

**WHENEVER. WHEREVER.
We'll be there.**



HAND DELIVERED

March 22, 2016

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

Ladies and Gentlemen:

Re: 2016/2017 General Rate Application

Please find enclosed the original and 12 copies of Newfoundland Power's Exhibit 3 (2nd Revision).

This Exhibit was revised to correct an error identified by Grant Thornton LLP in their review of the Company's amended application and revised evidence, etc. which was filed on March 8, 2016. The revision does not impact any data for the 2016/2017 test period. Changes to Exhibit 3 are indicated on Page 6 of 9 by shading as follows: [REDACTED].

For convenience, this is provided on three-hole punched paper.

A copy of this letter, together with enclosures, has been forwarded directly to the parties listed below.

If you have any questions regarding the enclosed, please contact the undersigned at your convenience.

Yours very truly,

Peter Alteen, QC
Vice President,
Regulation & Planning

Enclosures

Newfoundland Power Inc.

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- c. Geoffrey Young
Newfoundland and Labrador Hydro

Thomas Johnson, QC
Consumer Advocate

Newfoundland Power Inc.

Financial Performance
2013 to 2017E
Statements of Income
(\$000s)

| | Actual | | | Forecast | |
|--|--------------------|--------------------|--------------------|---------------------|---------------------|
| | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016E</u> | <u>2017E</u> |
| 1 Revenue from rates | 586,904 | 619,504 | 639,631 | 662,704 | 666,202 |
| 2 Excess earnings | (68) | - | - | - | - |
| 3 Transfers from (to) the RSA | 10,436 | 4,039 | 7,414 | 3,296 | 1,844 |
| 4 | <u>597,272</u> | <u>623,543</u> | <u>647,045</u> | <u>666,000</u> | <u>668,046</u> |
| 5 | | | | | |
| 6 Purchased power expense | 392,928 | 404,550 | 424,430 | 449,647 | 451,206 |
| 7 Amortization of weather normalization reserve | (2,335) | (2,335) | (2,335) | - | - |
| 8 Demand management incentive account adjustments | (383) | 628 | - | - | - |
| 9 | <u>390,210</u> | <u>402,843</u> | <u>422,095</u> | <u>449,647</u> | <u>451,206</u> |
| 10 | | | | | |
| 11 Contribution | <u>207,062</u> | <u>220,700</u> | <u>224,950</u> | <u>216,353</u> | <u>216,840</u> |
| 12 | | | | | |
| 13 Other revenue | <u>7,445</u> | <u>5,570</u> | <u>5,206</u> | <u>4,842</u> | <u>4,770</u> |
| 14 | | | | | |
| 15 Other expenses: | | | | | |
| 16 Operating expenses ¹ | 53,641 | 56,927 | 55,157 | 58,174 | 59,569 |
| 17 Employee future benefit costs | 25,624 | 24,244 | 26,355 | 18,564 | 15,852 |
| 18 Deferred cost recoveries and amortizations | (768) | 3,990 | 3,990 | - | - |
| 19 Depreciation | 46,964 | 49,288 | 51,851 | 54,627 | 57,623 |
| 20 Finance charges | <u>35,624</u> | <u>35,791</u> | <u>35,161</u> | <u>35,383</u> | <u>36,745</u> |
| 21 | <u>161,085</u> | <u>170,240</u> | <u>172,514</u> | <u>166,748</u> | <u>169,789</u> |
| 22 | | | | | |
| 23 Income Before Income Taxes | 53,422 | 56,030 | 57,642 | 54,447 | 51,821 |
| 24 Income taxes ¹ | <u>14,866</u> | <u>16,201</u> | <u>16,529</u> | <u>15,777</u> | <u>15,127</u> |
| 25 | | | | | |
| 26 Net Income | <u>38,556</u> | <u>39,829</u> | <u>41,113</u> | <u>38,670</u> | <u>36,694</u> |
| 27 Preferred Dividends | <u>563</u> | <u>557</u> | <u>556</u> | <u>552</u> | <u>552</u> |
| 28 | | | | | |
| 29 Earnings applicable to Common Shares ¹ | <u>37,993</u> | <u>39,272</u> | <u>40,557</u> | <u>38,118</u> | <u>36,142</u> |
| 30 | | | | | |
| 31 Rate of Return and Credit Metrics | | | | | |
| 32 Rate of Return on Rate Base (percentage) | 8.10% | 7.83% | 7.48% | 6.99% | 6.65% |
| 33 Regulated Return on Book Equity (percentage) | 9.16% | 9.15% | 8.98% | 8.03% | 7.30% |
| 34 Interest Coverage (times) | 2.3 | 2.3 | 2.3 | 2.2 | 2.1 |
| 35 CFO Pre-W/C + Interest / Interest (times) | 3.7 | 3.9 | 3.8 | 3.9 | 3.7 |
| 36 CFO Pre-W/C / Debt (percentage) | 19.5% | 18.6% | 17.9% | 18.2% | 16.2% |

¹ Shown after adjustment for non-regulated expenses.

Newfoundland Power Inc.

Financial Performance
2013 to 2017E
Statements of Retained Earnings
(\$000s)

| | Actual | | | Forecast | |
|-------------------------------|--------------------|--------------------|--------------------|---------------------|---------------------|
| | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016E</u> | <u>2017E</u> |
| 1 Balance - Beginning | 323,886 | 351,279 | 366,426 | 395,934 | 413,193 |
| 2 Net income for the period | 49,920 | 37,840 | 39,314 | 36,548 | 34,405 |
| 3 Allocation of Part VI.1 tax | 741 | 981 | 245 | 252 | 252 |
| 4 | <u>374,547</u> | <u>390,100</u> | <u>405,985</u> | <u>432,734</u> | <u>447,850</u> |
| 5 | | | | | |
| 6 Dividends | | | | | |
| 7 Preference shares | 563 | 557 | 556 | 552 | 552 |
| 8 Common shares | <u>22,705</u> | <u>23,117</u> | <u>9,495</u> | <u>18,989</u> | <u>10,733</u> |
| 9 | <u>23,268</u> | <u>23,674</u> | <u>10,051</u> | <u>19,541</u> | <u>11,285</u> |
| 10 Balance - End of Period | <u>351,279</u> | <u>366,426</u> | <u>395,934</u> | <u>413,193</u> | <u>436,565</u> |

Newfoundland Power Inc.

Financial Performance
2013 to 2017E
Balance Sheets
(\$000s)

| | <u>Actual</u> | | | <u>Forecast</u> | |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016E</u> | <u>2017E</u> |
| Assets | | | | | |
| Current assets | | | | | |
| Cash | \$ 159 | \$ - | \$ - | \$ - | \$ - |
| Accounts receivable | 90,499 | 82,073 | 80,600 | 89,311 | 95,051 |
| Income taxes receivable | 1,391 | 3,593 | 9,105 | - | - |
| Materials and supplies | 1,228 | 1,315 | 1,435 | 1,447 | 1,476 |
| Prepaid expenses | 1,080 | 1,315 | 1,304 | 1,315 | 1,341 |
| Regulatory assets | 31,891 | 29,726 | 14,545 | 16,810 | 13,021 |
| | <u>126,248</u> | <u>118,022</u> | <u>106,989</u> | <u>108,883</u> | <u>110,889</u> |
| Property, plant and equipment | 914,948 | 984,268 | 1,038,108 | 1,083,262 | 1,148,953 |
| Intangible assets | 15,412 | 16,064 | 18,264 | 21,457 | 23,115 |
| Regulatory assets | 340,359 | 327,793 | 330,814 | 322,309 | 318,919 |
| Defined benefit pension plans | - | - | - | - | 3,254 |
| Other assets | 1,874 | 1,284 | 1,301 | 1,188 | 1,160 |
| | <u>\$ 1,398,841</u> | <u>\$ 1,447,431</u> | <u>\$ 1,495,476</u> | <u>\$ 1,537,099</u> | <u>\$ 1,606,290</u> |
| Liabilities and Shareholders' Equity | | | | | |
| Current Liabilities | | | | | |
| Short-term borrowings | \$ - | \$ 3,843 | \$ 2,404 | \$ - | \$ - |
| Accounts payable and accrued charges | 81,905 | 80,443 | 80,719 | 89,869 | 88,233 |
| Interest payable | 7,786 | 6,444 | 7,246 | 7,115 | 6,925 |
| Defined benefit pension plans | 248 | 244 | 239 | 233 | 228 |
| Other post employment benefits | 3,239 | 2,695 | 2,971 | 3,377 | 3,667 |
| Regulatory liabilities | 2,335 | 2,335 | - | - | - |
| Current installments of long-term debt | 34,453 | 70,000 | 53,750 | (1,646) | 44,119 |
| | <u>129,966</u> | <u>166,004</u> | <u>147,329</u> | <u>98,948</u> | <u>143,172</u> |
| Regulatory liabilities | 135,507 | 136,053 | 139,768 | 145,013 | 150,772 |
| Defined benefit pension plans | 6,366 | 14,706 | 6,643 | 1,862 | - |
| Other post employment benefits | 93,381 | 82,548 | 83,565 | 85,649 | 87,619 |
| Other liabilities | 840 | 660 | 1,286 | 700 | 700 |
| Deferred income taxes | 120,940 | 126,194 | 128,322 | 130,925 | 133,068 |
| Long-term debt | 481,260 | 475,571 | 513,369 | 581,549 | 575,134 |
| Shareholders' Equity | | | | | |
| Common shares | 70,321 | 70,321 | 70,321 | 70,321 | 70,321 |
| Preference shares | 8,981 | 8,948 | 8,939 | 8,939 | 8,939 |
| Retained earnings | 351,279 | 366,426 | 395,934 | 413,193 | 436,565 |
| | <u>430,581</u> | <u>445,695</u> | <u>475,194</u> | <u>492,453</u> | <u>515,825</u> |
| | <u>\$ 1,398,841</u> | <u>\$ 1,447,431</u> | <u>\$ 1,495,476</u> | <u>\$ 1,537,099</u> | <u>\$ 1,606,290</u> |

Financial Performance: 2013 to 2017E

Newfoundland Power Inc.

Financial Performance
2013 to 2017E
Statements of Cash Flows
(\$000s)

| | Actual | | | Forecast | |
|--|--------------------|--------------------|--------------------|---------------------|---------------------|
| | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016E</u> | <u>2017E</u> |
| 1 Cash From (Used In) Operating Activities | | | | | |
| 2 Net Earnings | \$ 49,920 | \$ 37,840 | \$ 39,314 | \$ 36,548 | \$ 34,405 |
| 3 | | | | | |
| 4 Items not affecting cash: | | | | | |
| 5 Amortization of property, plant and equipment | 48,839 | 51,376 | 54,172 | 56,794 | 59,581 |
| 6 Amortization of intangible assets and other | 2,763 | 2,760 | 2,790 | 3,111 | 3,554 |
| 7 Change in long-term regulatory assets and liabilities | 6,973 | 7,618 | (1,649) | 5,174 | 2,309 |
| 8 Income tax liability | (12,814) | - | - | - | - |
| 9 Deferred income taxes | (878) | (241) | (698) | 2,603 | 2,143 |
| 10 Employee future benefits | (61) | (1,767) | 4,832 | 3,978 | 556 |
| 11 Other | (204) | 322 | (318) | (230) | (238) |
| 12 | <u>94,538</u> | <u>97,908</u> | <u>98,443</u> | <u>107,978</u> | <u>102,310</u> |
| 13 | | | | | |
| 14 Change in non-cash working capital | (3,754) | 4,692 | 4,617 | 4,185 | (6,169) |
| 15 | <u>90,784</u> | <u>102,600</u> | <u>103,060</u> | <u>112,163</u> | <u>96,141</u> |
| 16 | | | | | |
| 17 Investing Activities | | | | | |
| 18 Capital expenditures | (88,655) | (113,438) | (111,236) | (101,667) | (120,573) |
| 19 Intangible asset expenditures | (3,134) | (3,158) | (4,748) | (6,123) | (5,028) |
| 20 Contributions from customers and security deposits | 2,727 | 3,687 | 2,508 | 5,450 | 1,550 |
| 21 Other | 72 | 47 | 551 | (473) | 28 |
| 22 | <u>(88,990)</u> | <u>(112,862)</u> | <u>(112,925)</u> | <u>(102,813)</u> | <u>(124,023)</u> |
| 23 | | | | | |
| 24 Financing Activities | | | | | |
| 25 Change in short-term borrowings | (685) | 3,843 | (1,439) | (2,404) | - |
| 26 Net proceeds (repayment) of committed credit facility | (42,000) | 64,500 | (47,000) | (25,755) | 45,767 |
| 27 Proceeds from long-term debt | 70,000 | - | 75,000 | 75,000 | - |
| 28 Repayment of long-term debt | (5,200) | (34,453) | (6,250) | (36,250) | (6,600) |
| 29 Proceeds from related party loan | 33,000 | 240,000 | 35,500 | - | - |
| 30 Repayment of related party loan | (33,000) | (240,000) | (35,500) | - | - |
| 31 Payment of debt financing costs | (382) | (80) | (386) | (400) | - |
| 32 Redemption of preference shares | (100) | (33) | (9) | - | - |
| 33 Dividends | | | | | |
| 34 Preference Shares | (563) | (557) | (556) | (552) | (552) |
| 35 Common Shares | (22,705) | (23,117) | (9,495) | (18,989) | (10,733) |
| 36 | <u>(1,635)</u> | <u>10,103</u> | <u>9,865</u> | <u>(9,350)</u> | <u>27,882</u> |
| 37 | | | | | |
| 38 Change in Cash | 159 | (159) | - | - | - |
| 39 Cash (Bank Indebtedness), Beginning of Year | - | 159 | - | - | - |
| 40 Cash (Bank Indebtedness), End of Year | <u>\$ 159</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

Financial Performance: 2013 to 2017E

Newfoundland Power Inc.

Financial Performance
2013 to 2017E
Average Rate Base¹
(\$000s)

| | | <u>Actual</u> | | | <u>Forecast</u> | |
|----|---|----------------|----------------|------------------|------------------|------------------|
| | | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016E</u> | <u>2017E</u> |
| 1 | Plant Investment | 826,099 | 879,631 | 937,986 | 987,519 | 1,042,782 |
| 2 | | | | | | |
| 3 | Additions to Rate Base | | | | | |
| 4 | Defined Benefit Pension Costs | 100,636 | 102,549 | 101,384 | 96,802 | 94,045 |
| 5 | Credit Facility Costs | 120 | 36 | 64 | 48 | 32 |
| 6 | Cost Recovery Deferral - Seasonal Rates | 94 | 82 | 59 | 25 | - |
| 7 | Cost Recovery Deferral - Hearing Costs | 322 | 483 | 161 | - | - |
| 8 | Cost Recovery Deferral - Regulatory Amortizations | 2,767 | 1,661 | 554 | - | - |
| 9 | Cost Recovery Deferral - 2012 Cost of Capital | 1,472 | 883 | 294 | - | - |
| 10 | Cost Recovery Deferral - 2013 Revenue Shortfall | 1,126 | 1,689 | 563 | - | - |
| 11 | Cost Recovery Deferral - Conservation | 1,156 | 3,511 | 6,200 | 8,893 | 11,991 |
| 12 | Customer Finance Programs | 1,405 | 1,249 | 1,174 | 1,174 | 1,136 |
| 13 | | <u>109,098</u> | <u>112,143</u> | <u>110,453</u> | <u>106,942</u> | <u>107,204</u> |
| 14 | | | | | | |
| 15 | Deductions from Rate Base | | | | | |
| 16 | Weather Normalization Reserve | 4,931 | 3,349 | (1,386) | (2,205) | - |
| 17 | Other Post Employee Benefits | 19,066 | 27,975 | 35,822 | 42,519 | 48,719 |
| 18 | Customer Security Deposits | 846 | 750 | 974 | 993 | 700 |
| 19 | Accrued Pension Obligation | 4,173 | 4,480 | 4,795 | 5,111 | 5,428 |
| 20 | Future Income Taxes | 2,189 | 2,201 | 1,899 | 1,919 | 4,105 |
| 21 | Demand Management Incentive Account | 143 | 87 | 223 | - | - |
| 22 | Excess Earnings | - | 25 | 49 | 49 | 49 |
| 23 | | <u>31,348</u> | <u>38,867</u> | <u>42,376</u> | <u>48,386</u> | <u>59,001</u> |
| 24 | | | | | | |
| 25 | Average Rate Base Before Allowances | 903,849 | 952,907 | 1,006,063 | 1,046,075 | 1,090,985 |
| 26 | | | | | | |
| 27 | Cash Working Capital Allowance | 6,526 | 6,404 | 6,739 | 7,093 | 7,121 |
| 28 | | | | | | |
| 29 | Materials and Supplies Allowance | <u>5,445</u> | <u>5,619</u> | <u>6,280</u> | <u>6,328</u> | <u>6,624</u> |
| 30 | | | | | | |
| 31 | Average Rate Base At Year End | <u>915,820</u> | <u>964,930</u> | <u>1,019,082</u> | <u>1,059,496</u> | <u>1,104,730</u> |

¹ All amounts shown are averages.

Financial Performance: 2013 to 2017E

Newfoundland Power Inc.
Financial Performance
2013 to 2017E
Weighted Average Cost of Capital
(\$000s)

| | | Actual | | | Forecast | |
|----|---|--------------------|--------------------|--------------------|---------------------|---------------------|
| | | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016E</u> | <u>2017E</u> |
| 1 | Average Capitalization | | | | | |
| 2 | Debt | 504,185 | 532,234 | 559,350 | 574,642 | 599,539 |
| 3 | Preference Shares | 9,031 | 8,965 | 8,944 | 8,939 | 8,939 |
| 4 | Common Equity | 414,578 | 429,174 | 451,501 | 474,884 | 495,199 |
| 5 | | <u>927,794</u> | <u>970,373</u> | <u>1,019,795</u> | <u>1,058,465</u> | <u>1,103,677</u> |
| 6 | Average Capital Structure | | | | | |
| 7 | Debt | 54.35% | 54.85% | 54.85% | 54.29% | 54.32% |
| 8 | Preference Shares | 0.97% | 0.92% | 0.88% | 0.84% | 0.81% |
| 9 | Common Equity | 44.68% | 44.23% | 44.27% | 44.87% | 44.87% |
| 10 | | <u>100.00%</u> | <u>100.00%</u> | <u>100.00%</u> | <u>100.00%</u> | <u>100.00%</u> |
| 11 | | | | | | |
| 12 | | | | | | |
| 13 | Cost of Capital | | | | | |
| 14 | Debt ¹ | 7.06% | 6.72% | 6.28% | 6.15% | 6.12% |
| 15 | Preference Shares | 6.23% | 6.21% | 6.22% | 6.18% | 6.18% |
| 16 | Common Equity | 9.16% | 9.15% | 8.98% | 8.03% | 7.30% |
| 17 | | | | | | |
| 18 | | | | | | |
| 19 | Weighted Average Cost of Capital | | | | | |
| 20 | Debt | 3.84% | 3.69% | 3.44% | 3.34% | 3.31% |
| 21 | Preference Shares | 0.06% | 0.06% | 0.05% | 0.05% | 0.05% |
| 22 | Common Equity | 4.09% | 4.05% | 3.98% | 3.60% | 3.28% |
| 23 | | <u>7.99%</u> | <u>7.80%</u> | <u>7.47%</u> | <u>6.99%</u> | <u>6.64%</u> |

¹ Cost of debt is shown net of AFUDC. This is consistent with the cost of debt used in the calculation of return on rate base. For regulatory reporting purposes, the embedded cost of debt shown in Return 25 of Annual Reports to the Board can be reconciled to the reported cost of debt above as follows:

| | <u>2013</u> | <u>2014</u> | <u>2015</u> |
|--------------------------|--------------|--------------|--------------|
| Cost of Debt (Line 14) | 7.06% | 6.72% | 6.28% |
| AFUDC | <u>0.18%</u> | <u>0.27%</u> | <u>0.22%</u> |
| Cost of Debt - Return 25 | 7.24% | 6.99% | 6.50% |

Financial Performance: 2013 to 2017E

Newfoundland Power Inc.

Financial Performance
2013 to 2017E
Rate of Return on Rate Base
(\$000s)

| | | Actual | | | Forecast | |
|----|-------------------------------------|---------------------|--------------------|--------------------|---------------------|---------------------|
| | | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016E</u> | <u>2017E</u> |
| 1 | Regulated Return on Equity | 38,042 ¹ | 39,272 | 40,557 | 38,118 | 36,142 |
| 2 | Return on Preferred Equity | 563 | 557 | 556 | 552 | 552 |
| 3 | | <u>38,605</u> | <u>39,829</u> | <u>41,113</u> | <u>38,670</u> | <u>36,694</u> |
| 4 | | | | | | |
| 5 | Finance Charges | | | | | |
| 6 | Interest on Long-term Debt | 35,123 | 36,327 | 35,020 | 35,421 | 37,091 |
| 7 | Other Interest | 1,075 | 626 | 1,119 | 790 | 505 |
| 8 | Amortization of Bond Issue Expenses | 302 | 254 | 242 | 218 | 213 |
| 9 | AFUDC | (891) | (1,435) | (1,240) | (1,067) | (1,087) |
| 10 | | <u>35,609</u> | <u>35,772</u> | <u>35,141</u> | <u>35,362</u> | <u>36,722</u> |
| 11 | | | | | | |
| 12 | Return on Rate Base | <u>74,214</u> | <u>75,601</u> | <u>76,254</u> | <u>74,032</u> | <u>73,416</u> |
| 13 | | | | | | |
| 14 | Average Rate Base | <u>915,820</u> | <u>964,930</u> | <u>1,019,082</u> | <u>1,059,496</u> | <u>1,104,730</u> |
| 15 | | | | | | |
| 16 | Rate of Return on Rate Base | 8.10% | 7.83% | 7.48% | 6.99% | 6.65% |

¹ The regulated return on equity for 2013 includes a \$49,000 (net of income taxes) adjustment for excess earnings. See Return 13, line 2, of the 2013 Annual Report to the Board.

Newfoundland Power Inc.

**Financial Performance
2013 to 2017E
Inputs and Assumptions**

| | | |
|----|----------------------------------|--|
| 1 | Energy Forecasts : | Energy forecasts are based on economic indicators taken from the Conference Board of |
| 2 | | Canada, Provincial Outlook, Winter 2016, Economic Forecast, dated February 4, 2016. |
| 3 | | |
| 4 | Revenue Forecast : | The revenue forecast is based on the Customer, Energy and Demand forecast dated February 2016. |
| 5 | | |
| 6 | | Forecast revenues for 2016 and 2017 reflects, (i) recovery through the RSA of amounts associated |
| 7 | | with the Energy Supply Cost Variance Adjustment Clause (ii) recovery through the RSA of amounts |
| 8 | | associated with variances in employee future benefit costs, (iii) recovery through the RSA of amounts |
| 9 | | associated with the July 1, 2015 Hydro supply cost rate increase, (iv) recovery through the RSA |
| 10 | | of amounts associated with the Weather Normalization reserve; and (iv) recovery through the RSA of |
| 11 | | certain costs related to the implementation of the CDM program portfolio; all of which were approved |
| 12 | | by the Board in Order Nos. P.U. 32 (2007), P.U. 43 (2009), P.U. 31 (2010), P.U. 8 (2011), |
| 13 | | P.U. 13 (2013) and P.U. 18 (2015). |
| 14 | | |
| 15 | Purchased Power Expense : | Purchased power expense reflects Newfoundland & Labrador Hydro's rates approved by the P.U.B. |
| 16 | | and the Customer, Energy and Demand Forecast dated February 2016. |
| 17 | | |
| 18 | | Purchased power expense for 2013 to 2015 reflects the 3-year amortization of the December 31, 2011 |
| 19 | | balance in the Weather Normalization reserve of \$7.0 million (before-tax). |
| 20 | | |
| 21 | | Purchased Power expense also reflects the operation of the Demand Management Incentive Account |
| 22 | | approved by the Board in Order No. P.U. 32 (2007). This mechanism provides for recovery of demand |
| 23 | | costs that are in excess of unit cost demand costs included in the most recent test year. |
| 24 | | |
| 25 | Employee Future Benefit | Pension funding is based on the actuarial valuation dated as at December 31, 2014. |
| 26 | Costs : | |
| 27 | | Pension expense and OPEBs expense discount rate is 4.10% for 2016 and 2017. |
| 28 | | |
| 29 | | Forecast return on pension assets is assumed to be 5.75% for 2016 and 2017. |
| 30 | | |
| 31 | Cost recovery deferrals: | In Order P.U. 13 (2013), the Board approved a 3-year amortization of (i) \$1.0 million in hearing costs |
| 32 | | related to the 2013/2014 general rate application, (ii) \$2.5 million in costs related to the 2012 cost of |
| 33 | | capital approved by the Board in Order No. P.U. 17 (2012), (iii) \$4.7 million in costs related to the |
| 34 | | 2011 and 2012 deferred costs approved by the Board in Order Nos. P.U. 30 (2010) and P.U. 22 (2011), |
| 35 | | and (iv) \$4.0 million in costs related to a 2013 revenue shortfall amount. |
| 36 | | |
| 37 | | The 2015 to 2017 forecasts include the deferred recovery over a 7-year period of certain conservation |
| 38 | | program costs as reflected in the Application. |
| 39 | | |
| 40 | Depreciation Rates : | Depreciation rates are based on the 2010 depreciation study. |
| 41 | | |
| 42 | | Depreciation costs include an \$89,000 reserve variance adjustment resulting from the 2010 |
| 43 | | depreciation study. |

Newfoundland Power Inc.

**Financial Performance
2013 to 2017E
Inputs and Assumptions**

| | | |
|----|------------------------------------|---|
| 1 | Operating Costs : | Operating forecasts for 2016 reflect most recent management estimates. Operating |
| 2 | | forecasts for 2016 and 2017 reflect projected increases of 3.25% per year for labour, |
| 3 | | and non labour increases based upon the GDP deflator. |
| 4 | | |
| 5 | Capital Expenditure : | Capital Expenditures for 2016 and 2017 are based on the 2016 capital budget approved on |
| 6 | | September 8, 2015. |
| 7 | | |
| 8 | | |
| 9 | | |
| 10 | Short-Term Interest Rates : | Average short-term interest rates are assumed to be 1.83% for 2016 and |
| 11 | | 2.55% for 2017. |
| 12 | Long-Term Debt : | A \$75.0 million long-term debt issue was completed in September 2015. |
| 13 | | The debt is forecast for 30 years at a coupon rate of 4.446%. Debt repayments will be |
| 14 | | in accordance with the normal sinking fund provisions for existing outstanding debt. |
| 15 | | |
| 16 | | A \$75.0 million long-term debt issue is forecast to be completed in November 2016. |
| 17 | | The debt is forecast for 30 years at a coupon rate of 5.00%. Debt repayments will be |
| 18 | | in accordance with the normal sinking fund provisions for existing outstanding debt. |
| 19 | | |
| 20 | Dividends : | Common dividend payouts are forecast based on maintaining a target common equity |
| 21 | | component near 45%. |
| 22 | | |
| 23 | Income Tax : | Income tax expense reflects a statutory income tax rate of 29% for 2016 and 2017. |

1st Revision Note: Updated for 2015 actuals and revised forecasts for 2016 and 2017.