<u>295</u>
23			
24	<u>112,836</u>	<u>115,925</u>	<u>3,089</u>
25			
26			
27 Projects carried forward from 2020 ³		<u>10,470</u>	

¹ Approved in Order No. P.U. 12 (2021), P.U. 30 (2021) and P.U. 37 (2020).

² Variance explanations are provided in Newfoundland Power Inc.'s 2021 Capital Expenditure Report filed with the Board on February 28, 2022.

³ The projects carried forward include \$3,162,000 for Petty Harbour Hydro Plant Refurbishment, \$2,067,000 for Transmission Line Rebuild, \$1,560,000 for Trunk Feeders, \$1,261,000 for Purchase Vehicles and Aerial Devices, \$785,000 for Rattling Brook Plant Refurbishment, \$426,000 for Feeder Additions for Load Growth, \$402,000 for System Upgrades, \$206,000 for Application Enhancements, \$203,000 for Substation Feeder Termination, \$170,000 for Topsail Hydro Plant Refurbishment, \$102,000 for Purchase of Mobile Generation, \$76,000 for Company Building Renovations and \$50,000 for Hydro Facility Rehabilitation.

Newfoundland Power Inc.
Accumulated Depreciation
For The Year Ended December 31, 2021
(\$000s)

1	Opening Balance - January 1, 2021	828,004
2		
3	Add:	
4	Depreciation of Fixed Assets ^{1, 2}	67,546
5	Amortization of Contributions - Government - Return 7	119
6	Amortization of Contributions - Customers - Return 7	2,281
7	Salvage	419
8		70,365
9		
10		
11	Deduct:	
12	Cost of Removal (net of income tax)	7,642
13	Retirements	21,304
14		28,946
15		
16	Closing Balance - December 31, 2021 ³	869,423

¹ The depreciation rates for 2021 are from the 2014 Depreciation Study based on plant in service at December 31, 2014 and approved in Order No. P.U. 18 (2016).

Hydro	2.42%
Diesel	5.30%
Gas Turbine	5.31%
Substations	2.94%
Transmission	3.08%
Distribution	3.18%
General Property	2.95%
Transportation	9.48%
Telecommunications	4.82%
Computer Software	10.00%
Computer Hardware	20.00%

² A reconciliation of depreciation of fixed assets to the amount shown in Return 1 follows:

Depreciation and amortization shown in Return 1	73,993
Less: Tax on Cost of Removal (recognized as income tax for financial reporting purposes)	(6,447)
2021 Depreciation of Fixed Assets	67,546

³ The accumulated depreciation shown in Return 1 (Note 9 to the Financial Statements) is before adjustment for contributions in aid of construction, site restoration costs and intangibles.

	<u>(\$000s)</u>
Accumulated Depreciation shown in Return 1 (Note 9 to Financial Statements)	661,044
Add: Accumulated Amortization classified as Intangibles (Note 10 to Financial Statements)	24,576
Add: Amortization of Contributions - Return 7	70,097
Add: Site Restoration Costs Return 1 (Note 7 to Financial Statements)	187,622
Less: Deferred Income Tax Asset included in Site Restoration Costs	(73,916)
2021 Accumulated Depreciation for Average Rate Base	869,423

Newfoundland Power Inc.
Contributions in Aid of Construction
For The Year Ended December 31, 2021
(\$000s)

	<u>Customers</u>	<u>Government</u>	<u>Total</u>
1 Gross Contributions to January 1, 2021	84,974	27,080	112,054
2			
3 Add: Contributions Received in 2021	<u>2,823</u>	<u>-</u>	<u>2,823</u>
4			
5 Gross Contributions to December 31, 2021	<u>87,797</u>	<u>27,080</u>	<u>114,877</u>
6			
7			
8 Amortizations to January 1, 2021	44,411	23,286	67,697
9			
10 Add: Amortization in 2021	<u>2,281</u>	<u>119</u>	<u>2,400</u>
11			
12 Amortizations to December 31, 2021	<u>46,692</u>	<u>23,405</u>	<u>70,097</u>
13			
14			
15 Unamortized Contributions to December 31, 2021	<u>41,105</u>	<u>3,675</u>	<u>44,780</u>

Newfoundland Power Inc.
Deferred Charges
For The Year Ended December 31, 2021
(\$000s)

	Balance January 1 2021	Additions During 2021	Reductions During 2021	Balance December 31 2021
1 Deferred Pension Costs ¹	89,900	2,764	3,776	88,888
2				
3 Deferred Credit Facility Issue Costs ²	71	71	42	100
4				
5 Deferred Charges	89,971	2,835	3,818	88,988

¹ The December 31, 2021 balance is comprised of the following amounts:

	<u>(\$000s)</u>
Defined Benefit Pension asset shown in Return 1 (Balance Sheet)	88,844
Employee Future Benefits ("EFBs") shown in Return 1 (Note 7 to the Financial Statements)	21,397
Less: Amount in EFBs related to OPEBs in Return 1 (Note 11 to the Financial Statements)	(1,093)
Less: Amount in EFBs related to SERP and PUP Plans	(260)
	<u>88,888</u>

² In August 2021, Newfoundland Power extended the term of its committed short-term credit facility agreement to August 2026 at a cost of \$71,000.

Newfoundland Power Inc.
Regulatory Deferrals
For The Year Ended December 31, 2021
(\$000s)

	Balance January 1 2021	Additions During 2021	Reductions During 2021	Balance December 31 2021
1 Cost Recovery Deferrals				
2 Deferred Costs - Conservation Program ¹	17,049	3,494	4,122	16,421
3 Deferred Costs - 2019 Cost Recovery Deferral ²	(613)	-	(613)	-
4 Deferred Costs - Hearing Costs ³	247	-	247	-
5	<u>16,683</u>	<u>3,494</u>	<u>3,756</u>	<u>16,421</u>

¹ In Order No. P.U. 13 (2013), the Board approved (i) the deferral of costs incurred in implementing the CDM Program Portfolio and (ii) the 7-year amortization of recovery of those costs through the Rate Stabilization Account.

² In Order No. P.U. 2 (2019), the Board approved the amortization over a 34-month period of a forecast revenue surplus for 2019 of \$2,482,000 resulting from the March 1, 2019 implementation of rates.

³ In Order No. P.U. 2 (2019), the Board approved the 34-month amortization of \$1,000,000 in estimated hearing costs related to the 2019/2020 General Rate Application.

Newfoundland Power Inc.
Other Rate Base Assets and Liabilities
For The Year Ended December 31, 2021
(\$000s)

	<u>Balance January 1 2021</u>	<u>Change During 2021</u>	<u>Balance December 31 2021</u>
1 Assets			
2 Customer Finance Programs ¹	2,098	(343)	1,755
3			
4 Liabilities			
5 Accrued Pension Obligation ²	5,258	(90)	5,168
6			
7 Customer Security Deposits ³	1,212	189	1,401
8			
9 Net OPEBs Liability ⁴	66,739	6,827	73,566

¹ Comprised of loans provided to customers related to customer conservation programs and contributions in aid of construction.

² Executive and Senior Management supplemental pension benefits comprised of a defined benefit plan (PUP) and a defined contribution plan (SERP). The PUP was closed to new entrants in 1999. The December 31, 2021 balance is comprised of the following amounts:

	<u>(\$000s)</u>
Defined Benefit Pension liability shown in Return 1 (Balance Sheet)	280
DB Pension liability related to SERP and PUP Plans shown in Return 1 (Balance Sheet)	5,148
Amount in EFBs related to SERP and PUP Plans (Return 8)	(260)
	<u>5,168</u>

³ Security deposits received from customers for electrical service in accordance with the Board-approved Schedule of Rates, Rules and Regulations.

⁴ The December 31, 2021 balance is comprised of the following amounts:

	<u>(\$000s)</u>
OPEBs liability shown in Return 1 (Balance Sheet)	88,675
Less: Amount in EFBs related to OPEBs (Return 8)	(1,093)
Less: OPEBs Regulatory Asset shown in Return 1 (Note 7 to the Financial Statements)	(14,016)
	<u>73,566</u>

Newfoundland Power Inc.
Materials and Supplies Allowance
For The Years Ended December 31
(\$000s)

	<u>2021¹</u>	<u>2020¹</u>
1 Opening - January 1	10,522	8,312
2 January	10,325	8,333
3 February	10,642	8,851
4 March	10,827	9,195
5 April	11,399	9,509
6 May	11,603	10,221
7 June	11,298	9,944
8 July	11,224	10,200
9 August	11,212	9,884
10 September	11,062	9,800
11 October	11,171	9,785
12 November	10,397	9,886
13 December	11,041	10,522
14 Total	<u>142,723</u>	<u>124,442</u>
15		
16 Average	10,979	9,572
17		
18 Less: Expansion ²	<u>2,640</u>	<u>2,302</u>
19		
20 Materials and Supplies Allowance	<u>8,339</u>	<u>7,270</u>

¹ The 2020 and 2021 materials and supplies allowance calculation reflects a 13-month average, as approved in Order No. P.U. 32 (2007).

² The expansion factor for 2020 and 2021 is 24.05% and was used to calculate the 2020 Test Year average rate base approved in Order No. P.U. 2 (2019).

Newfoundland Power Inc.
Cash Working Capital Allowance¹
For The Years Ended December 31
(\$000s)

	<u>2021</u>	<u>2020</u>
1 Gross Operating Costs ²	534,377	541,367
2 Current Income Taxes - Return 22	10,714	17,004
3 Municipal Taxes Paid	18,332	18,092
4 Non-regulated Expenses (net of income taxes)	<u>(2,521)</u>	<u>(2,892)</u>
5		
6 Total Operating Expenses	560,902	573,571
7		
8 Cash Working Capital Factor ³	<u>1.789%</u>	<u>1.789%</u>
9	10,035	10,261
10		
11 HST Adjustment	<u>242</u>	<u>242</u>
12		
13 Cash Working Capital Allowance	<u>10,277</u>	<u>10,503</u>

¹ The cash working capital allowance for 2020 and 2021 is calculated based on the methodology used in the calculation of the 2019 and 2020 Test Year average rate base approved in Order No. P.U. 2 (2019).

² In accordance with the method used to calculate the Test Year average rate base for 2019 and 2020, approved in Order No. P.U. 2 (2019), gross operating costs used in the calculation of the cash working capital allowance are net of non-cash related amortizations.

³ The cash working capital factor of 1.789% was used to calculate the 2020 Test Year Average Rate Base approved in Order No. P.U. 2 (2019).

Newfoundland Power Inc.
Return on Average Rate Base¹ & Determination of Excess Earnings
For The Years Ended December 31
(\$000s)

	<u>2021</u>	<u>2020</u>
1 Net Earnings from Return 1	43,757	43,577
2 Add: Non-regulated Expenses (net of income taxes) from Return 12	2,521	2,892
3	46,278	46,469
4 Finance Costs		
5 Interest on Long-term Debt from Return 25	35,450	36,811
6 Other Interest from Return 25	183	609
7 Amortization of Debt Issue Expenses from Return 25	217	233
8 AFUDC ²	(995)	(949)
9	34,855	36,704
10		
11 Regulated Earnings	81,133	83,173
12		
13 Average Rate Base from Return 3	1,202,946	1,181,897
14		
15 Rate of Return on Average Rate Base	6.74%	7.04%
16		
17		
18 Average Rate Base from Return 3	1,202,946	1,181,897
19		
20 Upper Limit of the Allowed Range of Return on Average Rate Base ³	6.83%	7.22%
21		
22 Upper Limit of Allowed Regulated Earnings	82,161	85,333
23		
24 Regulated Earnings	81,133	83,173
25		
26 Excess Earnings (net of income taxes)	-	-
27		
28 Income Taxes	-	-
29		
30 Excess Revenue	-	-

¹ The return on average rate base is calculated in accordance with the methodology approved in Order No. P.U. 32 (2007).

² For financial reporting purposes, the equity component of AFUDC is reported as other income in Return 1.

³ Based on a return on rate base for 2021 of 6.65% approved in Order No. P.U. 36 (2020) and a return on rate base for 2020 of 7.04% approved in Order No. P.U. 2 (2019) plus the approved range of 0.18% for each year.

Newfoundland Power Inc.
Details of Normalized Sales and Revenue
For The Years Ended December 31

	2021			2020		
	Gigawatt Hours	Year End Customer Accounts	Revenue (\$000s)	Gigawatt Hours	Year End Customer Accounts	Revenue (\$000s)
1 Revenue From Rates						
2 Domestic						
3 Domestic	1.1	3,487.1	235,433	3,533.8	233,801	456,642
4 Domestic - Seasonal	1.1S	12.1	1,363	13.2	1,459	1,791
5 Total Domestic		3,499.2	236,796	3,547.0	235,260	458,433
6						
7 General Service:						
8 0 - 100 kW	2.1	778.5	23,036	749.4	22,871	93,282
9 110 - 1000 kVA	2.3	1,018.4	1,224	990.2	1,265	105,418
10 1000 kVA and Over	2.4	388.3	56	410.1	59	38,643
11 Total General Service		2,185.2	24,316	2,149.7	24,195	237,343
12						
13 Street & Area Lighting	4.1	30.6	10,942	32.3	10,830	16,983
14 Forfeited Discounts		-	-	-	-	2,868
15						
16 Revenue From Rates		5,715.0	272,054	5,729.0	270,285	715,627
17						
18 Adjustments and Transfers						
19 Energy Supply Cost Variance Deferral ¹						(21,441)
20 Pension Expense Variance Deferral ²						6,557
21 OPEBs Variance Deferral ³						262
22 Deferred CDM Program Costs ⁴						5,578
23 Revenue Requirement Shortfall ⁵						258
24 Total Adjustments and Transfers						(8,786)
25						
26 Other Revenue						
27 Pole Attachment						2,507
28 Provisioning Work						6,131
29 Wheeling Revenue						753
30 Interest on Overdue Customer Accounts						1,292
31 Other Non-Electrical Revenue						887
32 Total Other Revenue						11,773
33						
34 Total Revenue - Return 1						718,614

¹ The Energy Supply Cost Variance Deferral Account was approved in Order No. P.U. 32 (2007).

² The Pension Expense Variance Deferral Account was approved in Order No. P.U. 43 (2009).

³ The OPEBs Variance Deferral Account was approved in Order No. P.U. 31 (2010).

⁴ Deferred CDM Program Costs were approved in Order No. P.U. 13 (2013).

⁵ The 2020 Revenue Requirement Shortfall was approved in Order No. P.U. 2 (2019). The respective amounts were transferred to the Rate Stabilization Account on March 31 of each year.

Newfoundland Power Inc.
Normalized Production and Sales Statistics
For The Years Ended December 31
(GWh)

	<u>2021</u>	<u>2020</u>
1 Purchased	5,567.3	5,604.3
2		
3 Produced	434.8	438.5
4		
5		
6 Total Purchased & Produced	<u>6,002.1</u>	<u>6,042.8</u>
7		
8		
9 Sold & Used	5,725.9	5,740.4
10		
11		
12 Losses	<u>276.2</u>	<u>302.4</u>
13		
14 Losses Expressed as a Percentage of		
15 Total Purchased & Produced	<u>4.6%</u>	<u>5.0%</u>
16		
17 Purchased Power Annual Billing Demand in kW	<u>1,251,052</u>	<u>1,251,052</u>

Newfoundland Power Inc.
Rate Stabilization Account
For The Year Ended December 31, 2021
(\$000s)

Month	Opening Balance	Adjustments	RSA Billed During Month	Municipal Taxes	Excess Fuel Costs	Secondary Energy Costs	CDM Recovery	Interest Costs	Cost Recovery Rider	Transfer To (From) Nfld. Hydro	Closing Balance
1 January	(22,035.2)	-	(264.8)	-	3.3	(386.8)	163.2	(122.1)	892.2	(1,179.9)	(22,930.1)
2											
3 February	(22,930.1)	-	(267.5)	-	7.6	(310.6)	155.4	(127.1)	892.2	(1,123.6)	(23,703.7)
4											
5 March	(23,703.7)	8,945.9 ¹	(269.9)	-	5.7	(122.4)	154.6	(131.4)	892.2	(1,118.1)	(15,347.0)
6											
7 April	(15,347.0)	-	(242.8)	-	3.8	(28.9)	122.1	(85.0)	892.2	(883.2)	(15,568.8)
8											
9 May	(15,568.8)	-	(199.2)	-	7.1	(118.3)	105.9	(86.3)	892.3	(765.4)	(15,732.8)
10											
11 June	(15,732.8)	-	(163.2)	-	3.0	85.2	80.7	(87.2)	-	(583.4)	(16,397.7)
12											
13 July	(16,397.7)	-	(575.5)	-	3.3	-	97.8	(90.9)	-	1,885.9	(15,077.1)
14											
15 August	(15,077.1)	-	(963.9)	-	1.5	-	94.4	(83.5)	-	1,820.1	(14,208.5)
16											
17 September	(14,208.5)	-	(977.0)	-	29.5	-	91.9	(78.7)	-	1,773.1	(13,369.6)
18											
19 October	(13,369.6)	-	(1,120.1)	-	1.9	-	126.2	(74.1)	-	2,435.2	(12,000.6)
20											
21 November	(12,000.6)	-	(1,424.6)	-	2.6	-	145.1	(66.5)	-	2,799.8	(10,544.2)
22											
23 December	(10,544.2)	(25,413.2) ²	(1,734.0)	1,280.3 ³	18.9	-	196.4	(58.4)	-	3,787.9	(32,466.3)
24											
25		<u>(16,467.3)</u>	<u>(8,202.5)</u>	<u>1,280.3</u>	<u>88.2</u>	<u>(881.8)</u>	<u>1,533.7</u>	<u>(1,091.2)</u>	<u>4,461.1</u>	<u>8,848.4</u>	

¹ Adjustments in March 2021 include (i) -\$5,333,581 for the 2020 year end balance in the Weather Normalization Reserve Account and related income tax effects, approved in Order No. P.U. 13 (2013); (ii) \$5,889,287 for the amortization of deferred customer energy conservation program costs as approved in Order No. P.U. 13 (2013); (iii) \$5,539,105 for the disposition of the difference in forecasted vs. test year defined benefit pension costs, approved in Order No. P.U. 43 (2009); (iv) \$1,419,980 for the disposition of the difference in forecasted vs. test year OPEBs expense for 2020, approved in Order No. P.U. 16 (2013); (v) \$1,431,126 for the 2020 year end balance in the Demand Management Incentive Account and related income tax effects approved in Order No. P.U. 14 (2021).

² Adjustments in December 2021 include (i) -\$25,413,219 related to the operation of the Energy Supply Cost Variance for 2021, approved in Order No. P.U. 32 (2007) and approved for continued use in Order No. P.U. 43 (2009).

³ This is the difference between total municipal taxes collected from customers through rates and the total taxes paid to municipalities for 2021.

Newfoundland Power Inc.
Weather Normalization Reserve
For The Year Ended December 31, 2021
(\$000s)

	Opening Balance	Additions During 2021	Transfer to RSA During 2021	Closing Balance
1 Weather Normalization Reserve	(3,734)	(2,020) ¹	3,734 ²	(2,020) ³

¹ Additions during the year include the following:

Degree Day Normalization Reserve Transfer

Revenue Adjustment

Heating Degree Days	21,145
Cooling Degree Days	-
Wind Speed Adjustments	(20)
Total Revenue Adjustment	21,125

Less: Power Purchased Adjustment

Heating Degree Days	35,981
Cooling Degree Days	-
Wind Speed Adjustments	(48)
Total Power Purchased Adjustment	35,933

Net Adjustment (Before Tax) (14,808)

Less: Income Tax @ 30.0% (4,442)

Net Adjustment (10,366)

Hydro Production Equalization Reserve Transfer

Transfer (To) From Reserve (Before Tax) 11,923

Less: Income Tax @ 30.0% 3,577

Net Adjustment 8,346

Net Transfer (To) From Weather Normalization Reserve (2,020)

² In Order No. P.U. 13 (2013), the Board approved the transfer of the annual balance in the Weather Normalization Reserve to the Rate Stabilization Account.

³ A positive balance in the Weather Normalization Reserve reflects amounts to be recovered from customers in future periods. A negative balance in the Weather Normalization Reserve reflects amounts owed to customers.

Newfoundland Power Inc.
Demand Management Incentive Account
For The Year Ended December 31, 2021
(\$000s)

1	Demand Management Incentive Account Transfer	
2		
3	Demand Supply Cost Variance	2,672
4		
5	Demand Management Incentive (+/-) ¹	<u>755</u>
6		
7	Supply Cost Variance Outside Deadband	1,917
8		
9	Less: Income Tax @ 30.0%	<u>575</u>
10		
11	Net Transfer (To) From Demand Management Incentive Account	<u>1,342</u>
12		
13		
14		
15	Demand Management Incentive Account Balance	
16		
17	Balance at January 1, 2021	1,002
18		
19	Transfers to the RSA	(1,002)
20		
21	Net Transfer (To) From Demand Management Incentive Account	<u>1,342</u>
22		
23	Balance at December 31, 2021	<u>1,342</u>

¹ The demand management incentive of \$754,555 is plus/minus 1% of test year wholesale demand charges. The Demand Management Incentive Account definition was approved in Order No. P.U. 32 (2007).

Newfoundland Power Inc.
Pension Expense Variance Deferral Account &
OPEBs Cost Variance Deferral Account
For The Year Ended December 31, 2021
(\$000s)

1	Pension Expense Variance Deferral Account ("PEVDA")¹	
2		
3	2021 Actual Pension Expense ²	1,835
4		
5	2020 Test Year Forecast Pension Expense	<u>(3,704)</u>
6		
7	PEVDA Variance (A)	<u>5,539</u>
8		
9	OPEBs Cost Variance Deferral Account ("OPEVDA")³	
10		
11	2021 Actual OPEBs Expense ²	7,723
12		
13	2020 Test Year Forecast OPEBs Expense	<u>6,303</u>
14		
15	OPEVDA Variance (B)	<u>1,420</u>
16		
17	Amount Transferred to the RSA⁴ (A+B)	<u>6,959</u>

¹ In Order No. P.U. 43 (2009), the Board approved a Pension Expense Variance Deferral Account, which is charged or credited with the amount by which the annual pension expense differs from that approved for the establishment of revenue requirement from rates for a test year.

² Pension expense and OPEBs expense are net of capitalization.

³ In Order No. P.U. 31 (2010), the Board approved an OPEBs Cost Variance Deferral Account, which is charged or credited with the amount by which the OPEBs expense differs from that approved for the establishment of revenue requirement from rates for a test year.

⁴ In Order No. P.U. 43 (2009) and in Order No. P.U. 31 (2010), the Board ordered that Newfoundland Power shall charge or credit any amounts in the PEVDA and OPEVDA to the Rate Stabilization Account as of the 31st day of March in the year in which the difference arises.

Newfoundland Power Inc.
Statement of Operating & General Expenses
For the Years Ended December 31
(\$000s)

	2021	2020	2021/2020 Variances¹
1 Operating Expenses			
2			
3 Purchased Power	461,393	468,844	(7,451)
4 Power Produced	3,661	3,797	(136)
5 Administrative and Engineering Support	7,957	7,934	23
6 Environmental Policy	319	273	46
7 Substations	2,155	2,258	(103)
8 Transmission	1,026	919	107
9 Distribution	9,788	10,945	(1,157)
10 Telecommunications	1,380	1,299	81
11 Fleet Operating and Maintenance Expense	1,809	1,719	90
12	489,488	497,988	(8,500)
13			
14 General Expenses			
15			
16 Customer Service	14,282	15,555	(1,273)
17 Financial Services	1,699	1,806	(107)
18 Information Systems	6,006	5,855	151
19 Pension Costs	(227)	839	(1,066)
20 Other Post Employment Benefits	6,042	5,238	804
21 Corporate and Employee Services	21,830	20,334	1,496
22	49,632	49,627	5
23			
24			
25 Total Operating & General Expenses	539,120	547,615	(8,495)
26			
27 Transfers to General Expenses Capitalized	(5,276)	(5,175)	(101)
28 Deferred CDM Program Costs	(4,991)	(5,118)	127
29 Other Contract Expenses	5,667	4,120	1,547
30 Pension Expense Current Service	7,193	7,024	169
31 OPEB Expenses Current Service	1,588	1,290	298
32 Amortization of Deferred CDM Costs	5,889	5,578	311
33 Amortization of Hearing Costs	353	353	0
34			
35 Total Expenses ²	549,543	555,687	(6,144)

¹ Variances are explained in Return 21.

² This is equal to the total of purchased power costs, operating expenses and employee future benefit costs shown in Return 1.

Newfoundland Power Inc.
Explanation of Expense Variances
2021 versus 2020
(\$000s)

	<u>2021</u>	<u>2020</u>	<u>Increase (Decrease)</u>
1 Total Expenses	549,543	555,687	(6,144)
2			
3 The decrease in total expenses for 2021 was primarily the result of lower purchased power costs, distribution costs and			
4 customer service costs partially offset by higher corporate and employee services and other contract expenses.			
5			
6 The following is an explanation of significant variances for individual operating and general expense classes.			
7			
8			
9 Purchased Power	461,393	468,844	(7,451)
10			
11 Purchased Power costs were lower in 2021 primarily as a result of lower energy purchases and lower electricity system losses.			
12			
13			
14 Power Produced	3,661	3,797	(136)
15			
16 Power Produced costs for 2021 were lower than 2020 due to lower plant maintenance costs and lower generation taxes			
17 partially offset by increased vegetation management activity.			
18			
19			
20 Administrative and Engineering Support	7,957	7,934	23
21			
22 Administrative and Engineering Support costs for 2021 were consistent with 2020.			
23			
24			
25 Environmental Policy	319	273	46
26			
27 Environmental Policy costs for 2021 were consistent with 2020.			
28			
29			
30 Substations	2,155	2,258	(103)
31			
32 Substations costs for 2021 were lower than 2020 due to lower maintenance costs.			
33			
34			
35 Transmission	1,026	919	107
36			
37 Transmission costs for 2021 were higher than 2020 due to increased vegetation management activity.			
38			
39			
40 Distribution	9,788	10,945	(1,157)
41			
42 Distribution costs for 2021 were lower than 2020 primarily due to lower street light maintenance costs as a result of the LED			
43 streetlight replacement program partially offset by higher labour costs required for distribution maintenance.			

Newfoundland Power Inc.
Explanation of Expense Variances
2021 versus 2020
(\$000s)

	<u>2021</u>	<u>2020</u>	<u>Increase (Decrease)</u>
1 Telecommunications	1,380	1,299	81
2			
3 Telecommunications costs for 2021 were consistent with 2020.			
4			
5			
6 Fleet Operating and Maintenance Expense	1,809	1,719	90
7			
8 Fleet Operating and Maintenance Expense costs for 2021 were consistent with 2020.			
9			
10			
11 Customer Service	14,282	15,555	(1,273)
12			
13 Customer Service costs for 2021 were lower than 2020 primarily due to lower uncollectible bill expense and lower customer			
14 energy conservation rebates partially offset by higher consultant costs.			
15			
16			
17 Financial Services	1,699	1,806	(107)
18			
19 Financial Services costs for 2021 were lower than 2020 primarily due to lower labour costs.			
20			
21			
22 Information Systems	6,006	5,855	151
23			
24 Information Systems costs for 2021 were higher than 2020 primarily due to increases in third-party licensing and support costs.			
25			
26			
27 Employee Future Benefits	5,815	6,077	(262)
28			
29 Employee Future Benefits includes Pension Costs and Other Post Employment Benefits ("OPEBs"). Costs were lower in			
30 2021 primarily as a result of the impact of lower discount rates used for expense calculation in 2021 vs. 2020 for pension			
31 and OPEBs. The decrease was partially offset by lower amortization of past service credits for OPEBs.			
32			
33			
34 Corporate and Employee Services	21,830	20,334	1,496
35			
36 Corporate and Employee Services costs for 2021 were higher than 2020 primarily due to consultant costs associated with			
37 regulatory activity, corporate labour costs, and higher insurance costs.			
38			
39			
40 Transfers to General Expenses Capitalized	(5,276)	(5,175)	(101)
41			
42 Transfers to General Expenses Capitalized for 2021 were higher than 2020 due to higher current service pension costs.			

Newfoundland Power Inc.
Explanation of Expense Variances
2021 versus 2020
(\$000s)

	<u>2021</u>	<u>2020</u>	<u>Increase (Decrease)</u>
1 Deferred CDM Program Costs	(4,991)	(5,118)	127
2			
3 Deferred CDM Program costs for 2021 were lower than 2020 due to lower spending on customer energy conservation			
4 programs including lower customer rebates partially offset by higher consultant costs.			
5			
6			
7 Other Contract Expenses	5,667	4,120	1,547
8			
9 Other Contract Expenses were higher in 2021 primarily due to increased third party work for telecommunication companies.			
10			
11			
12 Pension Expense Current Service	7,193	7,024	169
13			
14 Pension Expense Current Service costs for 2021 were higher than 2020 primarily due to increased group RRSP plan			
15 costs and the impact of a lower discount rate on current service costs in the defined benefit pension plan.			
16			
17			
18 OPEB Expense Current Service	1,588	1,290	298
19			
20 OPEB Expense Current Service costs for 2021 were higher than 2020 due to the impact of a lower discount rate on			
21 current service costs.			
22			
23			
24 Amortization of Deferred CDM Costs	5,889	5,578	311
25			
26 In Order No. P.U. 13 (2013), the Board approved the deferred recovery, over a 7-year period, of annual costs associated with			
27 customer energy conservation programming. Amortization of this deferral commenced in 2014 and is higher in 2021 due to the			
28 increase in program spending incurred in the previous 7-year period.			
29			
30			
31 Amortization of Hearing Costs	353	353	-
32			
33 Amortization of Hearing Costs for 2021 were consistent with 2020.			
	<u>549,543</u>	<u>555,687</u>	<u>(6,144)</u>

Newfoundland Power Inc.
Calculation of Taxable Income and Income Tax Expense
For The Year Ended December 31, 2021
(\$000s)

1	Earnings Before Income Taxes from Return 1		55,360
2			
3	Add: Depreciation of capital assets	73,993	
4	Difference in pension funding and accounting cost	922	
5	Difference in OPEBs payments and accounting cost	5,301	
6	Non-deductible compensation expense	594	
7	Business meals & related expenses	221	
8	Amortization of debt discount & expenses	175	
9	Amortization of credit facility costs	31	
10	Small tools in excess of \$500	481	
11	Other non deductible costs	76	
12			81,794
13	Less:		
14	Capital cost allowance	79,679	
15	General expenses capitalized	6,795	
16	Interest charged to construction	995	
17	Net capital gain on sale of land	253	
18	Deferred credit facility costs	70	
19	Bond issue expenses	174	
20	Dismantling	10,918	
21	Regulatory mechanisms and deferrals	2,559	
22	Other deductible costs	41	
23			101,484
24	Taxable Income		35,670
25			
26	Income Tax - Part 1 @ 30%		10,701
27	Income Tax - true up estimate		13
28			
29	Current Income Tax Expense		10,714
30			
31	Deferred income tax from Return 23		3,293
32	Deferred tax on regulatory mechanisms and deferrals		(2,404)
33	Deferred Income Tax Expense		889
34			
35	Total Income Tax Expense		11,603

Newfoundland Power Inc.
Accumulated Deferred Income Taxes
For The Year Ended December 31, 2021
(\$000s)

1	Plant Investments		
2	Balance on January 1, 2021		33,280
3			
4	Add: CCA claimed on all property, plant and equipment - from Return 22	79,679	
5	Less: Amortization expense on all property, plant and equipment		
6	(GEC excluded from post-1986 additions)	62,478	
7	Difference	<u>17,201</u>	
8			
9	Deferred Income Tax Rate @ 30%		<u>5,160</u>
10			
11	Balance on December 31, 2021 (if negative enter 0)		<u>38,440</u>
12			
13	Pension and Early Retirement Costs		
14	Balance on January 1, 2021		(3,263)
15			
16	Add: Pension Funding	3,212	
17	Less: Pension Expense	4,136	
18	Difference	<u>(924)</u>	
19			
20	Deferred Income Tax Rate @ 30%		<u>(277)</u>
21			
22	Balance on December 31, 2021		<u>(3,540)</u>
23			
24	Other Post Employment Benefits ("OPEBs")		
25	Balance on January 1, 2021		(17,334)
26			
27	Add: OPEBs Payments	2,329	
28	Less: OPEBs Expense	7,630	
29	Difference	<u>(5,301)</u>	
30			
31	Deferred Income Tax Rate @ 30%		<u>(1,590)</u>
32			
33	Balance on December 31, 2021		<u>(18,924)</u>
34			
35			
36	Total Accumulated Deferred Income Taxes		<u><u>15,976</u></u>

Newfoundland Power Inc.
Average Regulated Capital Structure
For The Year Ended December 31, 2021
(\$000s)

1 **Average Book Capital Structure**

2

3

4

5

6

7

8

9

10

11

12

13 **Average Regulated Capital Structure³**

14

15

16

17

18

19

	Year End December 31 2021	Year End December 31 2020	Average	Percent
Total Debt ¹	639,117	638,079	638,598	55.07%
Common Equity ²	526,444	515,651	521,048	44.93%
	<u>1,165,561</u>	<u>1,153,730</u>	<u>1,159,646</u>	<u>100.00%</u>

	Average 2021	Percent
Total Debt	638,598	55.07%
Common Equity	521,048	44.93%
	<u>1,159,646</u>	<u>100.00%</u>

¹ A reconciliation of the 2021 debt to Return 1 is as follows:

	(\$000s)
2021 Total Debt	639,117
Add: Unamortized Credit Facility Costs (Note 12 to Financial Statements)	100
Less: Short-term Borrowings (Return 1)	(14,820)
Less: Current Portion of Long Term Debt (Return 1)	(35,200)
2021 Long Term Debt (Return 1)	<u>589,197</u>

² A reconciliation of the 2021 retained earnings to Return 1 is as follows:

	(\$000s)
2021 Common Share Equity	526,444
Less: Common Shares (Return 1)	(70,321)
2021 Retained Earnings (Return 1)	<u>456,123</u>

³ In Order No. P.U. 19 (2003), the Board ordered that the proportion of common equity in the regulated capital structure shall not exceed 45%. In years where the average common equity percentage is below 45% of the average invested capital, the average regulated capital structure will equal the average book capital structure.

Newfoundland Power Inc.
Cost of Embedded Debt
For The Years Ended December 31
(\$000s)

		<u>2021</u>	<u>2020</u>
1	Debt		
2	Bonds	626,935	634,135
3	Credit Facilities and Short Term Borrowings	<u>14,820</u>	<u>6,728</u>
4		641,755	640,863
5			
6	Debt Discount and Issue Expenses	<u>(2,638)</u>	<u>(2,784)</u>
7			
8		<u>639,117</u>	<u>638,079</u>
9			
10	Average Debt	A 638,598	629,385
11			
12	Interest Expense¹		
13	Interest on Bonds	35,450	36,811
14	Interest on Credit Facilities	167	263
15	Interest on Bank Indebtedness	16	346
16	Amortization of Debt Discount and Issue Costs	<u>217</u>	<u>233</u>
17			
18		B 35,850	37,653
19			
20	Embedded Cost of Debt	B/A <u>5.61%</u>	<u>5.98%</u>

¹ Total financing costs for 2021 and 2020 reported in Return 1 are as follows:

	<u>2021</u>	<u>2020</u>
Interest Expense (B) from above	35,850	37,653
Add: Interest on Security Deposits	7	15
Less: AFUDC (Debt portion only)	<u>(546)</u>	<u>(522)</u>
Interest Expense reported in Return 1	<u>35,311</u>	<u>37,146</u>

Newfoundland Power Inc.
Explanation of Variances in Cost of Debt
For The Year Ended December 31
(\$000s)

	<u>Actual 2021</u>	<u>Test Year 2020</u>	<u>Variance</u>
1 Average Debt	638,598	640,370	(1,772)
2			
3 Embedded Cost of Debt	5.61%	6.00%	-0.39%
4			
5 Details of the Embedded Cost of Debt			
6 Interest on Bonds	35,450	37,080	(1,630) ¹
7 Interest on Credit Facilities	167	1,139	(972) ²
8 Interest on Bank Indebtedness	16	-	16 ²
9 Amortization of Debt Discount and Issue Costs	217	219	(2)
10			
11	<u>35,850</u>	<u>38,438</u>	<u>(2,588)</u>

¹ Interest on long-term debt is lower than the 2020 Test Year due to timing of Series AQ bond issuance and a lower than forecast coupon rate partially offset by a larger than forecast issuance (\$100M vs \$75M).

² Short-Term borrowing costs are lower than the 2020 Test Year due to lower short-term interest rates and lower short-term borrowing requirements due to higher than forecast bond issue in Q2 2020.

Newfoundland Power Inc.
Regulated Return on Average Common Equity
For The Years Ended December 31
(\$000s)

	2021	2020
1 Average Common Equity		
2		
3 Common Equity at December 31, 2021	526,444	-
4		
5 Common Equity at December 31, 2020	515,651	515,651
6		
7 Common Equity at December 31, 2019		517,867
8		
9 Average Common Equity	521,048	516,759
10		
11		
12 Regulated Return on Average Common Equity		
13		
14 Earnings Applicable to Common Shares	43,757	43,230
15		
16 Add: Non-Regulated Expenses (net of income taxes) - Return 12	2,521	2,892
17		
18	46,278	46,122
19		
20		
21 Regulated Return on Average Common Equity	8.88%	8.93%

Newfoundland Power Inc.
Assessable Revenue
(s. 13 of the *Public Utilities Act*)
For The Year Ended December 31, 2021
(\$000s)

1	Revenue From Rates from Return 14	713,303	
2			
3	Weather Normalization Revenue Adjustment from Return 17	<u>(21,125)</u>	
4			
5		692,178	
6			
7	Municipal Taxes Billed	17,052	
8			
9	Billing per the Rate Stabilization Account from Return 16	<u>8,203</u>	
10			
11	Total Electrical Revenue Billed		717,433
12			
13	Other Revenue from Return 14		<u>12,593</u>
14			
15	Assessable Revenue		<u>730,026</u>

NEWFOUNDLAND POWER INC.

**System of Accounts
Revised**

March 31, 2022

NEWFOUNDLAND POWER INC.

SYSTEM OF ACCOUNTS

	<u>Section No.</u>	<u>Page</u>
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Assets	2	9
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Plant Accounts	4	21
Operating Revenues	5	29
Income Deductions	6	31
Operating Expenses	7	33
Annual Returns	8	44

General Instructions

1.01 In the following general instructions and data relating to the content of the accounts comprising the system of accounts:

the "Company" means Newfoundland Power Inc.;

the "Board" means the Board of Commissioners of Public Utilities of the Province of Newfoundland and Labrador;

"Regulated Value" means the value of plant established in accordance with the provisions of the *Public Utilities Act* which provides in Section 64 (2):

"The Board may determine the value of the property and assets of a public utility in accordance with the following rules:

- (a) Where the property and assets were
 - (i) held by the public utility before the first day of January, 1950, or
 - (ii) acquired by the public utility on or after that date, but were in physical existence before that date,

the value shall be determined on the basis of the fair depreciated value of such property and assets at that date, with subsequent depreciation.

- (b) Where the property and assets are new property and assets created or acquired on or after the first day of January, 1950, the value shall be determined on the basis of the prudent original cost, with depreciation since the date of creation or acquisition.
- (c) Where the property and assets are property and assets other than those referred to in paragraphs (a) and (b) and were acquired on or after the first day of January, 1950, the value shall be determined on the basis of the prudent cost at the time of such acquisition, with depreciation since the date of acquisition."

- 1.02 Accounts shall be maintained on an accrual basis and items to be included in any account shall be those which, under generally accepted accounting principles applicable to electric utilities, are considered reasonably to fall under the account headings described therein.
- 1.03 The classification included in this system of accounts is for the purpose of recording transactions and the approval of the Board for this purpose does not preclude the Board from consideration of alternatives for calculation of tariffs or other purposes.
- 1.04 The following accounts shall be used in the general ledger of the Company for the classification of transactions:

Summary of Accounts

<u>Description</u>	<u>Account Number</u>	<u>Contents Paragraph</u>
Assets		
Electric Plant in Service	101xx	2.01
General Expenses Capital - Costs	197xx	2.02
General Expenses Capital - Recoveries	198xx	2.02
Construction Work in Progress	7xxx	2.03
Capitalized Overhead on Work in Progress	107xx	2.03
Accumulated Depreciation of Electric Plant in Service	102xx	2.04
Retirement Work in Progress	8xxx	2.04
Cash and Short Term Investments	131xx	2.05
Consumer Accounts Receivable	142xx	2.06
RSA Credit July 2020	14205	2.07
Accounts Receivable - Accrued Revenue	14225	2.08
Interest Assistance Program	14226	2.09
Other Accounts Receivable	143xx	2.10
Accumulated Provision for Uncollectible Accounts	144xx	-
Income Tax Receivable	146xx	-
Transactions with Associated Companies	1437x-1439x	2.10
Customer Jobbing	90xxx/92xxx/93xxx	2.10
Materials and Supplies	150xx	2.11
Prepayments	165xx	-
Extraordinary Property Losses	180xx	2.12
Unamortized Debt Discount and Expense	181xx	-
Unamortized Share Issue Expenses	182xx	-
Deferred Charges Related to Employee Future Benefits and Miscellaneous Items	186xx	2.13
Deferred Work Orders	91xxx	2.13
Rate Stabilization Account	14500/18647	2.14
CDM Cost Deferral Account	188xx	2.15
Payroll and Stores Related Overheads	19xxx	2.16

Municipal Tax Account	14502	2.17
Fleet Overheads and Administration	370xx/37500	2.18
Conservation Program Loans	148xx	2.19
Employee Future Benefits Regulatory Assets	1864x/1451x	2.20

Capital Stock and Liabilities

Common Stock Issued	201xx	-
Preference Stock Issued	204xx	-
Retained Earnings and Dividends Declared	215xx	3.01
Long Term Debt - First Mortgage Bonds	221xx	-
Hydro Production Equalization Reserve	274xx	3.02
Degree Day Normalization Reserve	275xx	3.02
Contributions in Aid of Construction	271xx	3.03
Deferred Income Taxes	273xx	3.04
Excess Earnings Account	284xx	3.05
Other Post Employment Benefits (OPEB)	22400/23502	3.06
OPEB Cost Variance Deferral Account	24222	3.07
Pension Expense Variance Deferral Account (PEVDA)	24228	3.08
Defined Benefit Pension Plans and Other Liabilities	242xx/2350x	3.09
Demand Management Incentive Account	23257/24230	3.10
Cost Recovery Deferral	24229/22410	3.12
Revenue Requirement Shortfall	22423	3.13
Bank Loans and Credit Facility Borrowings	231xx	-
Accounts Payable	232xx	-
Current Portion of Long Term Debt	233xx	-
Provision for Income Taxes	236xx	-
Interest Accrued on Long Term Debt	237xx	-
Dividends Payable	238xx	-

Plant Accounts

Steam Production		
Land and Land Rights	310xx	4.01
Hydro Production		
Land, Land Rights and Clearing	320xx	4.09
Roads, Trails, Bridges and Road Diversion and Protective Works	321xx	4.10
Buildings and Structures	322xx	4.11
Canals, Penstocks, Surge Tanks and Tailraces	323xx	4.12
Dams and Reservoirs	324xx	4.13
Prime Movers, Generators and Auxiliaries	325xx	4.14

Switching, Metering and Control Equipment	326xx	4.15
Miscellaneous Power Plant Equipment	327xx	4.16
Internal Combustion Production		
Land and Land Rights	330xx	4.17
Buildings and Structures	331xx	4.18
Electrical Plant	332xx	4.19
Prime Movers, Generators and Auxiliaries	333xx	4.20
Fuel Holders	334xx	4.21
Miscellaneous Power Plant Equipment	335xx	4.22
Substations		
Land and Land Rights	340xx	4.23
Buildings and Structures	341xx	4.24
Equipment	342xx	4.25
Transmission		
Land and Land Rights	350xx	4.26
Survey Cost and Easements	351xx	4.27
Roads, Trails and Bridges	352xx	4.28
Overhead Conductors and Underground Cables	353xx	4.29
Submarine Cables	354xx	4.30
Poles, Towers, Fixtures and Insulators	355xx	4.31
Manholes	356xx	4.32
Ducts	357xx	4.33
Distribution		
Land and Land Rights	360xx	4.34
Overhead Conductors and Underground Cables	361xx	4.35
Poles and Fittings	362xx	4.36
Street Lighting	363xx	4.37
Transformers and Transformer Mountings	364xx	4.38
Services	365xx	4.39
Meters	366xx	4.40
Manholes	367xx	4.41
Duct Banks	368xx	4.42
General Properties		
Land and Land Rights	370xx	4.43
Buildings and Structures	371xx	4.44
Office Equipment	372xx	4.45
Stores Equipment	373xx	4.46
Shop Equipment	374xx	4.47
Laboratory and Testing Equipment	375xx	4.48
Miscellaneous Equipment	376xx	4.49
Engineering Equipment	377xx	4.50
Transportation Equipment	378xx	4.51
Computer Hardware and Software	379xx	4.52

Telecommunications		
Land and Land Rights	380xx	4.53
Mobile Radios	381xx	4.54
Radio Sites	382xx	4.55
Radio Equipment	383xx	4.56
Cables and Protection	384xx	4.57
Multiplex Equipment	385xx	4.58
SCADA Master	386xx	4.59
RTU and Supervisory	387xx	4.60
Standby Power	388xx	4.61
Telephone Equipment	389xx	4.62
Power Line Carrier	390xx	4.63
Test Equipment	391xx	4.64

Operating Revenues

Domestic	1.1	4x110	-
Domestic All Electric	1.1	4x112	-
Domestic Seasonal – Optional	1.1S	4x15x	-
General Service 0-10 kW	2.1	4x21x	-
General Service 10-100 kW (110 kVA)	2.2	4x22x	-
General Service 110 kVA - 1000 kVA	2.3	4x23x	-
General Service over 1000 kVA	2.4	4x24x	-
Street and Area Lighting	4.1	4x410	-
Forfeited Discounts		4x400	-
Miscellaneous Non-Consumer Revenue		4x5xx/40700	5.01
Pole Related Revenues and Joint Use Revenues		416xx/4x590	5.02
Accrual of Unbilled Revenue		41113	5.03
Deferred Revenues – PEVDA		41114	5.04
Deferred Revenues – OPEB Variance Deferral Account		41115	5.05
Deferred Revenues – CDM Cost Recovery Transfer		41117	5.06

Income Deductions

Interest on Long Term Debt		40000	-
Other Interest		401xx	6.01
Debt Component of AFUDC		402xx	6.02
Amortization of Debt Discount and Issue Expenses		403xx	-
Depreciation and Amortization		409xx	6.03
Weather Normalization Reserve		408xx	6.04
Excess Earnings Account		40Rxx	6.05
Extraordinary Income or Expenses		40Sxx	6.06
Provision for Income Tax		406xx	-

Other Contract Expenses	417xx	6.07
Dividends - Common Shares	2151x	-
Dividends - Preference Shares	2152x	-
Operating Expenses		
Power Purchased	500xx	7.01
Transfer (to) From Rate Stabilization Account	50004	7.02
Power Produced		
Generation Plan	510xx	7.03
Hydro Production	512xx	7.04
Internal Combustion Plants	513xx	7.05
Wind Turbines	514xx	7.06
Administrative and Engineering Support		
Supervisory and Administrative Support	52000	7.07
System Operations	522xx	7.08
Tools, Equipment, Safety Clothing and Company Uniforms	525xx	7.09
Engineering and Technical Support	52050	7.11
Environmental Policy	53xxx	7.12
Substations	54xxx	7.13
Transmission		
Line Maintenance and Repairs	550xx	7.14
Line Inspections	554xx	7.16
Line Vegetation Management	555xx	7.17
Distribution		
Repair / Maintain Lines	561xx	7.18
Repair / Maintain Services	563xx	7.19
Repair / Maintain Street Lights	564xx	7.20
Pre-Issue of Materials	565xx	7.22
Maintain Transformers	566xx	7.23
Maintain Meters	567xx	7.25
Line Inspections	574xx	7.32
Line Vegetation Management	577xx	7.33
Telecommunications		
Supervision and Miscellaneous	580xx	7.37
Repeater Sites	581xx	7.38

Mobile Radios	582xx	7.39
Communication Cables	583xx	7.40
Leased Facilities	584xx	7.41
Supervisory Control Systems	585xx	7.42
Telephone Systems	586xx	7.43
Wide Area Networks	587xx	7.44
Customer Service		
Supervision and Miscellaneous	605xx	7.45
Customer Accounting	607xx	7.46
Credit and Collections	608xx	7.47
Call Centre	609xx	7.48
Curtable Rates	62550	7.68
Conservation Programs and Energy Services Costs	626xx-629xx	7.49
Uncollectible Bills	61521	7.50
Financial Services		
Finance	612xx	7.51
Risk Management	615xx	7.52
Amortization of Conservation Costs	690xx	7.54
Pension Costs	642xx	7.53
Other Post Employment Benefits	643xx	7.79
Information Systems		
Supervision and Miscellaneous	630xx	7.57
Computer Operations	631xx	7.58
Systems Development and Support	632xx	7.59
Infrastructure	633xx	7.60
Corporate and Employee Services		
Printing Services	617xx	7.65
Corporate Communications	621xx	7.67
Corporate Offices	650xx	7.70
Internal Audit	65300	7.71
Miscellaneous Administrative Costs	655xx	7.72
Mail Costs	61610	7.73
Regulatory and Legal Affairs	65700	7.74
Human Resources Planning and Administration	64020	7.75
Health, Safety and Training	6403x	7.76
Employee Relations	64040	7.77
Miscellaneous Employee Related Costs	64xxx	7.78
Building Operations and Maintenance	67xxx	7.81
Municipal Taxes and PUB Assessments	656xx	7.82
Individual Vehicle Operating and Maintenance Costs	59000	7.85
Vehicle Service Centre	37xxx	7.85

- 1.05 Subdivisions of any account prescribed in paragraph 1.04 may be kept, provided that such subdivisions do not impair the integrity of the prescribed accounts.
- 1.06 If in order to record a transaction, account numbers need to be added or deleted, such numbers together with the appropriate descriptions of contents will be referred to the Board, and unless notification to the contrary is received within 30 days, these changes shall be considered accepted by the Board and this system of accounts amended accordingly.
- 1.07 The Company shall so keep its books of account and all other books, records and memoranda which support in any way the entries in such books as to be able to furnish readily full information as to the nature of any item included in any account.
- 1.08 The Company shall maintain a work order system to show the nature of each addition to or retirement of electric plant, the source or sources of cost and the electric plant account or accounts to which charged or credited.

The Company shall also maintain records in which, for each plant account, the amounts of the annual additions and retirements are classified so as to show the number and cost of the various units of property in service.

- 1.09 A description of the contents of the accounts has not been prepared for each account but only for those where doubt might exist as to the nature of the items to be included therein.

CONTENTS OF ACCOUNTS

Assets

2.01 Electric Plant In Service 101xx

- (a) This account, used for report purposes, is the total of the balances included in electric plant accounts 310 to 391 inclusive.
- (b) The plant accounts 310 to 391 are designed to show the regulated value of the plant in service determined in accordance with the provisions of the *Public Utilities Act*. (See general instructions 1.01.)

The values assigned to the physical plant as of June 30, 1966 and approved by the Board in order number 9 dated March 31, 1967, shall be the basis for the Company's plant accounting records as of that date.

- (c) Electric plant accounts shall be charged with all costs of construction after June 30, 1966. These include labour, engineering, transportation, materials and supplies, contracted work, cost of accidents or damages, permits and right of way, interest and insurance during construction, supply expenses, motor vehicle expenses and general expenses.
- (d) When any item of property is worn out, lost, sold, destroyed, abandoned, becomes permanently unserviceable or is withdrawn from service, the amount in the plant account applicable to the item shall be credited to the appropriate plant account. In the case of depreciable plant, the corresponding debit will be made to the accumulated depreciation account.
- (e) For the purpose of avoiding undue refinement in accounting for additions to and retirements and replacements of electric plant, all property shall be considered as consisting of (1) units of property and (2) minor items of property.
- (f) Units of Property
 - (i) When a unit of property is added to electric plant, the cost thereof shall be added to the appropriate electric plant account.
 - (ii) When a unit of property is retired from electric plant, with or without replacement, the value thereof shall be credited to the electric plant account in which it is included, determined in the manner set forth in paragraph (h) below. If the unit of property is of a depreciable class, the cost of the unit retired and credited to electric plant shall be charged to accumulated depreciation provided for such property.

- (g) Minor Items of Property
- (i) When a minor item of property which did not previously exist is added to plant, the cost thereof shall be accounted for in the same manner as for the addition of a unit of property as set forth above, if a substantial addition results, otherwise the charge shall be to the appropriate operating expense account.
 - (ii) When a minor item of property is retired and not replaced, the book value thereof shall be credited to the electric plant account in which it is included; and, in the event the minor item is a part of depreciable plant, accumulated depreciation shall be charged with the value and cost of removal (net of tax) and credited with the salvage. If, however, the value of the minor item retired and not replaced has been or will be accounted for by its inclusion in the unit of property of which it is a part when such unit is retired, no separate credit to the property account is required when such minor item is retired.
 - (iii) When a minor item of depreciable property is replaced independently of the unit of which it is a part, the cost of replacement shall be charged to the maintenance account appropriate for the item, except that if the replacement effects a substantial betterment (the primary aim of which is to make the property affected more useful, more efficient, of greater durability, or of greater capacity), the excess cost of the replacement over the estimated cost at current prices of replacing without betterment shall be charged to the appropriate electric plant account.
- (h) Determination of cost - The value of electric plant retired shall be the amount at which such property is included in the electric plant accounts, including all components of construction costs. The value shall be determined from the utility's records and if this cannot be done, it shall be estimated. When it is impractical to determine the value of each item, due to the relatively large number or small cost thereof, the average value of the items, with due allowance for any differences in size and character, shall be used for the items retired.

2.02	General Expenses Capital - Costs	197xx
	General Expenses Capital - Recoveries	198xx

These accounts will be charged with expenses which arise in connection with capital expenditure but cannot, from their nature, be charged to a specific item or project. Such charges include a portion of the salaries and associated expenses, such as travel, office supplies, vehicle expenses, equipment rentals and building maintenance, of finance, corporate and employee services, engineering and operations supervisory staff. In addition, a portion of the expenses related to small tools and equipment, pre-issued materials and pension plan expenses will be charged to these accounts. These accounts will be cleared by a percentage charge to capital expenditure by class of property.

2.03	Construction Work in Progress	7xxxx
	Capitalized Overhead on Work in Progress	107xx

These accounts shall include the total of the balances of work orders for electric plant in progress of construction, including an allowance for funds used during construction (AFUDC) and an applicable portion of general expenses.

2.04	Accumulated Depreciation of Electric Plant in Service	102xx
	Retirement Work in Progress	8xxxx

- (a) These accounts shall be credited with amounts concurrently charged to account 409xx depreciation.
- (b) At the time of retirement of depreciable electric plant, these accounts shall be charged with the amount in the plant accounts applicable to that item of property retired plus the cost of removal (8xxxx) (net of tax) and shall be credited with the salvage value and insurance recovered.
- (c) For purposes of analysis, the Company shall maintain subsidiary records in which the depreciation reserve is broken down into component parts corresponding to the primary electric plant accounts which include depreciable plant. These subsidiary records shall show the current credits and debits in detail for each primary plant account.
- (d) Depreciation charges shall be computed by applying on a straight-line basis the annual percentage rates applicable to the value of the plant recorded in accordance with orders issued by the Board for each class of depreciable property.

2.05	Cash and Short Term Investments	131xx
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This account shall include all cash balances and the cost of investments acquired for the purpose of temporarily investing cash.

2.06	Consumer Accounts Receivable	142xx
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This account shall include amounts due from customers for utility service.

2.07	RSA Credit July 2020	14205
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This account shall include transactions related to the One-Time Customer Bill Credit resulting from Order in Council *OC2020-081*.

2.08	Accounts Receivable - Accrued Revenue	14225
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This account will be debited with the estimated amount of unbilled electric revenue.

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| 2.09 | Interest Assistance Program | 14226 |
| | This account shall include transactions related to the Government of Newfoundland and Labrador's interest assistance program in response to the COVID-19 pandemic. | |
| 2.10 | Other Accounts Receivable
Transactions with Associated Companies
Customer Jobbing | 143xx
1437x-1439xx
90xxx/92xxx/93xxx |
| | These accounts shall include amounts due from customer jobbing and contract work (90xxx/92xxx/93xxx); other accounts receivable excluding amounts due from customers for utility service (143xx); and, receivables resulting from transactions with associated companies (1437x-1439x). | |
| 2.11 | Materials and Supplies | 150xx |
| | (a) This account shall include the cost of materials purchased for use in the electric utility business for construction, maintenance or operation purposes. | |
| | (b) It shall also include the cost of materials salvaged in connection with construction, maintenance or retirement of property, the corresponding credit being to construction, maintenance or accumulated depreciation respectively. | |
| | (c) Materials and supplies issued shall be credited hereto and charged to the appropriate construction, operating expense or other account on the basis of a cost price determined by the use of average method of calculation applied consistently. | |
| | (d) Physical inventory shall be taken at least annually and necessary adjustments made to bring this account into agreement with the actual inventory. | |
| 2.12 | Extraordinary Property Losses | 180xx |
| | (a) This account shall include, when so authorized or directed by the Board, losses in service value of property abandoned or otherwise retired from service which are not provided for by the accumulated depreciation or reserves and which could not reasonably have been foreseen and provided for. It shall include also, when so authorized or directed by the Board, extraordinary losses such as unforeseen damages to property which could not reasonably have been anticipated and which are not covered by reserves or by insurance. | |
| | (b) The entire loss in service value of depreciable property retired shall be charged to accumulated depreciation. If all, or a portion, of the loss in service value is to be included in this account, accumulated depreciation shall then be credited and this account charged with the amount properly chargeable thereto. | |
| | (c) This account shall be so maintained that convenient itemization may be made of all amounts included herein. | |

- (d) Application to the Board for permission to use this account for each particular loss shall be accompanied by a statement giving a complete explanation of the nature and cause of the property loss together with a description of the property, the period over which and the accounts to which it is proposed to write off the charges, and other pertinent information.

2.13	Deferred Charges Related to Employee Future Benefits and Miscellaneous Items	186xx
	Deferred Work Orders	91xxx

These accounts shall include assets related to the Company's defined benefit pension plan, other employee future benefits costs, other deferred costs as approved from time to time by the Board and all debits not elsewhere provided for in other accounts. These costs are expected to be recovered through customer rates in the future.

2.14	Rate Stabilization Account	
	Long Term	18647
	Current	14500

These accounts shall be increased (charged) or reduced (credited) with amounts as defined by the Rate Stabilization Clause in the Company's Schedule of Rates, Rules and Regulations as approved from time to time by the Board of Commissioners of Public Utilities.

2.15	CDM Cost Deferral Account	
	Long Term	18801
	Current	18804

These accounts shall be charged with the costs incurred in implementing the CDM Program Portfolio.

These costs include the CDM Program Portfolio costs incurred by the Company for detailed program development, promotional materials, advertising, pre and post customer installation checks, incentives, processing applications and incentives, training of employees and trade allies, and program evaluation costs.

These accounts shall also be charged the costs of major CDM studies such as comprehensive customer end use surveys and CDM potential studies that cost greater than \$100,000.

Transfers to, and from, these accounts will be tax effected.

These accounts will maintain a linkage of all costs recorded in the account to the year the cost was incurred.

Recovery of annual amortization of costs in this account shall be through the Company's Rate Stabilization Account or as otherwise ordered by the Board.

2.16 Payroll and Stores Related Overheads 19xxx

These accounts shall include all debits and credits to the various overhead accounts and rechargeable accounts. These overhead accounts include the following:

- Payroll Overhead Suspense 19001/19010/19200

These accounts shall include the costs related to payroll such as; (i) company portion of C.P.P. and E.I., (ii) Payroll Taxes, (iii) W.H.S.C.C. Assessment, (iv) current premiums for Health and Group Life Insurance Plans, (v) current cost of vacation and statutory holidays, (vi) costs associated with personal illness and doctor's appointments and (vii) OPEB current service cost.

- Recovery - Payroll Overhead 19050/19250

These accounts shall include the credit entry whereby payroll overhead costs are applied to all other direct labour costs using a predetermined percentage allocation.

- Materials Management & Stores 196xx

These accounts shall include the salaries and expenses of materials management, salaries and expenses of the central and area stores, purchase adjustments and cartage. Included also are charges allocated from Information Systems (account 63x) and from Building Operations and Maintenance (account 67x).

- Recoveries - Stores Overhead 196R1

This account shall include the credit entry whereby issues from inventory and purchases processed through materials management department are charged with a predetermined overhead percentage.

2.17 Municipal Tax Account 14502

This account shall include the costs of municipal property and business taxes levied by various municipalities applicable to company owned property. Included also are the accruals for municipal revenue taxes based on using a predetermined percentage of total electrical revenue for the current year. The account is credited on a monthly basis using the amounts derived from the "Municipal Tax Adjustment" included in the electrical rates to reflect taxes charged to the company by municipalities and recoverable from all customers.

2.18 Fleet Overheads and Administration 370xx/37500

These accounts shall include all overhead and administration costs associated with the maintenance and operation of the vehicle service centre and management of the Company's vehicle fleet. Individual vehicle maintenance and operating costs will not be charged to this account. Each vehicle shall have its own unique operating 3xxxx account with all operating, maintenance and repair costs associated with that vehicle recorded using that number.

2.19 Conservation Program Loans 148xx

This account shall include the net costs of loans, to the electric service customers, used to finance the cost incurred by the customer for various DSM programs as offered by the company from time to time. The customer balances shall be credited on a monthly basis with the principal portion of the monthly payment.

2.20	Employee Future Benefits Regulatory Assets Account	
	Long Term	1864x
	Current	1451x

These accounts will reflect unamortized amounts associated with the Company's employee future benefits plans as calculated in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). These accounts will include historical amounts, amounts recognized on transition to U.S. GAAP and amounts that arise in the future. For tracking purposes, these accounts will include segregated sub-accounts for each of the Company's:

- (i) Defined Benefit Pension Plan;
- (ii) Pension Uniformity Plan; and
- (iii) OPEB Plan.

Capital Stock and Liabilities

3.01 Retained Earnings and Dividends Declared 215xx

- (a) This account shall be credited with the net income each year (after dividends) or charged with the net deficit (after dividends).
- (b) This account shall be charged or credited with material adjustments which have all four of the following characteristics:
 - (i) Are specifically identified with and directly related to the business activities of particular prior periods.
 - (ii) Are not attributable to economic events occurring subsequent to the date of the financial statements of such prior periods.
 - (iii) Depend primarily on decisions or determinations of persons other than management.
 - (iv) Could not be reasonably established prior to such decisions or determinations.
- (c) This account shall also be charged or credited with the income tax effect of the transactions referred to in (b) above.

3.02 Weather Normalization Reserve

This account will include the balance of both:

(a) Hydro Production Equalization Reserve 274xx

This account shall include the net balance of the amounts credited or charged to it in connection with Order Number 15, (1967) of the Board, paragraph 13 of which reads as follows:

“The Company shall maintain and create a reserve fund to which it shall credit the value of additional kilowatt hours generated in its hydro plants in years when the total precipitation is above average and to which it shall debit the cost of purchasing additional kilowatt hours in years when the total precipitation is below average. For the purpose of determining the amounts to be credited or debited to the fund, kilowatt hours shall be valued at the rate being paid in the year concerned for energy purchased by the Company from the Newfoundland and Labrador Hydro Corporation.”

(b) Degree Day Normalization Reserve 275xx

By Board Order #1 (1974) the Company was ordered to create and maintain a reserve to which it shall credit the value of additional kilowatt hours sold for space heating when the temperature is below the normalized average temperature and to which it shall debit the value of kilowatt hours not sold due to an above normalized average temperature. On March 29, 1995, the Board approved the introduction of a coefficient to represent the estimated kilowatt hour change in energy usage, per customer, for each kilometre per hour of wind speed difference from normal. For the purpose of determining the amounts to be credited or debited to the fund, kilowatt hours shall be valued at the rate being paid in the year concerned for energy purchased by the Company.

(c) This account shall be debited for any amortizations of the balance in the weather normalization account as approved by the Board from time to time.

(d) This account shall consist of a combination of the balances in (a) and (b) above net of respective income tax effects and amortizations.

(e) By Board Order #13 (2013), the Company is required on March 31st of each year to transfer to the RSA, the balance in the Weather Normalization Reserve accrued in the previous year.

3.03 Contributions in Aid of Construction 271xx

(a) This account shall include donations, contributions in cash, services, or property from governments or others for construction purposes.

(b) Subsidiary accounts shall be maintained to show separately contributions from governments, intangible assets and other contributions.

(c) This account shall be amortized annually by applying a rate equal to the depreciation rate on the plant for which the contributions were made.

3.04 Deferred Income Taxes 273xx

This account shall include the accumulated amounts by which income taxes have been affected by:

(a) Claiming capital cost allowance for determination of taxable income in excess of depreciation charged in determining corporate income, exclusive of the impact of General Expenses Capitalized;

(b) The difference between pension funding for determination of taxable income and pension expense used in determining corporate income;

(c) The difference between claiming other post employment benefits premiums and

retirement allowances for determination of taxable income and other post employment benefits expense charged in determining corporate income.

3.05 Excess Earnings Account 284xx

This account shall be credited with any earnings in excess of the upper limit of the allowed range of return on rate base as determined by the Board. The established range of return on rate base is 36 basis points. For any year, all earnings in excess of 18 basis points above the approved rate of return on rate base shall, unless otherwise ordered by the Board, be credited to this account. Disposition of any balance in this account shall be as determined by the Board.

3.06 Other Post Employment Benefits (OPEB)

Long Term	22400
Current	23502

These accounts will be credited with the actuarially determined accrued benefit obligation associated with Other Post Employment Benefits which is measured for accounting purposes as at December 31 each year.

3.07 OPEB Cost Variance Deferral Account 24222

These accounts shall be charged or credited with the amount by which the OPEB expense for any year differs from that approved for the establishment of revenue requirement from rates.

OPEB expense for the year is the total of (i) the OPEB expense for regulatory purposes for the year, and (ii) the amortization of OPEB regulatory asset for the year.

Disposition of any Balance in this Account

Newfoundland Power shall charge or credit any amount in this account to the Rate Stabilization Account as of the 31st day of March in the year in which the difference arises.

If there is an application before the Board for rates based on a new test year that is anticipated to be outstanding as of the 31st day of March in a year in which the new rates are expected to become effective, then Newfoundland Power shall apply to the Board for determination of the amount to be charged or credited to the account for that year and the timing thereof.

3.08 Pension Expense Variance Deferral Account (PEVDA) 24228

This account shall be charged or credited with the amount by which the annual pension expense computed in accordance with generally accepted accounting principles for any year differs from the annual pension expense approved most recently for the establishment of revenue requirement from rates for a test year.

Disposition of any Balance in this Account

Newfoundland Power shall charge or credit any amount in this account to the Rate Stabilization Account as of the 31st day of March in the year in which the difference arises.

If there is an application before the Board for rates based on a new test year that is anticipated to be outstanding as of the 31st day of March in a year in which the new rates are expected to become effective, then Newfoundland Power shall apply to the Board for determination of the amount to be charged or credited to the account for that year and the timing thereof.

3.09	Defined Benefit Pension Plans and Other Liabilities	242xx
	Long Term	242xx
	Current	2350x

These accounts shall include liabilities related to the Company's defined benefit pension plans, and other deferred liabilities as approved from time to time by the Board. These costs are expected to be credited to customers in future rates.

3.10	Demand Management Incentive Account	23257
	Long Term	23257
	Current	24230

These accounts shall be charged or credited with the amount by which the Demand Supply Cost Variance exceeds the Demand Management Incentive. The Demand Management Incentive equals ±1% of test year wholesale demand charges.

The Demand Supply Cost Variance expressed in dollars shall be calculated as follows:

$$(A - B) \times C$$

Where:

A = actual demand supply cost in dollars per kWh determined by dividing in the calendar year by the weather normalized kWh purchases for that year (as will be reported in Return 15 of Newfoundland Power's Annual Report to the Board).

B = test year demand supply cost in dollars per kWh determined by dividing the test year wholesale demand charges by the test year kWh purchases.

C = the weather normalized annual purchases in kWh.

The amount charged or credited to these accounts shall be adjusted for applicable income taxes calculated at the statutory income tax rate.

Newfoundland Power shall file an Application with the Board no later than the 1st day of March each year for the disposition of any balance in this account.

3.12	Cost Recovery Deferral	
	Long Term	22410
	Current	24229

These accounts shall be debited or credited with amounts from time to time resulting from specific Board directives. Disposition of these amounts is subject to Board directives.

3.13	Revenue Requirement Shortfall or Surplus	22423
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This account shall be debited or credited with the estimated revenue requirement shortfall or surplus resulting from timing differences associated with the implementation of revised customer rates. Disposition of these amounts is subject to Board directives.

Plant Accounts

- 4.01 Steam Production - Land and Land Rights 310xx
- This account shall include the regulated value of all land devoted to steam power operations. Included also shall be the regulated value of water rights and riparian land used, or to be used, for steam power operations, where such rights have lives exceeding one year. Such regulated values shall include surveys, examination and registration of title.
- 4.09 Hydro Production - Land, Land Rights and Clearing 320xx
- This account shall include the regulated value of all land for power house, canal right-of-way, pipelines, water and reservoir rights, including survey examination, registration of title and clearing of all land devoted to the development including clearing of reservoir area, dam sites, canals, pipelines and powerhouses.
- Subsidiary accounts shall be maintained to show the regulated value of each separate hydro plant.
- 4.10 Hydro Production - Roads, Trails, Bridges and Road Diversion and Protective Works 321xx
- This account shall include the regulated value of all permanent roads, trails, bridges, etc. used primarily in production including protective works and the regulated value of diverting or raising roads, the property of others, necessitated by the development.
- 4.11 Hydro Production - Buildings and Structures 322xx
- This account shall include the regulated value of all permanent buildings and improvements and their appurtenant fixtures devoted to hydro production.
- 4.12 Hydro Production - Canals, Penstocks, Surge Tanks and Tailraces 323xx
- This account shall include the regulated value attributed to the construction of these items.
- 4.13 Hydro Production - Dams and Reservoirs 324xx
- This account shall include the regulated value of all dams, etc. devoted to the storage and regulation of water. This includes gates, hoisting apparatus, spillways, etc.
- 4.14 Hydro Production - Prime Movers, Generators and Auxiliaries 325xx
- This account shall include the regulated value of turbines, governors, and associated equipment and generators, exciters, other auxiliaries and their cooling equipment.
- 4.15 Hydro Production – Switching, Metering and Control Equipment 326xx

This account shall include the regulated value of generator leads, station bus, circuit breakers, station service transformers, regulators, lightning arrestors, control boards, instruments and protective devices, and cables leading from switchboard to substation.

4.16 Hydro Production - Miscellaneous Power Plant Equipment 327xx

This account shall include the regulated value of all other power plant equipment not included above such as first cost of tools, etc. for general plant use and the installed regulated value of power and control lines to forebay and intake control.

4.17 Internal Combustion Production - Land and Land Rights 330xx

This account shall include the regulated value of all land for power houses, fuel tanks, pipeline and reservoir rights including cost of survey, examination and registration of title.

Subsidiary accounts shall be maintained to show the regulated value for each separate diesel plant.

4.18 Internal Combustion Production - Buildings and Structures 331xx

This account shall include the regulated value of all permanent buildings and improvements and their appurtenant fixtures devoted to internal combustion production.

4.19 Internal Combustion Production - Electrical Plant 332xx

This account shall include the regulated value of all electrical equipment for conduction, control, transformation and distribution of energy delivered by the generators, from generator terminals to the point of delivery to the transmission or general distribution system. This includes generator leads, station bus, station service transformers, regulators, lightning arrestors, circuit breakers and other associated protective devices, lines and cable.

4.20 Internal Combustion Production - Prime Movers, Generators and Auxiliaries 333xx

This account shall include the installed regulated value of internal combustion engines and connected generating apparatus used primarily in connection with the generation of electrical energy. This includes the regulated value of specially prepared foundations, belts, counter shafts, pulleys and other appliances between engines and generators, inlet valves, governors, ignition and starting apparatus, mufflers and exhaust silencing equipment.

- 4.21 Internal Combustion Production - Fuel Holders 334xx
- This account shall include the regulated value of all equipment used for storage of fuel for internal combustion engines from the point of delivery of the supplies to the point of delivery of the fuel to the engine. This includes the regulated value of pipelines, pumps and storage tanks for liquid fuel.
- 4.22 Internal Combustion Production - Miscellaneous Power Plant Equipment 335xx
- This account shall include the regulated value of all other plant equipment not previously listed, such as first cost of tools for general plant use.
- 4.23 Substations - Land and Land Rights 340xx
- This account shall include the regulated value of land devoted to use of substations, including cost of survey, examination and registration of title, etc.
- Subsidiary accounts shall be maintained to show the regulated value for each separate substation.
- 4.24 Substations - Buildings and Structures 341xx
- This account shall include the regulated value of all permanent substation buildings and structures and their appurtenances.
- 4.25 Substations - Equipment 342xx
- This account shall include the regulated value of substation equipment including specially provided foundations, switchboards, transformers, switches and other apparatus used solely to transform from one transmission voltage to another. It includes such items as tools, office furniture, fixtures, appliances permanently assigned to the substation and foundations, supporting framework, safety fences, etc.
- 4.26 Transmission - Land and Land Rights 350xx
- This account shall include the regulated value of all land clearing and land, including examination, registration of title, etc. used, or to be used in connection with the transmission line system.
- 4.27 Transmission - Survey Cost and Easements 351xx
- This account shall include the regulated value of right of way including surveys, cost of negotiations pertaining to easements and preparations of related documents.

- 4.28 Transmission - Roads, Trails and Bridges 352xx
This account shall include the regulated value of all permanent roads, trails, bridges and gates, used primarily in connection with operation and maintenance of the transmission system.
- 4.29 Transmission - Overhead Conductors and Underground Cables 353xx
This account shall include the regulated value of all overhead conductors, ties, armour, splices, etc. and direct buried underground cable and other related devices such as splices and potheads including associated trenching, embedding backfill and site restoration.
- 4.30 Transmission - Submarine Cables 354xx
This account shall include the regulated value of cable, potheads, etc., and labour to install.
- 4.31 Transmission - Poles, Towers, Fixtures and Insulators 355xx
This account shall include the regulated value of all transmission line poles, crossarms, insulator pins, braces, brackets, guys and other fixtures and supports and labour to install steel towers and foundations and the regulated value of transmission line insulators including labour to install.
- 4.32 Transmission - Manholes 356xx
This account shall include the regulated value of manholes and handholes in place including backfill, site restoration and equipment directly related thereto.
- 4.33 Transmission - Ducts 357xx
This account shall include the regulated value of ducts including related trenching, embedding, backfill and site restoration.
- 4.34 Distribution - Land and Land Rights 360xx
This account shall include the regulated value of surveys and easements and clearing distribution line right of way.
- 4.35 Distribution - Overhead Conductors and Underground Cables 361xx
This account shall include overhead insulated and bare wires and cables including drop wires to transformer connectors and direct buried underground cable and other related devices such as splices and potheads including associated trenching, embedding backfill and site restoration.

- 4.36 Distribution - Poles and Fittings 362xx
This account shall include the regulated value of distribution poles and fittings.
- 4.37 Distribution - Street Lighting 363xx
This account shall include the regulated value of fixtures including luminaries, relays, brackets and ballasts used exclusively for street lights.
- 4.38 Distribution - Transformers and Transformer Mountings 364xx
This account shall include the regulated value of transformers including initial filling with oil and the regulated value of transformer foundation pads and grounding bus for use with pad mounted transformers.
- 4.39 Distribution - Services 365xx
This account shall include the regulated value of services, including conductors, insulators and supports leading from the last main line distribution pole to the point of connection with the customer's wiring. It also includes the regulated value of underground services from point of connection to secondary circuit to point of entrance to customer's building including conductor, trenching, embedding, backfill and site restoration.
- 4.40 Distribution - Meters 366xx
This account shall include the regulated value of meters including the first government test, metering tanks, instrument transformers and metering cabinets. This account shall also include the first cost of installation of new or used meters.
- 4.41 Distribution - Manholes 367xx
This account shall include the regulated value of manholes and handholes in place including backfill and site restoration and equipment directly related thereto.
- 4.42 Distribution - Duct Banks 368xx
This account shall include the regulated value of ducts and related trenching, embedding, backfill and site restoration for all primary and secondary circuit installations.
- 4.43 General Properties - Land and Land Rights 370xx
This account shall include the regulated value of all land not assignable to any other account in this classification such as land for office buildings.

- 4.44 General Properties - Buildings and Structures 371xx
This account shall include the regulated value of all buildings and structures not assignable to any other account in this classification such as office buildings, storage sheds, etc.
- 4.45 General Properties - Office Equipment 372xx
This account shall include the regulated value of all office service equipment not permanently attached to buildings such as desks, chairs, tables, moveable safes, filing cabinets, drafting room equipment, etc. This account shall also include the cost value of paintings and the regulated value of all training equipment.
- 4.46 General Properties - Stores Equipment 373xx
This account shall include the regulated value of equipment used in shipping, handling and storing supplies.
- 4.47 General Properties - Shop Equipment 374xx
This account shall include the regulated value of all equipment and tools that cannot be properly allocated to any other account, such as motors, welding equipment, power tools, frames, hoist and like shop equipment.
- 4.48 General Properties - Laboratory and Testing Equipment 375xx
This account shall include the regulated value of all meter and other testing apparatus and laboratory equipment not provided for elsewhere.
- 4.49 General Properties - Miscellaneous Equipment 376xx
This account shall include the regulated value of any other miscellaneous equipment not provided for elsewhere.
- 4.50 General Properties - Engineering Equipment 377xx
This account shall include the regulated value of equipment obtained for the exclusive use of the Engineering staff.
- 4.51 General Properties - Transportation Equipment 378xx
This account shall include the regulated value of automobiles, trucks, trailers, tractors, snowmobiles, etc. and garage equipment.

- 4.52 General Properties - Computer Hardware and Software 379xx
- This account shall include the regulated value of network infrastructure and personal computers including all associated equipment and also the regulated value of all systems and application software packages.
- 4.53 Telecommunications - Land and Land Rights 380xx
- This account shall include the regulated value of all land clearing and land, including examination, registration of title, etc. used, or to be used in connection with the telecommunications system.
- 4.54 Telecommunications - Mobile Radios 381xx
- This account shall include the regulated installed value of mobile and fixed transceivers used for purposes of communicating between company owned vehicles and fixed locations including portable radios, pagers, base stations and radio switches.
- 4.55 Telecommunications - Radio Sites 382xx
- This account shall include the regulated value of the infrastructure required to house equipment for the broadcasting of radio communications signals including roads, buildings, towers and antennas.
- 4.56 Telecommunications - Radio Equipment 383xx
- This account shall include the regulated installed value of electronic equipment required to broadcast radio communications signals and interface to other systems including VHF radio repeaters, UHF links and telephone trunk interfaces.
- 4.57 Telecommunications - Cables and Protection 384xx
- This account shall include the regulated installed value of all cables, including metallic and fibre optic, and associated protective equipment used for carrying communications signals between specific or different locations.
- 4.58 Telecommunications - Multiplex Equipment 385xx
- This account shall include the regulated installed value of equipment used to combine multiple varied communications signals into one aggregate communications signal for transmission across the system including data concentrators, fibre optic link equipment and wide area network equipment.

4.59 Telecommunications - SCADA Master 386xx

This account shall include the regulated installed value of equipment required for remote control of the power system that is housed in a control centre including computers, software, display systems, auxiliaries, switches, modems, mimic boards, consoles and chart recorders.

4.60 Telecommunications - RTU and Supervisory 387xx

This account shall include the regulated installed value of remote terminal units and hardwired supervisory equipment required for remote control of the power system and located in company substations and generating plants.

4.61 Telecommunications - Standby Power 388xx

This account shall include the regulated installed value of equipment used for the purpose of supplying continuous power to telecommunications equipment including battery chargers, battery banks, inverters, generators and uninterruptible power supplies.

4.62 Telecommunications - Telephone Equipment 389xx

This account shall include the regulated installed value of company owned equipment used for the purpose of providing telephone service to company offices and locations including handsets and telephone switching equipment.

4.63 Telecommunications - Power Line Carrier 390xx

This account shall include the regulated installed value of equipment used to pass communications signals over power lines including protective relay interfaces and high voltage interface equipment.

4.64 Telecommunications - Test Equipment 391xx

This account shall include the regulated value of telecommunications test equipment used in installing and maintaining the telecommunications system.

Operating Revenues

5.01 Miscellaneous Non-Consumer Revenue 4x5xx
40700

These accounts shall include:

- (a) Rental of electric plant leased to others.
- (b) Revenues derived from electric energy supplied to consumers for any classifications not otherwise provided for or to other utilities.
- (c) Fees and charges for changing, connecting and disconnecting service.
- (d) Profit or sale of material and supplies not ordinarily purchased for resale.
- (e) Wheeling Charges.
- (f) Statement Preparation Fees.
- (g) NSF Cheque Charges.
- (h) Income from customer jobbing and contract work.
- (i) Rentals from leased property other than electric plant.
- (j) Interest revenues derived from:
 - operation of Rate Stabilization Fund
 - contributions country homes
 - income tax refunds
 - conservation and demand management programs
 - interest on overdue customer accounts as defined within the Rates, Rules and Regulations
 - interest on cash balances and other cash investments
- (k) Amortizations of deferred revenues as approved time to time by the Board.
- (l) The cost of funds used for construction purposes based upon a calculation whereby construction work in progress and expansion inventory are financed based on the Company's weighted average cost of equity as approved by the Board for ratemaking purposes. AFUDC shall be charged to the work upon which the funds are expended and the amount of materials and supplies inventory identified as expansion inventory. The period for which cost of equity is capitalized shall be limited to the period of construction. No cost of equity shall be included with expenditures for construction projects which have been abandoned.

5.02	Pole Related Revenues	416xx
	Joint Use Revenues	4x590

These accounts shall include joint use revenue related billings to the CATV companies. These accounts shall also include revenues related to pole installations and other work as required by Bell Aliant Inc.

5.03	Accrual of Unbilled Revenue	41113
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This account will be credited or debited with the change in the estimated amount of accrued unbilled electric revenue on a monthly basis.

5.04	Deferred Revenues – PEVDA	41114
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This account shall be credited with the current year revenue impact of the amount by which the annual pension expense computed in accordance with generally accepted accounting principles for any year differs from the annual pension expense approved most recently for the establishment of revenue requirement from rates for a test year.

5.05	Deferred Revenues – OPEB Variance Deferral Account	41115
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This account shall be credited with the current year revenue impact of the amount by which the annual Other Post Employment Benefits expense computed in accordance with generally accepted accounting principles for any year differs from the annual Other Post Employment Benefit expense approved most recently for the establishment of revenue requirement from rates for a test year.

5.06	Deferred Revenues - CDM Cost Recovery Transfer	41117
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This account shall be credited with the amortization of annual customer energy conservation program costs. Commencing January 1, 2013, annual customer energy conservation program costs are deferred and amortized over the subsequent seven year period.

Income Deductions

6.01 Other Interest 401xx

This account shall include interest paid or accrued on credit facility loans, bank loans, promissory notes, other unfunded debt of the utility and customer deposits.

6.02 Debt Component of AFUDC 402xx

This account shall include the cost of funds used for construction purposes based upon a calculation whereby construction work in progress and expansion inventory are financed based on the Company's weighted average cost of debt as approved by the Board for ratemaking purposes. AFUDC shall be charged to the work upon which the funds are expended and the amount of materials and supplies inventory identified as expansion inventory. The period for which interest is capitalized shall be limited to the period of construction. No interest shall be included with expenditures for construction projects which have been abandoned.

6.03 Depreciation and Amortization 409xx

This account shall include the Depreciation and Amortization expense for the period covered by the income accounts applicable to property, plant and equipment in service. The account will be credited with the amount of contributions in aid of construction amortized. (See paragraph 3.03) and debited/credited by any depreciation/amortizations or adjustments for depreciation reserve variances as determined through a Depreciation Reserve Study and approved by the Board.

6.04 Weather Normalization Reserve 408xx

This account shall include the amounts transferred to and from the Weather Normalization Reserve referred to in paragraph 3.02.

6.05 Excess Earnings Account 40Rxx

This account shall be charged or credited with a transfer to or from Excess Earnings Account as the Board directs from time to time.

6.06 Extraordinary Income or Expenses 40Sxx

This account shall include only material gains or losses which by nature are not typical of the Company's normal business activities, are not expected to occur regularly over a period of years and are not considered as recurring factors in any evaluation of the ordinary operating processes of the business.

6.07 Other Contract Expenses

417xx

This account shall include operating expenses associated with contracts from customers, as identified in Accounting Standard Codification (ASC) Topic 606.

Operating Expenses

- | | | |
|------|--|-------|
| 7.01 | Power Purchased | 500xx |
| | This account shall include the cost of all firm and secondary power purchased from Newfoundland Hydro and applicable amortizations as approved by the Board from time to time. | |
| 7.02 | Transfer (to) from Rate Stabilization Account | 50004 |
| | This account shall include the transfer to or from account 14500 (Rate Stabilization Account) in order to provide a proper matching of revenue and expenses as a result of changes to the Rate Stabilization Plan between the Company and Newfoundland Hydro as approved annually by the Board. | |
| 7.03 | Power Produced - Generation Plan | 510xx |
| | This account shall include the salaries and expenses of Company personnel, and any other expenses incurred in the development of generation expansion policy, integrated resource planning and least cost planning. | |
| 7.04 | Power Produced - Hydro Production | 512xx |
| | This account shall include the salaries and expenses of plant supervision and operators engaged in operating the plants. Included also are the cost of supplies, tools and maintenance of buildings, structures, grounds and equipment used in the production process. Taxes and assessments in lieu of rentals, and rentals paid for the use of and/or rights to the use of water used for generation of electrical energy are also included. | |
| 7.05 | Power Produced - Internal Combustion Plants | 513xx |
| | This account shall include the salaries and expenses of plant superintendents and operators engaged in operating the plants. Included also are the costs of fuel, lubricants, supplies, tools, maintenance of buildings, structures, grounds and equipment used in the production process. | |
| 7.06 | Power Produced - Wind Turbines | 514xx |
| | This account shall include the salaries and expenses of personnel engaged in the operation and maintenance of wind energy systems used to produce electrical energy. | |
| 7.07 | Supervisory and Administrative Support | 52000 |
| | This account shall include that portion of the salaries and expenses of the directors, supervisory engineers and supporting staff that are engaged in the operation of the electrical system generally and which cannot properly be allocated to any specific work order or account number. | |

7.08 System Operations 522xx

This account shall include the salaries and expenses of engineers and supporting staff, supervisors and operators engaged in operating the system control centre. Included also are the costs of fuel, supplies, tools, maintenance of buildings, grounds and load control centre equipment.

7.09 Tools, Equipment, Safety Clothing and Company Uniforms 525xx

This account shall include the repair or replacement of normally expendable tools, equipment, instruments, safety clothing and Company uniforms, and the salaries and expenses of personnel engaged in the testing of linesmen's rubber gloves. Tools costing in excess of \$1,000 should not be charged to this subclass but to a capital work order designated for this purpose.

7.11 Engineering and Technical Support 52050

This account shall include the salaries and expenses of the technical and supporting staff of the engineering departments that cannot properly be assigned to any specific work order or operating account.

7.12 Environmental Policy 53xxx

This account shall include:

- (a) the cost of labour and expenses incurred in connection with the management and development of environmental policies;
- (b) the cost of carrying out environmental audits;
- (c) the cost of cleaning up petroleum product spills, including those from oil-filled electrical equipment, storage tanks and vehicles;
- (d) the cost of disposal and decontamination of PCB and non-PCB insulating oil and of waste oil from equipment, including the cost of identification and new oil;
- (e) the cost of maintaining approved PCB storage sites, including routine inspections and correction of deficiencies;
- (f) the cost of any special environmental cleanup projects;
- (g) the cost of addressing enquiries and of remedial action taken concerning leaching from chemically-treated poles and timbers; and,
- (h) any and all costs incurred in addressing electromagnetic field (EMF) enquiries.

- 7.13 Substations 54xxx
- This account shall include the salaries and expenses of supervisors and operators engaged in the operation and maintenance of Company substations. Included also are the costs of fuel and supplies and the labour, materials and expenses in connection with the maintenance of buildings, structures, grounds, substation equipment, commissioning and protective relaying.
- 7.14 Transmission - Line Maintenance and Repairs 550xx
- This account shall include the cost of labour, material and expenses incurred in connection with the maintenance of overland and underground transmission lines, including maintenance and repair of transmission line conductors, insulators, poles and fixtures; transmission line cables, potheads and auxiliary equipment such as oil reservoirs and maintenance of conduits and manholes; and, the repair and/or replacement of normally expendable tools and instruments used for this work.
- 7.16 Transmission - Line Inspections 554xx
- This account shall be charged with cost of labour, material and expenses incurred in connection with the inspection of overland and underground transmission lines, including maintenance of and access to rights-of-way.
- 7.17 Transmission - Line Vegetation Management 555xx
- This account shall be charged with the cost of labour, material and expenses incurred in connection with the chemical treatment or mechanical clearing of transmission line right-of-way.
- 7.18 Distribution - Repair / Maintain Lines 561xx
- This account shall include the cost of labour, material and expenses incurred in connection with: repairs to poles, guys, fixtures, conductors, and insulators that are not properly chargeable to any other account. This includes replacement of items less than property unit size, such as wire under 3 spans (i.e. 3 spans of 1 wire or 1 span of 3 wires), insulators, pins, switches, crossarms, braces, conduit, and associated trouble calls; repairs to underground conductors and fittings, including circuit breakers, switches, cutouts, relays & control wiring, conductors, splices, loadbreak elbows, grounds, minor duct repairs, manholes, sewer connections, vaults, and repairing and moving junction boxes and potheads; repairs to submarine cables forming part of the Company's distribution system; and, the planned maintenance of overhead and underground distribution lines, i.e. itemized in long-range schedules such as the annual budget.
- 7.19 Distribution - Repair / Maintain Services 563xx
- This account shall include the cost of labour, material and expenses incurred in connection with the maintenance and testing of customers' services, and associated trouble calls.

7.20 Distribution - Repair / Maintain Street Lights 564xx

This account shall include the cost of labour, material and expenses incurred in connection with the maintenance of: overhead street lighting systems, including replacement of items less than unit property size such as bulbs, refractors, ballasts, overhead wiring used solely for street lighting, and associated trouble calls; and underground wiring applicable to street lighting systems.

7.22 Distribution - Pre-Issue of Materials 565xx

This account shall include the cost of all small Stores items that are available for use by linecrews.

7.23 Distribution - Maintain Transformers 566xx

This account shall include the cost of labour, material and expenses incurred in connection with: the maintenance of transformers that are in service, including fusing, and the inspection and repair of transformers that have been removed from service; and, the replacement of distribution transformers (Note: The capital cost of transformers is not charged to this account). Maintenance of transformer mountings and maintenance or replacement of cutouts used for sectionalizing lines shall be charged to 561xx. PCB testing of transformers shall be charged to 53xxx.

7.25 Distribution - Maintain Meters 567xx

This account shall include the cost of labour, material and expenses incurred in connection with: the maintenance of metering equipment, including the replacement of damaged meters and all charges associated with the area meter shops; and, Government Retest Orders and Compliance Retest Orders.

(Note: (1) The cost of Government seals on new meters shall be charged to the appropriate capital work order. (2) The capital cost of new meters is not charged to this account.)

7.32 Distribution - Line Inspections 574xx

This account shall include the cost of labour, material and expenses incurred in connection with the inspection of distribution lines. Line inspections required to restore electrical service are properly chargeable to 561xx.

7.33 Distribution - Line Vegetation Management 577xx

This account shall include the cost of labour, material and expenses incurred in connection with: chemical treatment of distribution line right-of-way; pruning dangerous trees along distribution line right-of-way; and, mechanical clearing of distribution line right-of-way.

- 7.37 Telecommunications - Supervision and Miscellaneous 580xx
- This account shall include the salaries and expenses of the director and other supporting staff engaged in the operation and maintenance of the telecommunication system.
- 7.38 Telecommunications - Repeater Sites 581xx
- This account shall include the cost of labour, material and expenses incurred in connection with the maintenance of the Company owned radio equipment and sites. This shall include buildings, towers, antenna, standby power, repeaters and links.
- 7.39 Telecommunications - Mobile Radios 582xx
- This account shall include the cost of labour, material and expenses incurred in connection with the radio system mobile units. This shall include mobiles, fixed mobiles, portables, pagers and cellular phones.
- 7.40 Telecommunications - Communication Cables 583xx
- This account shall include the cost of labour, material and expenses incurred in connection with the maintenance of Company owned communication cables (metallic and fibre optic). This shall include terminations, protection and pole lines (when the line is for the exclusive use of the communication cable).
- 7.41 Telecommunications - Leased Facilities 584xx
- This account shall include labour and the cost of rental or lease for telecommunication facilities (excluding telephone systems) not owned by the Company. This shall include voice/data circuits (including FX lines), building and tower space.
- 7.42 Telecommunications - Supervisory Control Systems 585xx
- This account shall include the cost of labour, material and expenses incurred in connection with the maintenance of remote supervisory control systems including master stations, remote terminal units and standby power systems. This shall include the costs of computer maintenance and software support.
- 7.43 Telecommunications - Telephone Systems 586xx
- This account shall include the cost of labour, material and expenses incurred in connection with the maintenance of Company owned equipment used for the purpose of providing telephone service to Company offices and locations.

- 7.44 Telecommunications - Wide Area Networks 587xx
- This account shall include the cost of labour, material and expenses incurred in connection with the maintenance of Company owned equipment used for the purpose of consolidating communication voice/data traffic for transmission. This shall include concentrators, modems and bridges.
- 7.45 Customer Service - Supervision and Miscellaneous 605xx
- This account shall include the cost of salaries and expenses for supervisors and supporting staff involved in the administration of the Customer Service Department.
- 7.46 Customer Service - Customer Accounting 607xx
- This account shall include the cost of labour, materials and expenses incurred in association with: regulation, policy and systems; billing; meter reading; and cash control.
- 7.47 Customer Service - Credit and Collections 608xx
- This account shall include the cost of labour, materials and expenses incurred in connection with credit and collections.
- 7.48 Customer Service - Call Centre 609xx
- This account shall include the cost of labour, materials and expenses incurred in connection with activities relating to the operation of the customer call centre.
- 7.49 Customer Service - Conservation Programs and Energy Services Costs 626xx-629xx
- This account shall include the salaries and expenses of staff engaged in the internal and external programs promoting the wise and efficient use of electrical energy and associated consumer products. These accounts will also include conservation related charges associated with education and outreach expenses, planning and administration expenses and specific conservation program costs. Charges for specific conservation program costs (629xx) in the year will be credited with a corresponding debit to the Deferred Conservation Program Costs Account (188xx) on an annual basis as approved by the Board.
- 7.50 Customer Service - Uncollectible Bills 61521
- This account shall include the cost of the annual provision for uncollectible bills.
- 7.51 Financial Services - Finance 612xx
- This account shall include the cost of labour, materials and expenses of the director and all other supporting staff performing the functions of the Head Office Finance Department including accounts payable, accounts receivable, payroll, cost and plant, general ledger and financial reporting and budgeting.

- 7.52 Financial Services - Risk Management 615xx
- This account shall include the cost of labour, materials and expenses incurred in connection with risk determination for the setting of insurance coverage and of claims processing. Insurance premiums and actual claims paid to customers shall be charged to account 655xx.
- 7.53 Financial Services - Employee Future Benefits - Pensions 642xx
- This account shall include the Company's costs of providing the various pension arrangements it has with its employees.
- 7.54 Financial Services - Amortization of Conservation Costs 690xx
- This account shall include the annual amortization of Conservation related costs. These deferred costs are charged initially to Account 188xx (Deferred Conservation Program Costs).
- 7.57 Information Systems - Supervision and Miscellaneous 630xx
- This account shall include the salaries and expenses of the director and supporting staff in supervising the activities for the efficient operation of the I.S. Department.
- 7.58 Information Systems - Computer Operations 631xx
- This account shall include the salaries and expenses of the personnel involved in the operation and maintenance of a central computer facility. Provide technical support and training to all parts of the company with respect to personal computers, information systems technology and computer based applications.
- 7.59 Information Systems - Systems Development and Support 632xx
- This account shall include the salaries and expense of the personnel involved in the coordination and development of corporate information systems. This will also include the planning and managing, in conjunction with the user departments, of the design, acquisition, programming, testing, operation and maintenance of information systems.
- 7.60 Information Systems - Infrastructure 633xx
- This account shall include the salaries and expenses of the personnel involved in the support and maintenance of the Company's information technology infrastructure including operating systems, server hardware and computer networks. This will also include the planning and managing, in conjunction with user departments, of the design, acquisition, testing, operation and maintenance of information technology infrastructure.

7.65 Printing Services 617xx

This account shall include the salaries and expenses of personnel engaged in the operation of the Printing Services Department, including the cost of paper, materials and supplies used in photocopying and offset printing, and rental and maintenance cost of related equipment. The cost of printed forms and supplies used to produce forms in-house is initially charged to this account and recovered by way of a credit to the account as the completed forms are transferred to Inventory.

7.67 Corporate Communications 621xx

This account shall include the salaries and expenses of the director and all other supporting staff engaged in the internal and external communications programs, advertising and public relations activities. This account shall also include other costs associated with corporate communications.

7.68 Customer Service - Curtailable Rates 62550

This account shall include the salaries and expenses associated with the administration of the curtailable rate program.

7.70 Corporate Offices 650xx

This account shall include the cost of management supervision. Included are the salaries and expenses of the President, Vice Presidents and their supporting staff and any other whose services are not assignable to any other department. Also included are costs related to directors fees, trustees' fees, registrars' fees, external audit fees, and dividend and bond coupon expenses. This subclass includes any inter-company transactions between Fortis Inc. and the Company which are properly assignable.

7.71 Internal Audit 653xx

This account shall include the salaries and expenses of the manager and supporting staff to carry out an audit program designed to assess the accuracy and reliability of Company records, ensure the security and the prevention of the misuse of Company assets and help maintain and improve the efficiency of Company operations.

7.72 Miscellaneous Administrative Costs 655xx

This account shall include the costs of the following functions:

- Non-regulated expenses
- Public liability arising from claims, accidents and damages incurred in day-to-day operations which are not covered by insurance
- Insurance coverages
- Salaries, rentals and other expenses of operating the main office telephone system and associated equipment
- Bank charges
- Office equipment rentals and maintenance
- Employee share purchase plan discounts
- Depreciation studies

7.73 Mail Costs 61610

This account shall include the salaries and expenses of personnel engaged in the operation of the Head Office Mailroom. This subclass shall not include the direct costs for billing envelopes and postage which are included in subclass 607xx.

7.74 Regulatory and Legal Affairs 65700

This account shall include the salaries and expenses of the director and supporting staff engaged in legal and regulatory services, rate design and load research, statistical data and reports on customers, revenue and energy use, customer, energy and revenue forecasts and submissions for various studies and hearings.

7.75 Human Resources Planning and Administration 64020

This account shall include the salaries and expenses of the director and other supporting staff involved in supervision of the Human Resources Department and providing human resources services such as planning and administration.

7.76 Health, Safety and Training 6403x

This account shall include the salaries and expenses of the director and other supporting staff in providing human resources services such as health, safety and training.

7.77 Employee Relations 64040

This account shall include the salaries and associated expenses of the director and other supporting staff involved in employee relations activities.

7.78 Miscellaneous Employee Related Costs 64xxx

This account shall include costs related to the operation of the employees' associations; Company lunchrooms and cafeterias; research centre; and, all other miscellaneous employees' costs.

7.79 Financial Services – OPEB Costs 643xx

This account shall include costs related to providing various post employment benefits arrangements to employees including payment of health and life insurance premiums, retirement allowances and other costs associated with employees' welfare. This account shall also include any amortizations of other post employment benefits assets as approved from time to time by the Board of Commissioners of Public Utilities.

7.81 Building Operations and Maintenance 671xx
67000

These accounts shall include the rent of office space, salaries of property utility persons, light and furnace oil bills, cleaning and maintenance costs of head office and area and regional office buildings, warehouse and service buildings and fixtures, and other office expenses of a general nature not specifically chargeable to any other account. Cost categories exist within this account to track the cost of building rentals, building operations, building repairs, maintenance of grounds, snow clearing, warehouse operations and warehouse repairs.

7.82 Municipal Taxes and PUB Assessments 656xx

This account shall include the costs of taxes and assessments related to:

Transfers from the Municipal Tax Adjustment account 14502 in order to provide a proper matching of revenues and expenses on an annual basis.

Annual assessments levied by the Board against the revenue raised by the Company.

7.85 Individual Vehicle Operating and Maintenance Costs 59000
Vehicle Service Centre 37xxx

The 59000 account shall include all costs associated with the maintenance and operation of all company vehicles. Each vehicle in the fleet is assigned its own unique project number and all costs for the vehicle will be recorded using that number. A portion of these costs will be recharged (allocated) to capital projects based on labour.

The 37xxx accounts shall include all expenses associated with the operation of the vehicle service centre. These expenses are recovered by allocating to individual vehicles on a monthly basis. The balance in this account should be cleared to zero at year end.

**NEWFOUNDLAND POWER INC.
ANNUAL RETURNS
TO
THE BOARD OF COMMISSIONERS OF PUBLIC UTILITIES
PROVINCE OF NEWFOUNDLAND AND LABRADOR**

INSTRUCTIONS

- (1) In the following instructions relating to the annual returns to be rendered by Newfoundland Power Inc. to the Board of Commissioners of Public Utilities of the Province of Newfoundland and Labrador:
- the “Company” means Newfoundland Power Inc.;
 - the “Board” means the Board of Commissioners of Public Utilities for the Province of Newfoundland and Labrador.
- (2) In accordance with the provisions of Sections 58 and 59 of the *Public Utilities Act*, the Company shall submit to the Board, in each calendar year, the returns and information enumerated herein, which will relate to its business and affairs during the preceding calendar year.

<u>Return Number</u>	<u>Description</u>
1	Annual Report of the Company to Shareholders Together with the Report of the Auditors
2	Names and Places of Residence of Directors and Officers
3	Computation of Average Rate Base
4	Plant Investment
5	Capital Expenditure
6	Accumulated Depreciation
7	Contributions in Aid of Construction
8	Deferred Charges
9	Regulatory Deferrals
10	Other Rate Base Assets and Liabilities
11	Materials and Supplies Allowance
12	Cash Working Capital Allowance
13	Return on Average Rate Base & Determination of Excess Earnings
14	Details of Normalized Sales and Revenue
15	Normalized Production and Sales Statistics
16	Rate Stabilization Account
17	Weather Normalization Reserve
18	Demand Management Incentive Account
19	Pension Expense and OPEB Costs Variance Deferral Accounts
20	Statement of Operating and General Expenses
21	Explanation of Expense Variances
22	Calculation of Taxable Income and Income Tax Expense

23	Accumulated Deferred Income Taxes
24	Average Regulated Capital Structure
25	Cost of Embedded Debt
26	Explanation of Variances in Cost of Debt
27	Regulated Return on Average Common Equity
28	Assessable Revenue

(3) Annual Report of the Company to Shareholders Together With the Report of the Auditors

- Return 1:

The Company shall submit fifteen copies of the annual report of the Company to its shareholders, together with the report of its auditors on the financial statements contained therein.

(4) Names and Places of Residence of Officers and Directors - Return 2:

The names and places of residence of officers and directors at December 31 in the report year shall be listed and any changes made up to filing the return.

(5) Computation of Average Rate Base - Return 3:

This return will show the computation of the Company's rate base at December 31 and the average rate base for the year ended on that date. The rate base shall be calculated in accordance with the provisions of the *Public Utilities Act* and the rulings made by the Board.

(6) Plant Investment - Return 4:

This return shall include:

- (a) Analysis of plant accounts for the year as shown for each classification:
 - (i) balance at the beginning of year
 - (ii) adjustments during the year
 - (iii) additions during the year
 - (iv) retirements during the year
 - (v) balance at the end of the year as shown in the Company's financial statements.

- (b) Reconciliation of the balance shown in (a)(v) above with the plant investment included in the Company's average rate base (Return 3 above).

- (c) Reconciliation of the balance shown in (b) above with the capital assets in the Company's annual report (Return 1 above).

(7) Capital Expenditure - Return 5:

This return will include an analysis of actual capital expenditures for each plant classification, and compared to amounts approved by Board Orders for the year.

(8) Accumulated Depreciation - Return 6:

This return shall include the following:

- (a) Analysis of the accumulated depreciation account for the year showing:
 - (i) balance at the beginning of the year
 - (ii) provision for depreciation during the year
 - (iii) salvage credited to the account during the year
 - (iv) cost of removal charged to the account during the year
 - (v) retirements charged to the account during the year
 - (vi) balance at end of year as shown in the Company's financial statements.

- (b) Reconciliation of the accumulated depreciation shown in (a)(vi) above with the amount deducted in the Company's average rate base (Return 3 above).

- (c) Classified depreciation rates used to calculate the annual depreciation provision and method of calculation.

(9) Contributions in Aid of Construction - Return 7:

This return shall include:

- (a) An analysis of the account showing:
 - (i) balance of the account at the beginning of the year
 - (ii) contributions made during the year
 - (iii) amortization credited to operations during the year
 - (iv) balance at the end of the year as shown by the Company's financial statements.
- (b) A reconciliation of the balance shown in (a)(iv) above with the amount deducted from the Company's average rate base (Return 3).

(10) Deferred Charges - Return 8:

This return shall show for each deferment:

- (a) An analysis of the account showing:
 - (i) balance at the beginning of the year
 - (ii) amount deferred during the year
 - (iii) amount amortized during the year
 - (iv) balance at the end of the year as shown by the Company's financial statements (Return 1).

(11) Regulatory Deferrals - Return 9:

This return shall show for each asset and liability:

- (a) An analysis of the account showing:
 - (i) balance at the beginning of the year
 - (ii) amounts charged during the year
 - (iii) amounts amortized during the year
 - (iv) balance at the end of the year as shown by the Company's financial statements.

(12) Other Rate Base Assets and Liabilities - Return 10:

This return shall show for each asset and liability:

- (a) An analysis of the account showing:
 - (i) balance at the beginning of the year
 - (ii) changes to account balance during the year
 - (iii) balance at the end of the year as shown by the Company's financial statements.

(13) Materials and Supplies Allowance - Return 11:

This return shall include:

Details by month including the opening balances of materials and supplies included in the Company's average rate base (Return 3 above).

(14) Cash Working Capital Allowance - Return 12:

This return shall include:

The Company's calculation of the allowance for working capital included in the Company's average rate base (Return 3) for financing operating costs and current income tax expense.

(15) Return on Average Rate Base & Determination of Excess Earnings - Return 13:

This return shall show:

- (a) The net income of the Company after income taxes and transfers, as shown by the Company's financial statements.
- (b) The adjustments to the net income of the Company as shown in (a) above to reflect the regulated earnings of the company calculated in accordance with the provisions of the *Public Utilities Act* and the decisions of the Board related thereto.
- (c) The average rate base for the year.
- (d) The rate of return on the average rate base.
- (e) The maximum amount of allowed regulated earnings as determined by the upper limit of the allowed rate of return on rate base.
- (f) The actual regulated earnings of the Company.
- (g) The amount of any actual regulated earnings in excess of the upper limit of allowed regulated earnings that would be transferred to the Excess Earnings account.

(16) Details of Normalized Sales and Revenue - Return 14:

- (a) The operating revenues included in the financial statements of the Company (Return 1) shall be analyzed to show the major sources of revenue.

- (b) The return shall also show for each major class of customer:
 - (i) the kWh sales
 - (ii) the number of customers
 - (iii) the revenue.

(17) Normalized Production and Sales Statistics - Return 15:

This return shall show:

- (a) the kWh purchased and produced by the Company
- (b) the kWh sold and used by the Company
- (c) the kWh loss
- (d) the kWh loss expressed as a percent of the total produced and purchased.

(18) Rate Stabilization Account - Return 16:

This return shall show on a month to month basis an analysis of this account indicating:

- (a) Month
- (b) Opening balance
- (c) Revenue billed during month
- (d) Transfer of balance of Municipal Tax Account
- (e) Excess fuel costs
- (f) Secondary energy costs
- (g) Interest costs
- (h) Transfer to (from) Newfoundland and Labrador Hydro
- (i) Closing balance
- (j) Other adjustments as approved by the Board from time to time.

(19) Weather Normalization Reserve - Return 17:

This return shall include:

- (a) Analysis of the account showing:
 - (i) balance at the beginning of the year
 - (ii) amount added or deducted for "Degree Day Normalization" during the year
 - (iii) amount added or deducted for "Hydro Production Equalization" during the year
 - (iv) other adjustments and/or amortizations as approved by the Board from time to time
 - (v) balance at the end of the year as shown by the Company's financial statements

- (b) Details of the calculation of the amounts added to or deducted from the account during the year.
- (20) Demand Management Incentive Account - Return 18:
- This return shall show the dollar value of the variance amount by which the Demand Supply Cost Variance exceeds the Demand Management Incentive. The Demand Management Incentive equals $\pm 1\%$ of test year wholesale demand charges.
- (21) Pension Expense and OPEB Costs Variance Deferral Accounts - Return 19:
- An analysis of the account showing:
- (a) Actual pension and OPEB's costs for the year
 - (b) Test Year pension and OPEB costs for the year
 - (c) Variance from test year for pension and OPEB's costs for the year
 - (d) Total variance amounts transferred to the Rate Stabilization Account in the year.

(22) Statement of Operating and General Expenses - Return 20:

(a) The operating expenses included in the Company's financial statements (Return 1) shall be analyzed to show the major categories of expense including:

- (i) purchased power
- (ii) power produced
- (iii) administrative and engineering support
- (iv) environmental policy
- (v) substations
- (vi) transmission
- (vii) distribution
- (viii) telecommunications
- (ix) fleet operating and maintenance expenses
- (x) customer service
- (xi) financial services
- (xii) information systems
- (xiii) pension costs
- (xiv) retirement allowances
- (xv) corporate and employee services
- (xvi) transfers to general expenses capital.

(b) A reconciliation of the above expenditures with those included in the Company's annual report (Return 1).

(23) Explanations of Expense Variances - Return 21:

This return shall provide explanations of variances between operating expenses for the year and those for the previous year, as outlined in Return 20.

(24) Calculation of Taxable Income and Income Tax Expense - Return 22:

This return shall show the reconciliation of the taxable income of the Company with the income shown by the Company's financial statements and the calculation of the income tax expense of the Company.

(25) Accumulated Deferred Income Taxes - Return 23:

This return shall include the following:

(a) Analysis of the accumulated deferred income taxes account showing:

- (i) balance at the beginning of the year
- (ii) increase for the year
- (iii) adjustments for the year
- (iv) balance at the end of the year as shown by the Company's financial statements.

(b) Reconciliation of the accumulated deferred tax shown in (a)(iv) above with the amount deducted in determining the Company's average rate base (Return 3 above).

(26) Average Regulated Capital Structure - Return 24:

This return shall show the year-end and average capital structure of the Company at December 31.

(27) Cost of Embedded Debt - Return 25:

This return shall show the annual cost of the embedded debt at December 31.

(28) Explanation of Variances in Cost of Debt - Return 26:

This return shall show the actual annual cost of embedded debt, the estimated annual cost of embedded debt included in the Company's current test year, the variance between the two, and an explanation of any significant variances.

(29) Regulated Return on Average Common Equity - Return 27:

This return shall show the calculation of the regulated average common equity at December 31 of each year, the earnings applicable to common shares as determined in the Company's annual report (Return 1), and an adjustment for non-regulated expenses net of income tax as determined by the Board. The regulated earnings are divided by the regulated average common equity to determine the rate of return on regulated average common equity for the year.

(30) Assessable Revenue - Return 28:

This return shall show the calculation of annual assessable revenue as determined by taking the weather normalized revenue from rates (from Return 14) and adding the weather normalization adjustment (from Return 17), municipal taxes billed, amounts billed to customers through the operation of the Rate Stabilization Account (from Return 16) and other revenue (from Return 14).

(31) The returns shall be filed and shall be accompanied by a certificate under oath of an authorized officer of the Company.

Changes to the System of Accounts

Accounts

1. Minor wording changes were made to some accounts in order to improve the clarity and accuracy of the account descriptions.