



Grant Thornton

An instinct for growth™

**Board of Commissioners of Public Utilities
2017 Annual Financial Review of
Newfoundland and Labrador Hydro**

Contents

	Page
Restrictions, Qualifications and Independence	2
Executive Summary	3
Introduction	5
Accounting System and Code of Accounts	7
Return on Rate Base and Equity, Interest Coverage and Capital Structure	8
Revenue Requirement	18
Depreciation	46
Non-Regulated Activity	47
Cost Allocations	49
Rate Stabilization Plan (“RSP”)	57
Deferred Charges	64
Key Performance Indicators and Initiatives and Efforts Targeting Productivity and Efficiency Improvements	67
Capital Expenditures	71

1 **Restrictions, Qualifications and Independence**

2
3 **Purpose**

4
5 This report was prepared for the Board of Commissioners of Public Utilities in Newfoundland and
6 Labrador. The purpose of our engagement was to present our observations, findings and
7 recommendations with respect to our 2017 annual financial review of Newfoundland and Labrador
8 Hydro.
9

10 **Restrictions and Limitations**

11
12 This report is not intended for general circulation or publication nor is it to be reproduced or used for
13 any purpose other than that outlined herein without our prior written permission in each specific instance.
14 Notwithstanding the above, we understand that our report may be disclosed as a part of a public hearing
15 process. We have given the Board our consent to use our report for this purpose.
16

17 Our scope of work is as set out in our terms of reference letter, which is referenced throughout this
18 report. The procedures undertaken in the course of our review do not constitute an audit of Hydro's
19 financial information and consequently, we do not express an opinion on the financial information
20 provided by Hydro. In preparing this report, we have relied upon information provided by Hydro.
21

22 We acknowledge that the Board is bound by the Freedom of Information and Protection of Privacy Act
23 and agree that the Board may use its sole discretion in any determination of whether and, if so, in what
24 form, this Report may be required to be released under this Act.
25

26 We reserve the right, but will be under no obligation, to review and/or revise the contents of this report
27 in light of information which becomes known to us after the date of this report.

1 Executive Summary

2
3 This report to the Board of Commissioners of Public Utilities (“the Board”) presents our observations,
4 findings and recommendations with respect to our 2017 annual financial review of Newfoundland and
5 Labrador Hydro (“the Company”) (“Hydro”). Below is a summary of the key observations and
6 findings included in our report.

7
8 Our review indicated several changes made to the code of accounts in 2017 including the renumbering
9 of existing accounts as well as the creation of seven additional. While numerous accounts were
10 renumbered and added to the system for 2017, these changes are not significant and the Company
11 believes it will enhance its ability to provide sufficient information to meet the reporting requirements
12 of the Board.

13
14 As a result of completing our procedures on Hydro’s 2017 rate base, we noted that capital expenditures
15 of approximately \$5,645,800 relating to unforeseen events have been included in rate base but have not
16 yet been approved by the Board.

17
18 The Company’s calculation of return on regulated average equity after GRA and supply deferral
19 adjustments for 2017 was 9.22% compared with a return of 9.09% in 2016.

20
21 The Company’s target capital structure is comprised of 75% debt and 25% common equity for
22 regulated operations. The actual 2017 ratio was approximately 77.6% debt (excluding employee benefits
23 and asset retirement obligation) and 18.5% equity compared to 73.4% debt and 21.7% equity in 2016.

24
25 The net impact on regulated earnings for 2017 was an increase over 2016 of \$3.8 million. This increase
26 was primarily attributable to a decrease in fuel costs of \$26.2 million, a decrease in interest expense of
27 \$22.2 million and an increase in capitalized costs of \$3.5 million. The impact of this decrease in
28 expenses was partially offset by a \$12.9 million increase in the GRA and supply deferral adjustments, a
29 \$17.1 million increase in cost deferrals, an increase in depreciation expense of \$9.9 million, and an
30 increase in salaries of \$7.4 million.

31
32 We reviewed Hydro’s rates of depreciation to assess their compliance with the 2012 Gannett Fleming
33 Depreciation Study relating to plant in service as of December 31, 2009. Consistent with our finding in
34 the 2017 General Rate Application (GRA), we noted an error in the depreciation calculation for asset #
35 390138. This asset was being depreciated using a useful life of 422 months compared to the 2012
36 Depreciation Study which indicated a useful life of 620.4 months. This error was not considered
37 significant.

38
39 We reviewed Hydro’s methodology relating to the procedures the Company has in place to allocate
40 costs between regulated and non-regulated operations. We also reviewed how costs are allocated
41 between shared services. As a result of completing our procedures, we report that cost allocations for
42 2017 are in accordance with Hydro’s methodology.

43
44 The Rate Stabilization Plan (“RSP”) (“the Plan”) had an accumulated credit balance of approximately
45 \$74.2 million at December 31, 2017, which comprises balances of \$52.4 million due to the utility
46 customer, \$1.6 million due to industrial customers, \$12.6 million due to the utility customer related to
47 the RSP surplus, and \$7.6 million in the hydraulic variation account. Based upon our review, we report
48 that the RSP is operating in accordance with Board Orders and the charges and credits made to the
49 Plan in 2017 are supported by Hydro’s documentation and are accurately calculated.

1 We reviewed Hydro's deferred charges and we noted that the Energy Supply, Holyrood Conversion
2 and Isolated Systems deferral accounts have not yet been approved by the Board, and the recovery of
3 Phase II Hearing Costs have not yet been approved by the Board. For financial reporting purposes, the
4 Company has recorded an allowance of 20% on the Energy Supply, Isolated Systems and Holyrood
5 Conversion deferrals.

6

7 We have reviewed the KPI results and the explanations provided by Hydro for the changes and
8 variations experienced in 2017 and find them to be consistent with our observations and findings noted
9 in conducting our annual financial review.

10

11 The Company was over budget by 0.07% on its capital expenditures in 2016 compared to an under
12 budget variance of 41.83% in 2016. During our review of Hydro's 2017 capital expenditures we noted
13 an exception relating to the Company's reporting requirements as follows: it did not comply with
14 guideline 1900.6 in that on one occasion, Hydro failed to file a report on the use of the Allowance for
15 Unforeseen Events within 30 days of the completion of the work.

1 Introduction

2
3 This report to the Board of Commissioners of Public Utilities (“the Board”) presents our observations,
4 findings, and recommendations with respect to our 2017 Annual Financial Review of Newfoundland
5 and Labrador Hydro.

6 7 *Scope and Limitations*

8
9 Our review was carried out in accordance with the following Terms of Reference:

- 10
11 1. Examine Hydro’s accounting system and code of accounts to ensure that it can provide
12 information sufficient to meet the reporting requirements of the Board.
13
14 2. Review the calculations of the return on rate base, return on equity, capital structure and
15 interest coverage ratio.
16
17 3. Conduct an examination of operations and administration expenses, fuels, power purchased,
18 depreciation and interest. Our examination includes reporting on trends, analytical review of
19 annual variances and other financial analysis based on information provided by Hydro.
20 The examination of the foregoing will include, but is not limited to, the following:
21
22 a) amortization of deferred charges,
23 b) salaries and benefits,
24 c) system equipment maintenance,
25 d) insurance,
26 e) transportation,
27 f) building rental and maintenance,
28 g) professional services,
29 h) miscellaneous,
30 i) capitalized expenses,
31 j) intercompany charges,
32 k) membership fees,
33 l) fuels,
34 m) power purchased,
35 n) depreciation,
36 o) interest,
37 p) office supplies and expenses, and
38 q) bad debts.
39
40 4. Review Hydro’s non-regulated activity and assess the appropriateness of adjustments in the
41 calculation of regulated earnings. This will include a review of how costs are allocated between
42 the regulated and non-regulated operations including a review of labour costing relating to its
43 billing rates for Hydro and its related companies.
44
45 5. Review Hydro’s rates of depreciation and assess their compliance with the depreciation
46 methodology approved in Order No. P.U. 40 (2012). Assess the reasonableness of
47 depreciation expense.

- 1 6. Conduct an examination of the changes to the Rate Stabilization Plan to assess compliance
2 with Board directives.
3
- 4 7. Conduct an examination of the changes to deferred charges and assess their appropriateness in
5 relation to sales of power and energy.
6
- 7 8. Review Minutes of Board of Directors and Management Committee meetings.
8
- 9 9. Review Hydro's annual report on Key Performance Indicators and any other information on
10 initiatives and efforts targeting productivity or efficiency improvements in 2017.
11
- 12 10. Examine the Company's 2017 capital expenditures in comparison to budgets and prior years.
13 Included in this review will be an analysis of amounts included in 'Allowance for Unforeseen
14 Items'.
15

16 The nature and extent of the procedures which we performed in our review varied for each of the items
17 in the Terms of Reference. In general, our procedures were comprised of:

- 18 • enquiry and analytical procedures with respect to financial information provided by Hydro;
- 19 • examining, on a test basis where appropriate, documentation supporting amounts included
20 in Hydro's records; and,
- 21 • assessing Hydro's compliance with Board directives.
22

23 The procedures undertaken in the course of our financial review do not constitute an audit of Hydro's
24 financial information and consequently, we do not express an opinion on the financial information as
25 provided by Hydro.
26

27 The financial statements of the Company for the year ended December 31, 2017 have been audited by
28 Deloitte LLP, Chartered Accountants, who have expressed their opinion on the fairness of the
29 statements in their report dated March 8, 2018. In the course of completing our procedures we have, in
30 certain circumstances, referred to the audited financial statements and the historical financial
31 information contained therein.

1 **Accounting System and Code of Accounts**
2

3 *Scope: Examine Hydro's accounting system and code of accounts to ensure that it can*
4 *provide information sufficient to meet the reporting requirements of the Board.*
5

6 Section 58 of the *Public Utilities Act* states that the Board may prescribe the form of all books, accounts,
7 papers, and records to be kept by Hydro and that Hydro shall comply with all such directions of the
8 Board.
9

10 The objective of our review of Hydro's accounting system and code of accounts was to ensure that it
11 can provide information sufficient to meet the reporting requirements of the Board. We have observed
12 that the Company has in place a well-structured, comprehensive system of accounts and organization /
13 reporting structure. The system allows for adequate flexibility to allow the Company to meet its own,
14 as well as the Board's, reporting requirements.
15

16 Our review indicated several changes made to the code of accounts in 2017 including the renumbering
17 of existing accounts as well as the creation of seven additional accounts. According to Hydro, the
18 renumbering within the Chart of Accounts during 2017 increased efficiency by grouping similar
19 accounts together.
20

21 While numerous accounts were renumbered and added to the system for 2017, these changes are not
22 significant and the Company believes it will enhance its ability to provide sufficient information to meet
23 the reporting requirements of the Board.

1 **Return on Rate Base and Equity, Interest Coverage and Capital**
2 **Structure**

3
4 *Scope: Review the calculation of the return on rate base, return on equity, interest*
5 *coverage ratio, and capital structure.*
6

7 **Average Rate Base**
8

9 The Company's calculation of average rate base is included on Return 3 and the calculation of return on
10 average rate base is included on Return 12 of the annual report to the Board. The return on average
11 rate base for 2017 as filed is 5.73% (2016 – 6.66%).

12 Our procedures with respect to verifying the reported average rate base and return on average rate base
13 included:

- 14 • agreeing all carry-forward and component data to supporting documentation;
- 15 • checking clerical accuracy of the continuity of the rate base and the return on average rate
16 base; and
- 17 • reviewing the methodology used in determining average rate base and return on average
18 rate base to ensure it is in accordance with Board Orders.

1 Details with respect to Hydro's calculation of average rate base and return on average rate base as filed
2 on Return 3 and Return 12 for 2016 and 2017 are as follows:
3

(000)'s	2017	2016 (Note 3)
Plant investment	\$ 2,342,713	\$ 1,964,596
Less: Accumulated depreciation	(308,470)	(233,720)
CIAC's	(32,477)	(32,173)
Asset retirement obligations	789	465
	2,002,555	1,699,168
Balance previous year	<u>1,699,168</u>	<u>1,627,998</u>
Average	1,850,862	1,663,583
Cash working capital allowance	6,405	5,304
Fuel inventory	43,617	35,473
Supplies inventory	34,719	32,146
Average deferred charges	65,287	67,756
Average net assets excluded from rate base	<u>(21,141)</u>	<u>(16,676)</u>
Average rate base	<u>\$ 1,979,749</u>	<u>\$ 1,787,586</u>
Regulated net income	\$ 35,919	\$ 19,214
Cost of service exclusions (Note 1)	4,315	4,503
Hydro net interest expense (Note 2)	<u>73,270</u>	<u>95,294</u>
Return on Rate Base	<u>\$ 113,504</u>	<u>\$ 119,011</u>
Regulated rate of return on rate base	5.73%	6.66%
Note 1:	2017	2016
Breakdown of cost of service exclusions is as follows:		
Depreciation on assets not in service	\$ 1,941	\$ 1,919
Debt guarantee fee	<u>2,374</u>	<u>2,584</u>
	<u>\$ 4,315</u>	<u>\$ 4,503</u>
Note 2:	2017	2016
Net Interest prior to disallowed portion of debt	\$ 75,644	\$ 97,878
Debt guarantee fee disallowed	<u>(2,374)</u>	<u>(2,584)</u>
Net interest above	73,270	95,294
Amortization of FX losses	(2,157)	(2,157)
Debt guarantee fee	<u>2,374</u>	<u>2,584</u>
Interest per Revenue requirement	<u>\$ 73,487</u>	<u>\$ 95,721</u>

Note 3: The 2016 average rate base and regulated rate of return on rate base presented above excludes the GRA and supply deferral adjustments relating to regulatory deferrals to reflect Order Nos. P.U. 13 (2016), P.U. 49 (2016) and P.U. 22 (2017).

4

1 The increase in plant investment from \$1,964,596 in 2016 to \$2,342,713 in 2017 is primarily due to
2 capital asset additions of \$386.8 million in 2017. Capital expenditures have been examined in more
3 detail in the “Capital Expenditures” section of this report.
4

5 Average deferred charges decreased from \$67,756,000 in 2016 to \$65,287,000 in 2017. Average deferred
6 charges are examined in more detail in the “Deferred Charges” section of this report.
7

8 Average net assets excluded from rate base increased from \$16,676,000 in 2016 to \$21,141,000 in 2017.
9 Average net assets included or excluded from rate base have been examined in more detail in the
10 “Capital Expenditures” section of this report.
11

12 The following table compares the actual 2017 average rate base and return on average rate base to the
13 average rate base and return on average rate base forecast in the 2017 GRA:
14

(000)'s	2017 Actual	2017 Forecast	'17A - '17F
Plant investment	\$ 2,342,713	\$ 2,350,735	\$ (8,022)
Less: Accumulated depreciation	(308,470)	(308,582)	112
CIAC's	(32,477)	(33,466)	989
Asset retirement obligations	789	79	710
	2,002,555	2,008,766	(6,211)
Balance previous year	1,699,168	1,699,168	-
Average	1,850,862	1,853,966	(3,105)
Cash working capital allowance	6,405	7,582	(1,177)
Fuel inventory	43,617	67,287	(23,670)
Supplies inventory	34,719	33,135	1,584
Average deferred charges	65,287	129,780	(64,493)
Average net assets excluded from rate base	(21,141)	(16,246)	(4,895)
Average rate base	\$ 1,979,749	\$ 2,075,504	\$ (95,756)
Regulated net income	\$ 35,919	\$ 29,382	\$ 6,537
Cost of service exclusions	4,315	3,689	626
Hydro net interest expense	73,270	71,107	2,163
Return on Rate Base	\$ 113,504	\$ 104,178	\$ 9,326
Regulated rate of return on rate base	5.73%	5.02%	0.71%

15
16
17 According to Hydro, the decrease of \$23,670,000 in average fuel inventory from forecast 2017 to actual
18 2017 is primarily due to a reduction of 320,200 barrels in average inventory of Bunker C fuel at an
19 average inventory cost of \$70.42 per barrel.
20

21 According to Hydro, the decrease of \$64,493,000 in average deferred charges from forecast 2017 to
22 actual 2017 primarily relates to the following items:

- 23 • In the 2017 GRA, it was assumed that Hydro’s application to recover the Energy Supply
24 Deferrals would be approved which resulted in a balance in 2016 of \$42.2 million. It was also
25 assumed that Hydro’s application to recover the 2016 portion of the balance in the RSP would
26 be approved and that there would be \$12.8 million deferred relating to 2017 activity. In the
27 2016 Annual Return, the balance of the Energy Supply Deferral was recorded in the 2016

- 1 Costs Deferral (net of allowance). In the 2017 Annual Return, the balance was higher than the
2 2017 GRA forecast because Hydro has not received approval to recover the prior period
3 balances and there was an increase in Energy Supply variances. This is partially offset by an
4 allowance for financial reporting purposes.
- 5 • In Order No. P.U. 39 (2017), the Board indicated that the GRA may be the most convenient
6 forum to address issues related to the recovery of the Energy Supply Deferrals. As a result,
7 Annual Returns for years 2014 to 2017 will be refiled when issues related to recovery are
8 addressed in a future Board Order. In the 2017 GRA, it was assumed that the Cost Deferrals
9 and Energy Supply Deferrals would be fully recovered.
 - 10 • In the 2017 GRA, Hydro retroactively adjusted the Cost Deferral balances to reflect the year to
11 which they relate. In the 2016 Annual Return, the Cost Deferrals were recorded as incurred. In
12 Order No. P.U. 39 (2017) the Board indicated that the GRA may be the most convenient
13 forum to address issues related to recovery of the Energy Supply Deferrals. As a result, Annual
14 Returns for years 2014 to 2017 will be refiled when issues related to recovery are addressed in a
15 future Board Order. In the 2017 GRA, it was assumed that the Cost Deferrals and Energy
16 Supply Deferrals would be fully recovered.

17
18 As discussed further in the “Capital Expenditures” section of this report, \$5,645,800 related to the
19 allowance for unforeseen items is pending approval of the Board, and as such, has not been approved
20 for rate base inclusion.

21
22 **As a result of completing these procedures, we noted that capital expenditures of**
23 **approximately \$5,645,800 relating to unforeseen events have been included in rate base but**
24 **have not yet been approved by the Board. We can advise that no other discrepancies were**
25 **noted and therefore conclude that with the exception of this item, the calculation of average**
26 **rate base as presented above is in accordance with established practice and Board Orders P.U.**
27 **49 (2016) and P.U. 22 (2017).**

1 **Return on Rate base**

2

3 The regulated net income component of the return on rate base excludes all non-regulated earnings and
4 expenses of Hydro. In Order No. P.U. 22 (2017) the Board approved an allowed Rate of Return on
5 Rate Base of 6.61% with a range of return of 40 basis points (\pm 20 basis points). The 2017 return
6 presented above, 5.73%, is below the lower end of the approved range by 68 basis points.

7

8 As discussed further in the “Capital Expenditures” section of this report, \$5,645,800 related to the
9 allowance for unforeseen items is pending approval of the Board, and as such, has not been approved
10 for rate base inclusion.

11

12 **As a result of completing these procedures, we noted that capital expenditures of**
13 **approximately \$5,645,800 relating to unforeseen events have been included in rate base but**
14 **have not yet been approved by the Board. We can advise that no other discrepancies were**
15 **noted and therefore conclude that with the exception of this item, the calculation of return on**
16 **rate base is in accordance with established practice and Board Orders P.U. 49 (2016) and P.U.**
17 **22 (2017).**

1 **Return on Equity**
 2

3 The Company's calculation of regulated average equity and rate of return on regulated average equity
 4 for the year ended December 31, 2017 is included on Return 13 of the annual report to the Board.
 5

6 Similar to the approach used to verify the rate base and return on average rate base, our procedures in
 7 this area focused on verification of the data incorporated in the calculations and on the methodology
 8 used by the Company. Specifically, the procedures which we performed included the following:
 9

- 10 • agreed all carry-forward data to supporting documentation, including audited financial
- 11 statements and internal accounting records where applicable;
- 12 • agreed component data (dividends, regulated earnings, etc.) to supporting documentation;
- 13 • checked the clerical accuracy of the continuity of regulated common equity; and
- 14 • recalculated the rate of return on common equity for 2017 and ensured it was in accordance
- 15 with established regulatory practice.

16
 17 Details with respect to Hydro's calculation of return on regulated average equity as provided by Hydro
 18 in a revised Return 13 are as follows:

(000)'s	2017	2016
Shareholder's equity		
2017	\$ 399,510	
2016	359,277	\$ 359,277
2015		335,560
Average equity before GRA and Supply Deferral Adjustments	379,394	347,419
GRA and Supply Deferral Adjustments (Note 1)	14,940	12,538
Average equity after GRA and Supply Deferral Adjustments	<u>394,334</u>	<u>359,957</u>
Regulated earnings	35,919	19,214
Cost of service exclusions	4,315	4,503
Regulated earnings before GRA and Supply Deferral Adjustments	40,234	23,717
GRA and Supply Deferral Adjustments (Note 1)	(3,882)	9,017
Regulated earnings after GRA and Supply Deferral Adjustments	<u>\$ 36,352</u>	<u>\$ 32,734</u>
Return on equity before GRA and Supply Deferral Adjustments	10.60%	6.83%
Return on equity after GRA and Supply Deferral Adjustments	9.22%	9.09%

Note 1: In Order No. P.U. 39 (2017), the Board indicated that the GRA may be the most convenient forum to address issues related to recovery of the Energy Supply Deferrals. Earnings for 2017 included amounts related to the 2014, 2015 and 2016 Cost and Supply Deferrals. Annual Returns for years 2015 - 2017 will be refiled when issues related to recovery are addressed in a future Board Order.

1 The following table compares the actual 2017 return on equity to the return on equity forecast in the
 2 2017 GRA:

(000)'s	2017 Actual	2017 Forecast	'17A - '17F
Shareholder's equity			
2017	\$ 399,510	\$ 409,394	\$ (9,884)
2016 (Note 1)	359,277	376,323	(17,046)
Average equity before GRA and Supply Deferral Adjustments	379,394	392,859	(13,465)
GRA and Supply Deferral Adjustments	14,940	-	14,940
Average equity after GRA and Supply Deferral Adjustments	394,334	392,859	1,475
Regulated earnings	35,919	29,382	6,537
Cost of service exclusions	4,315	3,689	626
Regulated earnings before GRA and Supply Deferral Adjustments	40,234	33,071	7,163
GRA and Supply Deferral Adjustments	(3,882)	-	(3,882)
Regulated earnings after GRA and Supply Deferral Adjustments	\$ 36,352	\$ 33,071	\$ 3,281
Return on equity before GRA and Supply Deferral Adjustments	10.60%	8.42%	2.19%
Return on equity after GRA and Supply Deferral Adjustments	9.22%	8.42%	0.80%

Note 1: 2016 shareholder's equity presented above under '2017 Forecast' includes \$17,046,000 relating to compliance adjustments of the 2017 GRA. The 2017 GRA was approved in Order No. P.U. 22 (2017).

3
 4 The increase in actual return on equity over 2017 forecast is primarily due to an increase in regulated
 5 earnings, which is discussed in the 'Revenue Requirement' section of our report.

1 The “regulated” shareholder’s equity of Hydro excludes the portion of equity attributable to non-
 2 regulated operations. Details with respect to Hydro’s calculation of regulated shareholder’s equity as
 3 filed on Return 13 and Return 14 for 2016 and 2017 are as follows:

(000's)	2017	2016
Equity per non-consolidated financial statements	\$ 948,724	\$ 899,755
Retained earnings cost of service exclusions	16,778	12,463
Less: Contributed capital		
- Lower Churchill Development	(46,090)	(44,411)
Share capital issued to finance investment in CF(L)Co.	(22,504)	(22,504)
Accumulated other comprehensive income	(11,953)	(26,076)
Net retained earnings attributable to IOCC	(17,840)	(18,248)
Non-regulated expenses	30,700	30,673
Net retained earnings attributable to CF(L)Co. (income recorded minus dividends flowed through to government)	(506,352)	(480,484)
Net retained earnings attributable to the sale of recall power (income recorded minus allocation of dividends)	8,047	8,109
Regulated Equity	\$ 399,510	\$ 359,277

4
 5 As a result of completing our procedures, we did not note any discrepancies in the calculation of
 6 regulated average equity and rate of return on regulated average equity.

1 **Interest Coverage**

2

3 In 2013, Hydro changed the calculation of its 2013 interest coverage to the Standard & Poor's ("S&P")
4 EBITDA interest coverage methodology. The S&P methodology calculates interest coverage as
5 earnings before interest, taxes, depreciation and amortization ("EBITDA") divided by interest. The
6 EBITDA calculation is considered a proxy for cash earnings by S&P.

7

8 S&P's definition of interest includes the gross amount of interest, including capitalized interest but
9 excluding interest income. It also includes interest on employee future benefits as well as accretion.

10

11 Interest coverage for 2017 under the S&P methodology has been calculated at 2.1 times (2016 – 2.1
12 times).

13

14 Cost of debt was calculated on Return 15 at 5.20% in 2017 compared to 6.30% in 2016. This decrease
15 is primarily a result of additional borrowings in 2016 and 2017 with lower interest rates.

16

17 On October 12, 2016, Nalcor borrowed \$225.0 million from the Province by way of a promissory note
18 and these funds were then loaned to Hydro. On September 29, 2017, Hydro renewed this
19 intercompany loan. The loan will mature on March 30, 2018 and has an interest rate of 1.845%. In
20 addition, Hydro utilized its government guaranteed promissory note program to fulfill its short-term
21 funding requirements.

22

23 On January 20, 2017, Hydro issued new long-term debt through the re-opening and sale of \$300.0
24 million Series AF debentures to its underwriting syndicate. The debentures mature on December 1,
25 2045 with a coupon rate of 3.60% paid semi-annually.

26

27 Hydro also issued new long-term debt late in 2017 which contributed to the decrease in the cost of
28 debt. On December 20, 2017, Hydro issued new long-term debt, Series 1A, with face value of \$300.0
29 million. The Province of Newfoundland and Labrador issued debt specifically on Hydro's behalf and
30 lent the proceeds to Hydro. The debt matures on October 17, 2048, with a coupon rate of 3.70% paid
31 semi-annually.

1 **Capital Structure**

2
 3 Details with respect to the capital structure as filed on Return 14 for 2016 and 2017 are as follows:

(000)'s	2017	%	2016	%
Debt	\$ 1,678,000	77.6%	\$ 1,216,000	73.4%
Employee benefits	69,000	3.2%	66,000	4.0%
Asset retirement obligation	15,000	0.7%	15,000	0.9%
Equity	400,000	18.5%	359,000	21.7%
	\$ 2,162,000		\$ 1,656,000	

4
 5
 6 Prior to 2009, Hydro's debt to equity ratio had been trending towards the 80:20 target ratio with 2008
 7 showing a ratio of 81.4:18.6. In 2009, Nalcor provided a \$100 million equity injection of contributed
 8 capital resulting in a significant reduction in leverage to a ratio of 72.0:28.0. Currently, the Company's
 9 target corporate capital structure comprised of 75% debt and 25% common equity for regulated
 10 operations. In order to maintain this target ratio the Company implemented the following dividend
 11 policy:

12
 13 *"Corporation annually on or before March 31 of each year, pay a dividend on its common shares if the percentage of debt*
 14 *to debt plus equity in the capital structure of the corporation on a regulated basis at the end of the immediately preceding*
 15 *fiscal year was less than 75% and that the amount of the dividend in that case will be equal to the amount that would be*
 16 *necessary to bring the percentage of debt to debt plus equity up to 75% at December 31st of the immediately preceding*
 17 *year, as if the dividend in question had been on that date."*

18
 19 The 2017 ratio was approximately 77.6% (2016 – 73.4%) debt (excluding employee benefits and asset
 20 retirement obligation) and 18.5% (2016 – 21.7%) equity reported on Return 14. According to Hydro, the
 21 corporate regulated capital structure used in the calculation of the regulated dividend is based on an S&P
 22 rating agency methodology which differs from the calculation of the capital structure as reported in Return
 23 14. The S&P calculation of debt within the capital structure includes accrued interest, asset retirement
 24 obligations and post-retirement benefit obligations.

1
2
3
4
5
6
7
8

Revenue Requirement

Scope: Conduct an examination of depreciation, fuel, power purchased, operations and administration expenses, and interest based on information provided by Hydro.

The following table provides a breakdown of the revenue requirement for the years 2014 to 2017, including variances between 2017 and 2016:

(000)'s	Actuals 2017	Actuals 2016	Actuals 2015	Actuals 2014	Variances 2017-2016
Depreciation	77,356	67,436	63,222	55,463	9,920
Fuel	184,772	210,950	220,359	185,510	(26,178)
Power purchased	61,717	60,117	60,667	63,741	1,600
Other costs					
Salaries and fringe benefits	115,093	107,674	114,153	106,067	7,419
System equip. maint.	25,792	25,048	31,928	28,620	744
Insurance	3,175	2,530	2,508	2,579	645
Transportation	3,251	2,943	3,317	3,785	308
Office supplies and expenses	2,118	2,249	2,762	2,392	(131)
Bldg. rentals and maint.	1,164	1,109	1,497	1,228	55
Professional services	6,142	6,662	14,407	12,629	(520)
Travel	2,412	1,984	3,250	3,208	428
Equipment rentals	3,817	4,197	4,218	2,017	(380)
Miscellaneous ¹	5,373	5,059	5,901	6,680	314
Other (income) and expense	9,036	8,286	9,762	3,806	750
Cost deferrals	(5,712)	(22,832)	(20,500)	(45,900)	17,120
GRA and supply deferral adjustments	3,882	(9,017)	(25,282)	17,418	12,899
Sub-total	175,543	135,892	147,921	144,529	39,651
Allocations					
Hydro capitalized	(35,753)	(32,213)	(25,114)	(24,090)	(3,540)
Cost Recoveries	(2,530)	(3,369)	(7,906)	(10,899)	839
Sub-total	(38,283)	(35,582)	(33,020)	(34,989)	(2,701)
Total	137,260	100,310	114,901	109,540	36,950
Accretion of ARO	189	645	699	852	(456)
Interest	73,487	95,721	94,654	87,953	(22,234)
Regulated earnings ²	32,037	28,231	(656)	243	3,806
Revenue requirement	\$ 566,818	\$ 563,410	\$ 553,846	\$ 503,302	\$ 3,408

9
10
11
12
13
14
15
16
17
18

Note 1: 2016 miscellaneous expense has been restated from \$5,098,000 in the 2016 Annual Review, to include \$39,000 relating to supplier discounts.

Note 2: Regulated earnings presented above excludes cost of service exclusions.

As noted in the above table, the net impact on regulated earnings for 2017 was an increase over 2016 of \$3.8 million. This increase was primarily attributable to a decrease in fuel costs of \$26.2 million, a decrease in interest expense of \$22.2 million and an increase in capitalized costs of \$3.5 million. The impact of this decrease in expenses was partially offset by a \$12.9 million increase in the GRA and

1 supply deferral adjustments, a \$17.1 million increase in cost deferrals, an increase in depreciation
2 expense of \$9.9 million, and an increase in salaries of \$7.4 million.

3

4 The following table compares the actual 2017 revenue requirement components to the 2017 forecast in
5 the 2017 GRA:

(000)'s	Actuals 2017	Forecast 2017	Variances '17A - '17F
Depreciation	77,356	76,028	1,328
Fuel	184,772	179,623	5,149
Power purchased	61,717	64,275	(2,558)
Other costs			
Salaries and fringe benefits	115,093	109,363	5,730
System equip. maint.	25,792	25,694	98
Insurance	3,175	3,038	137
Transportation	3,251	3,127	124
Office supplies and expenses	2,118	2,307	(189)
Bldg. rentals and maint.	1,164	1,077	87
Professional services	6,142	8,846	(2,704)
Travel	2,412	2,442	(30)
Equipment rentals	3,817	3,591	226
Miscellaneous	5,373	5,761	(388)
Other (income) and expense ¹	7,206	6,517	689
Sub-total	<u>175,543</u>	<u>171,763</u>	<u>3,780</u>
Allocations			
Hydro capitalized	(35,753)	(29,956)	(5,797)
Cost Recoveries	(2,530)	(949)	(1,581)
Sub-total	<u>(38,283)</u>	<u>(30,905)</u>	<u>(7,378)</u>
Total	<u>137,260</u>	<u>140,858</u>	<u>(3,598)</u>
Accretion of ARO	189	189	-
Interest	73,487	71,324	2,163
Regulated earnings	32,037	29,382	2,655
Revenue requirement	<u>\$ 566,818</u>	<u>\$ 561,679</u>	<u>\$ 5,139</u>

Note 1: Other (income) and expense includes: amortization of FX losses, FX gains/losses, gain/loss on AFS Settlement, cost deferrals, loss on disposal, and GRA and Supply Deferral adjustments.

6

7 According to Hydro, the variance between actual fuel costs and the amount forecasted in the 2017
8 GRA is primarily relates to the load changes on the Island Interconnected System, and variances in the
9 Supply Cost Deferral Accounts.

1 Actual 2017 power purchased decreased \$2.6 million from the amount forecast in the 2017 GRA.
2 According to Hydro, this is primarily as a result of lower than forecast production at Nalcor Energy
3 Exploits Grand Falls, due to reduced river flows and reservoir conditions, as well as planned and forced
4 outages for Grand Falls Unit 4.

5
6 Actual 2017 salaries expense increased \$5.7 million from the amount forecast in the 2017 GRA.
7 According to Hydro, the primary drivers of this increase include the following items:

- 8 • A higher usage of gross overtime than forecasted, primarily driven by an increase in hours of
9 regular preventative maintenance and unplanned corrective maintenance required due to aging
10 assets, the onboarding of new, inexperienced personnel to replace the Company's aging
11 workforce, and minimum staff complements for assets such as Holyrood.
- 12 • An increase in allowances from forecast due to higher than anticipated exception hours worked
13 by personnel, for which hours are subject to premium pay.
- 14 • An increase in other salary costs from forecast due to a number of unbudgeted expenses, such
15 as increased severance/salary continuance, vacation payout, retention payments, and other
16 lump sum payments to personnel.

17
18 Actual 2017 professional services decreased \$2.7 million from the amount forecast in the 2017 GRA.
19 According to Hydro, this decrease primarily relates to the reversal of the Amended 2013 GRA accruals.
20 The intervenor cost accruals were estimated because Hydro does not receive the supporting invoices
21 until the finalization of the hearing. The costs submitted for reimbursement by the intervenors were
22 lower than the amount Hydro originally accrued, partly as a result of Board Order P.U. 32 (2017) in
23 which \$1 million of intervenor costs were denied by the Board for reimbursement. Of the remaining
24 variance, a \$0.7 million decrease is related to the Phase II Hearing costs, as the process was expected to
25 be further along, and \$0.3 million is related to rate design and cost of service consulting work being
26 delayed as a result of the 2017 GRA Hearing.

27
28 Actual 2017 other (income) expenses increased by \$0.7 million from the amount forecast in the 2017
29 GRA. According to Hydro, this increase is primarily as a result of the following items:

- 30 • An increase of \$3.3 million is associated with a loss on disposal as a result of a \$3.4 million
31 write off related to the construction of the Labrador West Transmission Line. This project was
32 approved by OC2014-033 on February 2, 2014, however, was suspended later that year. In
33 2017, Hydro reached an agreement with the Kami Mines Limited Partnership for
34 reimbursement of \$9.5 million of the total \$12.9 million, resulting in the write off of \$3.4
35 million.
- 36 • A decrease of \$1.9 million is related to the 20% allowance on the Energy Supply, Isolated
37 Systems and Holyrood Conversion deferrals.
- 38 • A decrease of \$0.5 million is related to a gain on the settlement of sinking funds and a decrease
39 of \$0.4 million is related to foreign exchange gains. Hydro does not forecast gains or losses on
40 the retirement of sinking funds or foreign exchange due to the level of uncertainty.

41
42 Actual 2017 Hydro capitalized costs increased \$5.8 million over the amount forecast in the 2017 GRA.
43 According to Hydro, the primary driver of this increase is capital overtime and capital labor, which
44 increased \$3.4 million and \$2.4 million, respectively. These increases were as a result of unforeseen and
45 supplemental capital projects.

46
47 Actual 2017 interest increased by \$2.2 million when compared to the amount forecast in the 2017
48 GRA, which according to Hydro, is as a result of the following items:

- 49 • \$1.1 million increase in interest on rate stabilization plan. The forecast included a proposal to
50 recover \$42.2 million owing in the Supply Cost Deferral Accounts from the RSP balance in

1 September 2017, which was not accepted resulting in an increase of \$0.7 million, and the
 2 remaining variance is due to the normal operation of the plan.
 3 • \$3.2 million increase in interest capitalized during construction. This variance is primarily due
 4 to the TL-267 forecast amount of \$9.5 million in comparison to year to date actuals of \$7.6
 5 million, comprising \$1.9 million of the total variance. The remainder of the variance is due to
 6 the forecast using a higher Interest During Construction (IDC) rate than actual (6.6% forecast
 7 vs. 5.26% actual).

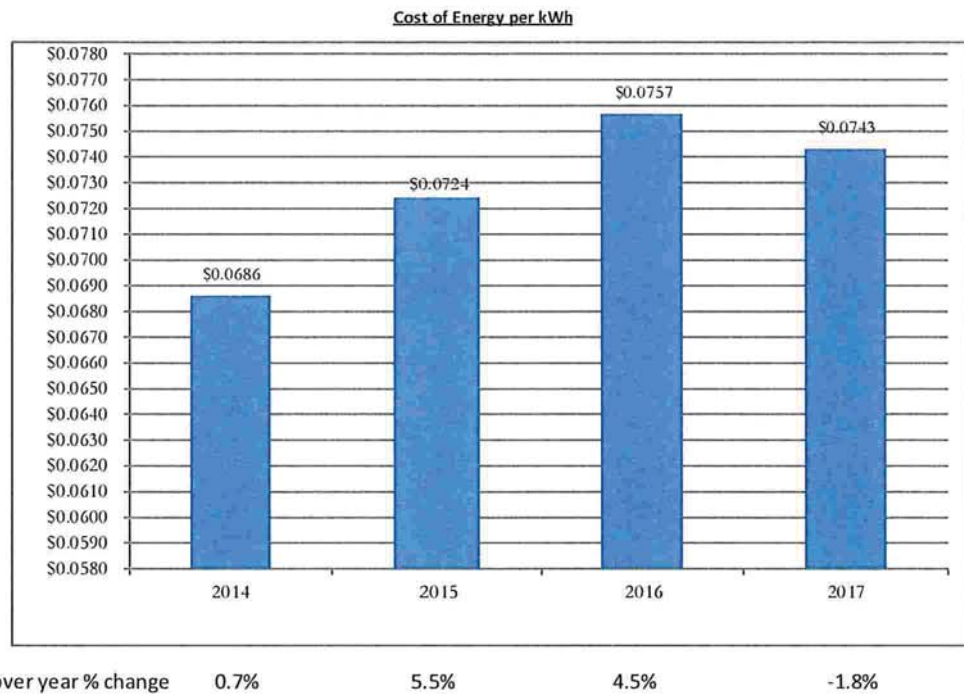
8 This increase was partially offset by the long term debt forecast including higher long-term debt
 9 issuances of \$500 million in November of 2017 (\$300 million at 4.18% and \$200 million at 3.4%).
 10 Actuals consist of one \$300 million issuance mid December of 2017 (\$300 million at 3.70%) resulting
 11 in a \$3.0 million decrease in interest on long term debt.

12 Actual 2017 cost recoveries are compared to amounts forecast in the 2017 GRA, within this section of
 13 the report, under “Cost Recovery Charges”.

14
 15 **Costs per kWh Analysis**

16
 17 In the table and graph below we have provided an analysis of the breakdown of the cost of energy on
 18 the basis of the number of kWhs sold for the years 2014 to 2017:

Year	kWh sold and used	Depreciation	Fuel	Purchased Power	Other Costs	Interest & Accretion	Regulated Earnings	Total Cost of Energy	Cost per kWh
2014	7,333,000	\$ 55,463	\$ 185,510	\$ 63,741	\$ 109,540	\$ 88,805	\$ 243	\$ 503,302	\$ 0.0686
2015	7,649,000	\$ 63,222	\$ 220,359	\$ 60,667	\$ 114,901	\$ 95,353	\$ (656)	\$ 553,846	\$ 0.0724
2016	7,444,000	\$ 67,436	\$ 210,950	\$ 60,117	\$ 100,310	\$ 96,366	\$ 28,231	\$ 563,410	\$ 0.0757
2017	7,626,000	\$ 77,356	\$ 184,772	\$ 61,717	\$ 137,260	\$ 73,676	\$ 32,037	\$ 566,818	\$ 0.0743



19

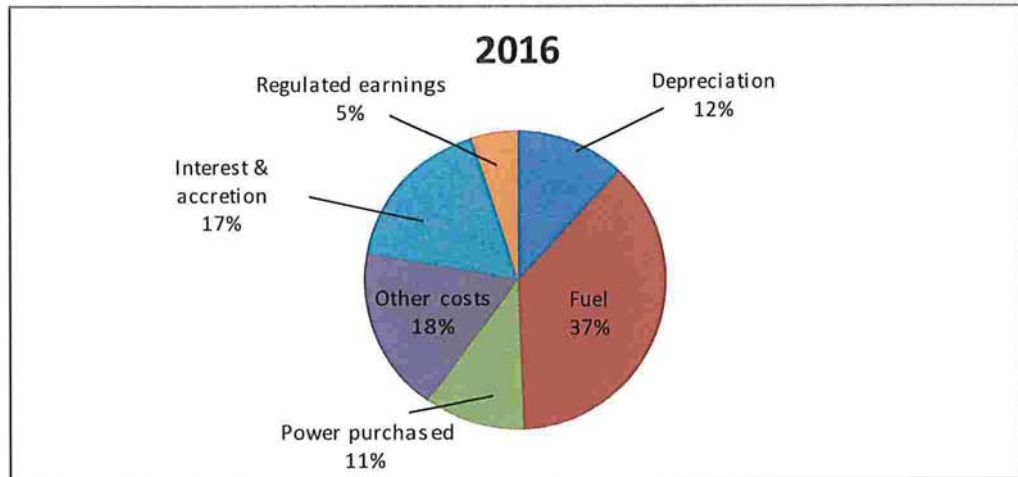
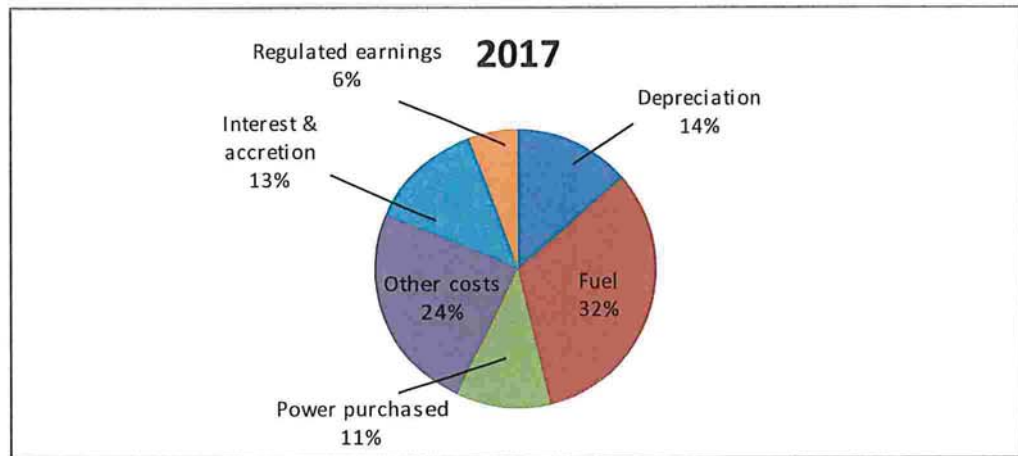
1 As highlighted in the graph above, the cost per kWh decreased in 2017. In 2017 the cost of energy sold
 2 on the basis of the number of kWhs sold was \$0.0743 per kWh which represented a 1.8% decrease over
 3 2016.

4

5 The following table and charts provide a further breakdown of the expense per kWh by expense
 6 category for the years 2016 and 2017:

7

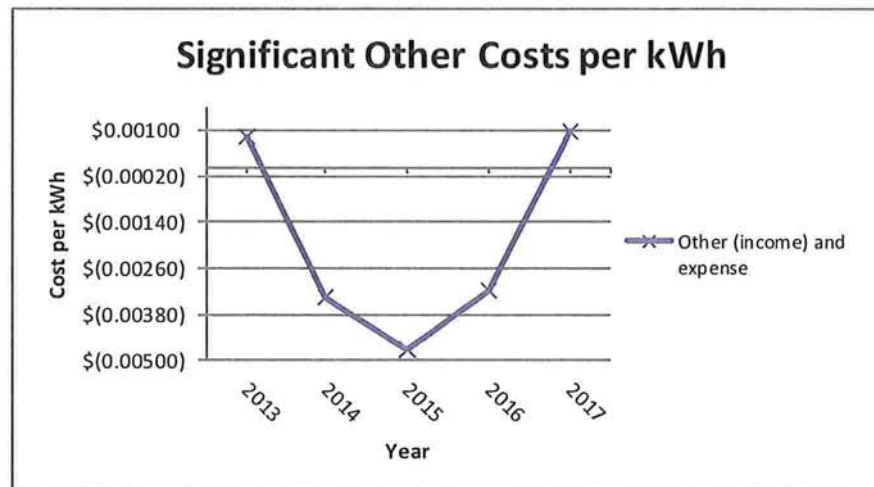
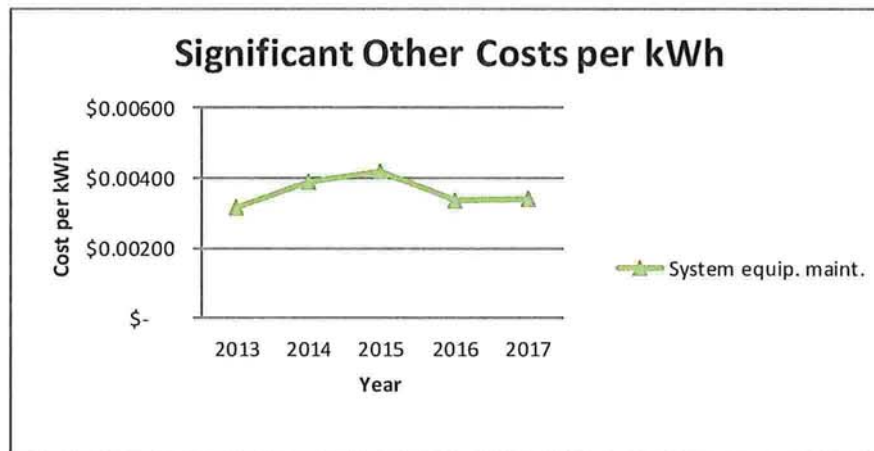
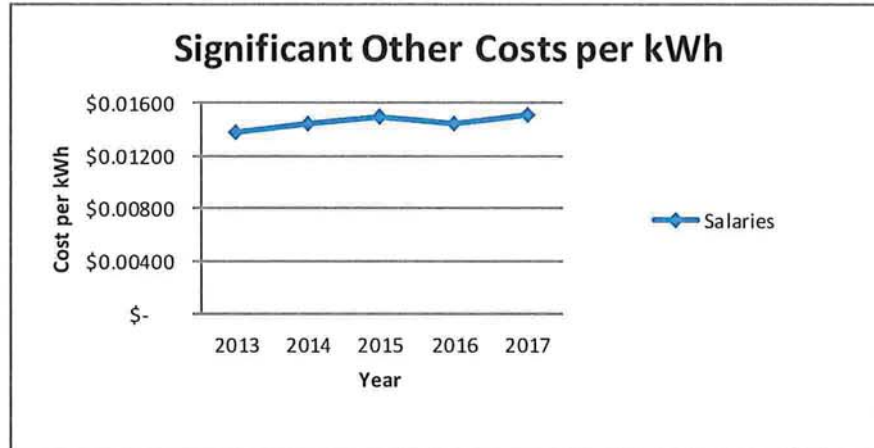
kWh sold and used	2017			2016		
	Cost	Cost per kWh	% of Total	Cost	Cost per kWh	% of Total
	7,626,000			7,444,000		
Depreciation	\$ 77,356	0.0101	13.65%	\$ 67,436	0.0091	11.97%
Fuel	184,772	0.0242	32.60%	210,950	0.0283	37.44%
Power purchased	61,717	0.0081	10.89%	60,117	0.0081	10.67%
Other costs	137,260	0.0180	24.22%	100,310	0.0135	17.80%
Interest & accretion	73,676	0.0097	13.00%	96,366	0.0129	17.10%
Regulated earnings	32,037	0.0042	5.65%	28,231	0.0038	5.01%
Total	\$ 566,818	0.0743	100.00%	\$ 563,410	0.0757	100.00%



8

9 Explanations for the significant fluctuations within each of these cost categories are discussed further in
 10 this report.

- 1 An analysis of the most significant accounts within “other costs” for the years 2013 to 2017 has been
- 2 provided below in the following three graphs:



3



1
2 In the first graph, cost of salaries and fringe benefits per kWh have increased 4.3% in 2017. The second
3 graph shows the cost per kWh for system equipment maintenance has increased by approximately
4 0.5%. The third graph shows other (income) and expenses per kWh has increased by 149.1%. The
5 fourth graph shows professional services costs per kWh has decreased by 10.0%, miscellaneous
6 expense per kWh increased by 3.7% and equipment rentals per kWh decreased by 11.2%.

7
8 As previously mentioned, we have reviewed the various expense categories in more detail on an
9 individual basis and our observations and comments are noted further in this report for your
10 consideration.

11
12 **Fuels**

13
14 Fuel expense in 2017 totaled \$184.8 million compared to \$211.0 million in 2016. The decrease in fuel
15 expense from 2016 levels was approximately \$26.2 million, or 12.4%. The breakdown of costs within
16 the fuel category is noted below for the years 2014 to 2017:

(000)'s	2017	2016	2015	2014	Var 17-16
No.6 Fuel	\$190,499	\$123,601	\$162,872	\$244,341	\$66,898
Fuel Additives	10	(13)	(1)	28	23
Fuel Costs Indirect	168	188	141	142	(20)
Environmental Handling Fee	31	32	53	24	(1)
Ignition Fuel	300	215	281	516	85
Gas Turbine Fuel	2,454	5,876	4,034	6,910	(3,422)
Diesel Fuel Rural	14,310	14,267	16,406	19,358	43
Rate Stabilization Plan (RSP)	(18,900)	41,961	25,166	(76,159)	(60,861)
Fuel Supply Deferral	-	1,500	-	(9,650)	(1,500)
Holyrood Conversion	(3,331)	-	-	-	(3,331)
Energy Supply Deferral	(18,836)	-	-	-	(18,836)
Isolated Systems Deferral	882	-	-	-	882
Holyrood CT	17,185	23,323	11,407	-	(6,138)
	<u>\$184,772</u>	<u>\$210,950</u>	<u>\$220,359</u>	<u>\$185,510</u>	<u>(\$26,178)</u>

1 *No. 6 Fuel*

2

3 In 2017, the total cost of No. 6 Fuel, which is the largest component of fuel expense, increased by
 4 \$66.9 million from 2016. According to Hydro, this increase is primarily due to the rising average cost
 5 per barrel which increased by \$22.20 over 2016, as well as an increase of 112,815 barrels consumed.

6

7 *Gas Turbine Fuel*

8

9 The Gas Turbine expense decreased in 2017 by \$3.4 million from 2016. According to Hydro, this is due
 10 to decreases in production at the Hardwoods and Stephenville Gas Turbines of 9.2 GWh and 4.1
 11 GWh, respectively. This decrease is partially offset by an increase cost per liter for Gas Turbine Fuel in
 12 2017.

13

14 *Holyrood Conversion, Energy Supply, and Isolated Systems Deferral*

15

16 In 2017, \$31.0 million relating to energy supply costs deferred for 2015 and 2016 was reclassified from
 17 the 2016 Cost Deferral to the Holyrood Conversion, Energy Supply, and Isolated Systems deferrals.
 18 The net increase to profit in 2017 was \$21.3 million. These deferral accounts are investigated further in
 19 the “Deferred Charges” section of this report.

20

21 *Holyrood Combustion Turbine*

22

23 In 2017, Holyrood Combustion Turbine costs decreased \$6.1 million over 2016. According to Hydro,
 24 this decrease in costs is primarily due to a decreased production of 48.1 GWh in 2017 compared to
 25 2016; this was partially offset by an increased cost per liter of fuel.

26

27 *Rate Stabilization Plan (RSP) (the Plan)*

28

29 Including RSP adjustments, the cost of No. 6 Fuel for 2017 was \$171.6 million compared to \$165.6
 30 million in 2016.

31

32 The variation in the RSP consists of four main components: fuel variation, hydraulic variation, load
 33 variation, and Labrador interconnected.

34

(000)'s	2017	2016	Variance 17-16
Hydraulic Variation	(\$11,331)	(\$7,100)	(\$4,231)
Load Variation	2,874	24,535	(21,661)
Fuel	(10,589)	23,941	(34,530)
Labrador Interconnected	145	585	(440)
	<u>(\$18,901)</u>	<u>\$41,961</u>	<u>(\$60,862)</u>

35

36

37 The fuel variation is calculated using the actual cost per barrel of No. 6 fuel relative to the cost of
 38 service (COS) price applied to the number of barrels of fuel consumed. The calculation of this fuel
 39 variation is provided in the table below:

<u>Fuel Variation</u>	2017	2016	Variance
Actual barrels adjusted for non-firm sales (000)'s	2,777	2,664	113
Average Actual Fuel	68.60	46.40	
Average COS Fuel	64.41	55.47	
Annual fuel price variance	\$ (4.19)	\$ 9.07	\$ (13.26)
Fuel Variation (000)'s ¹	\$ (10,589)	\$ 23,941	\$ (34,530)
	(000)'s		(000)'s
	<u>Production</u>	<u>Average Price</u>	<u>Variance</u>
Fuel Price Variance	2,777	(13.26)	(36,823)
Volume Variance	113	9.07	1,025
Annualized calculated variance ²			(35,798)

¹ This number has been calculated on a monthly basis.

² Calculation is done on an annualized basis for comparison purposes and will lead to slight differences from a monthly basis.

1
2
3
4
5
6
7
8
9
10
11
12
13
14

The table above shows that the actual average fuel price for No. 6 fuel in 2017 was \$4.19 per barrel more than the average COS fuel price. The actual barrels consumed during 2017 increased by approximately 113,000 barrels in comparison to the actual barrels consumed in 2016. This increase in fuel prices and number of barrels consumed resulted in a negative fuel variation of approximately \$10.6 million to the Plan in 2017 compared to a \$23.9 million positive variation in 2016. The change in the fuel price variation offset by the change in fuel consumption led to a decrease in the RSP fuel component of \$35.8 million (calculated on a monthly basis) for 2017 compared to 2016. As shown above, the increase in actual fuel costs, relative to the COS, led to a negative fuel price variance of approximately \$36.8 million compared to 2016. This negative fuel price variance was partially offset by a positive volume variance of approximately \$1.0 million, for a combined variance of \$35.8 million (there is a slight difference when the calculation is done on an annualized basis in comparison to a monthly basis).

1 The hydraulic production in 2017 contributed negatively to the RSP in the amount of \$11.3 million, this
 2 negative contribution is \$4.2 million greater than the prior year negative contribution of \$7.1 million:
 3

<u>Hydraulic Variation</u>		2017	2016	Variance
Average COS Fuel (\$)		\$ 64.41	\$ 55.47	\$ 8.94
Actual Hydraulic Production (000)'s		4,507,335	4,382,031	
COS Hydraulic Production (000)'s		4,603,568	4,472,070	
Annual hydraulic production variance (000)'s		(96,233)	(90,039)	(6,194)
Hydraulic variation (000)'s	1 2	\$ (11,331)	\$ (7,100)	\$ (4,231)
		(000)'s	Average Price	(000)'s
		Production		Variance
	Fuel Price Increase	(96,233)	\$ 8.94	\$ (1,366)
	Hydraulic Production Variance Decrease	(6,194)	\$ 64.41	\$ (633)
	Annualized calculated variance (000)'s	3		\$ (1,999) 4

Notes:

1 Holyrood conversion factor in COS is 618 kWh/bbl. (630 kWh/bbl in 2016)

2 This number has been calculated on a monthly basis

3 Calculation is done on an annualized basis for comparison purposes and will lead to slight differences from a monthly basis.

4 Difference due to COS hydraulic production and Holyrood conversion factor updated for 2015 test year.

4
 5 A decrease in hydraulic production of 96 GWh in 2017 under the COS has led to total losses to the
 6 plan of \$11.3 million.
 7

8 Load Variation

9
 10 The load variation for 2017 contributed positively to the Plan in the amount of \$2.8 million. The load
 11 variation is primarily the result of the load requirements for industrial customers being 35.6 GWh
 12 below the COS load requirement and the utility customer load requirements being 41.1 GWh below the
 13 COS load requirement.

1 **Power purchased**

2

3 The breakdown of power purchased by account is as follows:

4

(000)'s	2017	2016	2015	2014	Var 17-16
Energy Costs - NUGS	\$53,274	\$52,514	\$53,205	\$50,695	\$760
Demand & energy - CF(L)Co	1,383	1,528	1,676	1,995	(145)
L'Anse au Loup	2,624	2,367	2,679	3,102	257
Island wheeling	710	702	693	695	8
Secondary energy	481	231	174	-	250
Capacity Expansion	-	-	19	812	-
Ramea Wind	144	129	156	191	15
Ramea Hydrogen	(2)	8	9	26	(10)
Interruptible: Curtailable	3,103	2,638	2,056	6,225	465
	<u>\$61,717</u>	<u>\$60,117</u>	<u>\$60,667</u>	<u>\$63,741</u>	<u>\$1,600</u>

5

6

7 Energy purchases from Non-Utility Generators (NUGs) represent the most significant component of
8 purchased power. This category increased by \$760,000, in 2017 compared to 2016. According to
9 Hydro, this increase is primarily due to increased production of 26.1 GWh at Nalcor's Exploits and Star
10 Lake facilities, partially offset by reduced production of 0.9 GWh at the Rattle Brook facility.

11

12 According to Hydro, the \$145,000 decrease in purchases from Churchill Falls Corporation Limited
13 (CF(L)Co) is associated with a change in the rate structure for the CF(L)Co. contract.

14

15 L'Anse au Loup power purchases increased by \$257,000 over 2016, which according to Hydro, is
16 primarily related to higher prices for secondary energy from Hydro Quebec. The increase in prices for
17 secondary energy is related to the increase in No. 2 fuel prices, which more than offset the reduction in
18 energy consumption in L'Anse au Loup in 2017 over 2016.

19

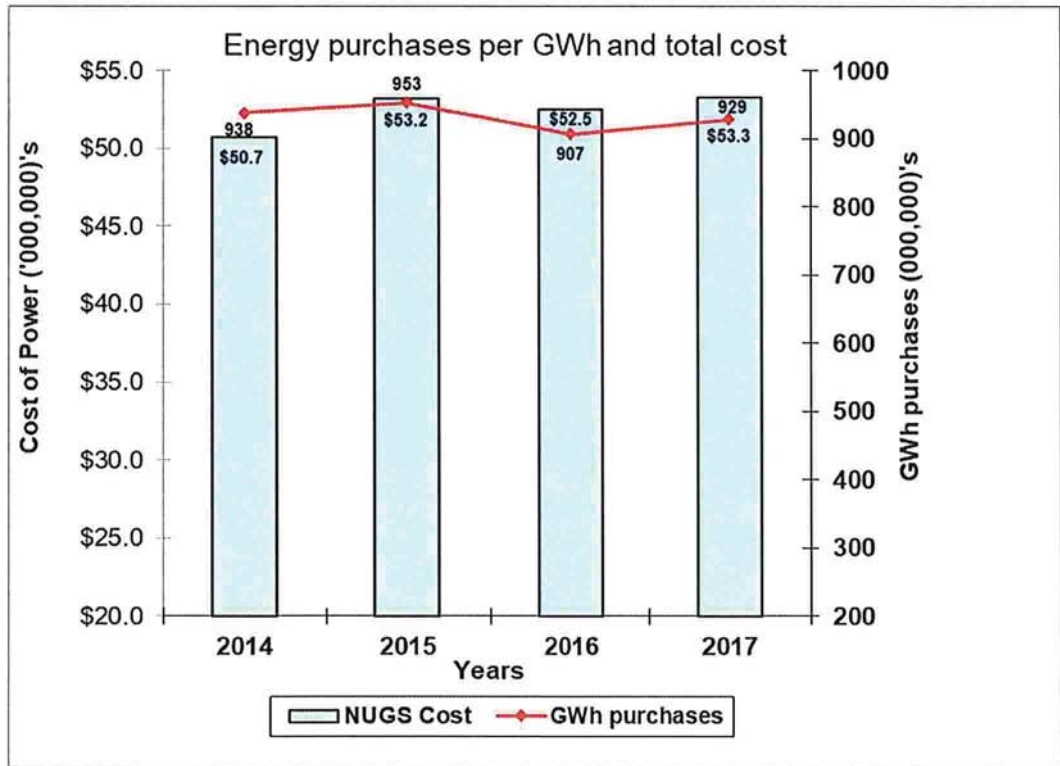
20 Secondary energy purchases increased by \$250,000, or 108.2%, in 2017 compared to 2016, which
21 according to Hydro, is primarily due to an increase in production of 6.5 GWh under the Corner Brook
22 Pulp and Paper Secondary Energy contract.

23

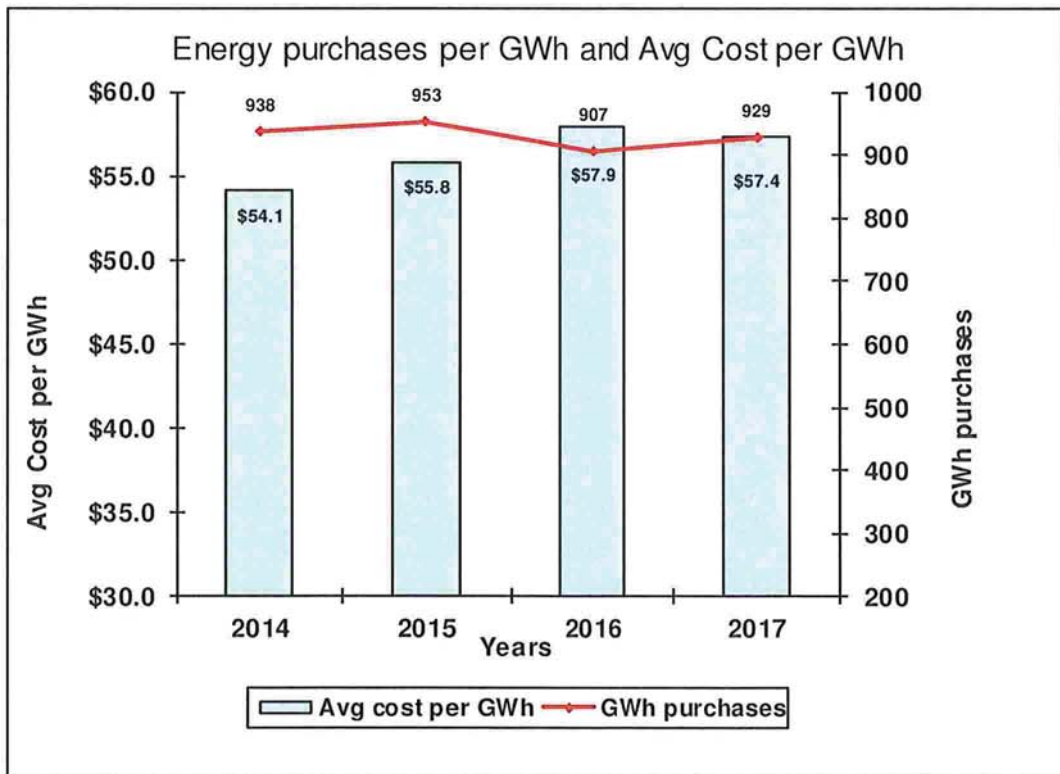
24 The Interruptible: Curtailable account increased by \$465,000 over 2016, which according to Hydro, is
25 primarily due to an increase in costs associated with the new Corner Brook Pulp and Paper Capacity
26 Assistance Agreement. The increase can also be partly attributed to a full year of charges for the Praxair
27 and Vale curtailable agreements in 2017, compared to one month of charges in 2016.

28

29 The following graphs depict the changes in energy purchases in terms of GWh and total costs followed
30 by the changes in energy purchases in terms of GWh and cost per GWh over the period 2014 to 2017:



1



2

1 As shown in these charts, in 2017 the average cost per GWh purchased from NUGS was \$57,400 per
 2 GWh which is a 0.86% decrease from the 2016 average cost per GWh of \$57,900.

3
 4 The other components of this expense category are less significant and therefore no further analysis
 5 was conducted.

6
 7 **Salaries and fringe benefits**

8
 9 Analysis of Gross Payroll Costs

10
 11 Gross payroll costs for 2017 were \$115,093,000, an increase of \$7,419,000, or 6.9%, in comparison to
 12 2016. The increase in 2017 over 2016 was primarily due to various fluctuations in the salaries, other
 13 salary costs and overtime.

14
 15 These fluctuations are outlined in the table below which summarizes salaries and fringe benefits costs
 16 incurred from 2014 to 2017:

17

(000)'s	2017	2016	2015	2014	Var 17-16
Salaries	\$ 66,396	\$ 61,639	\$ 61,076	\$ 56,851	\$ 4,757
Temporary salaries	7,166	7,287	8,343	7,109	(121)
	<u>73,562</u>	<u>68,926</u>	<u>69,419</u>	<u>63,960</u>	<u>4,636</u>
Other salary costs	2,305	1,004	1,722	1,878	1,301
Intercompany salaries	266	(105)	2,249	3,188	371
	<u>76,133</u>	<u>69,825</u>	<u>73,390</u>	<u>69,026</u>	<u>6,308</u>
Allowances	2,480	2,294	2,266	1,997	186
Directors fees	11	16	30	43	(5)
Overtime	15,806	14,919	17,823	16,624	887
Employee future benefits	6,282	6,946	6,619	6,922	(664)
Fringe benefits	11,440	11,122	11,513	9,042	318
Group insurance	2,769	2,377	2,347	2,260	392
Labrador travel benefit	172	175	165	153	(3)
	<u>\$ 115,093</u>	<u>\$ 107,674</u>	<u>\$ 114,153</u>	<u>\$ 106,067</u>	<u>\$ 7,419</u>

18
 19
 20 In 2017, other salary costs increased by \$1,301,000, or 130%, over 2016. According to Hydro, this is
 21 primarily due to the 2016 reorganization and the resulting transfer of FTEs from Nalcor to Hydro. As a
 22 result, expenses related to performance contracts increased, as Hydro increased the number of manager
 23 roles who were eligible for performance contracts. Similarly, the number of employees receiving lump
 24 sum merit payments also increased over 2016.

25
 26 The increase of \$887,000, or 35.3%, in overtime over 2016 is predominately driven by increased capital
 27 work on the TL-267, and the increased number of unionized positions within Engineering Services as a
 28 result of the creation of the Information and Operations Technology Department. This increase is
 29 offset by a reduction in overtime within Production Operations.

1 Employee future benefits decreased by 664,000, or 9.6%, in 2017. According to Hydro, this is primarily
2 as a result of overall gains in the program, due to claims experience and plan demographics.

3
4 Fringe benefits increased by \$318,000, or 2.9%, in 2017 compared to 2016. These costs include
5 employee burdens (i.e. CPP, EI, etc.) which correlate to changes in salary.

6
7 In 2017, group insurance increased by \$392,000, or 16.5%, over 2016. This increase is primarily due to
8 an increase in salary costs and an increase in premium rates effective April 1, 2017, specifically life
9 insurance, medical and dental.

10
11 The breakdown of the salaries category by division is as follows:

12

(000)'s	2017	2016	2015	2014	Var 17-16
Executive Leadership	\$ 1,701	\$ 992	\$ 757	\$ 681	\$ 709
Hydro Finance	5,419	4,389	4,407	3,618	1,030
Engineering	11,998	8,800	12,280	12,018	3,198
Transmission Operations	28,231	28,821	29,480	27,062	(590)
Production Operations	18,794	18,167	16,750	15,222	627
Regulatory Affairs & Customer Service	8,430	8,883	8,535	7,557	(453)
Recharged salaries	(1,011)	(1,126)	(2,790)	(2,199)	115
	<u>\$ 73,562</u>	<u>\$ 68,926</u>	<u>\$ 69,419</u>	<u>\$ 63,960</u>	<u>\$ 4,636</u>

13 Note: This table is the total of "Salaries" and "Temporary Salaries" for each division

14
15 We have reviewed the executive salaries in more detail, and our observations and comments are noted
16 further in this report.

17
18 The Hydro Finance divisional salaries increased by \$1,030,000, or 23.5%, in 2017 over 2016. According
19 to Hydro, this is primarily as a result of the reorganization, which resulted in the creation of Internal
20 Audit and Treasury departments in Hydro, and store workers were also transferred to Supply Chain
21 department from Operations divisions as a result of the reorganization.

22
23 The Engineering divisional salaries increased in 2017 by \$3,198,000, or 36.3%. Again, this is primarily as
24 a result of the reorganization, with a new Information and Operations Technology department being
25 created in 2017 as a result. The increase can also be attributed to the filling of vacant positions.

26
27 Recharged salaries consist of an employee's time being charged to another division when he/she is
28 working on a project that is not forecast in his/her current division. Generally recharged salaries
29 should net to \$Nil for the year; however, because of recharges to non-regulated activities, a credit
30 balance will normally remain in this account.

31
32 The Company had implemented a revised salary compensation matrix for non-union employees in 2016
33 and it has been confirmed by Hydro that there has been no changes since then. The below matrix
34 illustrates a scale for salary increases and bonuses based on performance ranging from 0-6.5%
35 (exclusive of a general scale adjustment). The compensation matrix allows for pay adjustments above
36 the scale maximum based on an employee's "rating of performance". Ratings of performance include
37 Unacceptable, Improvement Required, Meets Expectations, Exceeds Expectations, and Exceptional.

38
39 As noted by the Company, all salary adjustment figures are calculated as a percentage of current base
40 salary. All salary adjustments are subject to a scale maximum. Those in the Exceeds Expectations and

1 Exceptional categories whose performance adjustment would exceed the scale maximum receive the
 2 balance in the form of a one-time cash bonus of 2.5% or 5%, respectively, of their base salary.

3
 4 As illustrated below, there has been no changes to the compensation matrix since 2016.
 5

Rating of Performance	Scale Adjustment - Below Scale Maximum	
	2017	2016
Exceptional	6.5% (with cash payout of balance)	6.5% (with cash payout of balance)
Exceeds Expectations	5.5% (with cash payout of balance)	5.5% (with cash payout of balance)
Meets Expectations	Up to 4% (to the scale maximum)	Up to 4% (to the scale maximum)

6
 7
 8
 9
 10
 11
 12
 13

Net Full-Time Equivalents (“FTE”)

The table below is a detailed comparison of the average number of net FTE employees by division for 2014 to 2017. As shown, in comparison to 2016 the total net FTEs for 2017 increased by 6 full time positions.

	2017	2016	2015	2014	Var 17-16
Executive Leadership	9	6	7	9	3
Hydro Finance	65	48	48	44	17
Engineering	106	93	139	140	13
Transmission Operations	321	337	352	338	(16)
Production Operations	210	213	202	190	(3)
Regulatory Affairs & Customer Service	104	112	113	106	(8)
	<u>815</u>	<u>809</u>	<u>861</u>	<u>827</u>	<u>6</u>

14

1 Average salary costs per net FTE for 2014 to 2017 are included in the following table:
 2

(000's)	2017	2016	2015	2014
Salary costs (including temporary salaries)	\$ 73,562	\$ 68,926	\$ 69,419	\$ 63,960
Intercompany Salaries	266	(105)	2,249	3,188
Total Net FTE Salary Costs	73,828	68,821	71,668	67,148
FTE	815	809	861	827
Average salary per FTE	\$ 90,587	\$ 85,069	\$ 83,238	\$ 81,195
% increase	6.49%	2.20%	2.52%	2.96%

3
 4
 5 The above analysis indicates that the average salary per FTE has increased by 6.49%. We presented the
 6 above table to Hydro and inquired on the 6.49% increase. Hydro explained that the FTEs above are net
 7 of capital recharge FTEs which increased from 2 to 24 over 2016. Excluding capital recharge FTEs the
 8 increase was 3.74%. According to Hydro, this increase relates to merit and progression increases.

9
 10 Executive salaries

11
 12 Over 2016 Hydro underwent changes to their organizational structure, whereby, a separate executive
 13 team was formed and certain common costs were transferred to Nalcor to be recovered through an
 14 administration fee.

15
 16 Prior to the reorganization, the salaries of the executives of Nalcor were recharged back to Hydro via
 17 the Intercompany Salary account; with billing rates designed to cover salary, benefits, and vacation of
 18 the executives. In the current year there were no recharge executive salaries from Nalcor to Hydro, with
 19 the exception of two hours for the Vice President of Human Resources

20
 21 The table below outlines the executive salaries by position, including the annual salary, salary earned,
 22 performance contract, gross salary and benefits for 2017. Due to 2016 being a partial year for the
 23 executive leadership team, total compensation was not compared to prior years.

	Annual Salary	Salary Earned	Performance Contract	Gross Salary	Benefits	Total
President	320,000	300,000	27,300	327,300	59,215	386,515
VP, Regulatory Affairs & Corporate Services	215,000	202,047	34,744	236,791	43,823	280,614
VP, Financial Services ¹	215,000	206,204	-	206,204	43,366	249,570
VP, Engineering Services	210,000	196,923	32,166	229,089	43,255	272,344
VP, Production Operations	200,000	185,000	24,033	209,033	41,797	250,830
VP, Transaction & Distribution & NLOS ²	200,000	135,192	-	135,192	20,952	156,144
Corporate Secretary & General Counsel	185,000	172,000	20,485	192,485	40,055	232,540
Total	\$ 1,545,000	\$ 1,397,366	\$ 138,728	\$ 1,536,094	\$ 292,463	\$ 1,828,557

Note 1 - Commenced employment January 3, 2017; approximately 12 months in position.

Note 2 - Commenced employment April 10, 2017; approximately 9 months in position.

1
2
3
4

The table below provides a comparison of the annual salary of each member of executive leadership for 2016 and 2017:

	Annual Salary 2017	Annual Salary 2016	Var 17-16 (\$)	Var 17-16 (%)
President	320,000	300,000	20,000	6.7%
VP, Regulatory Affairs & Corporate Services ¹	215,000	190,903	24,097	12.6%
VP, Financial Services ²	215,000	-	N/A	N/A
VP, Engineering Services ³	210,000	190,000	20,000	10.5%
VP, Production Operations ⁴	200,000	185,000	15,000	8.1%
VP, System Operations and Planning ⁵	-	199,614	N/A	N/A
VP, Transaction & Distribution & NLOS ⁶	200,000	-	N/A	N/A
Corporate Secretary & General Counsel ⁷	185,000	172,000	13,000	7.6%
Total	\$ 1,545,000	\$ 1,237,517	\$ 92,097	

Note 1 - Position active for approximately 9 months in 2016.

Note 2 - Position active as of January 2017.

Note 3 - Position active for approximately 9 months in 2016.

Note 4 - Position active for approximately 4 months in 2016.

Note 5 - Position not active in 2017.

Note 6 - Position active as of April 2017.

Note 7 - Position active for approximately 4 months in 2016.

5

1 Capitalized salaries

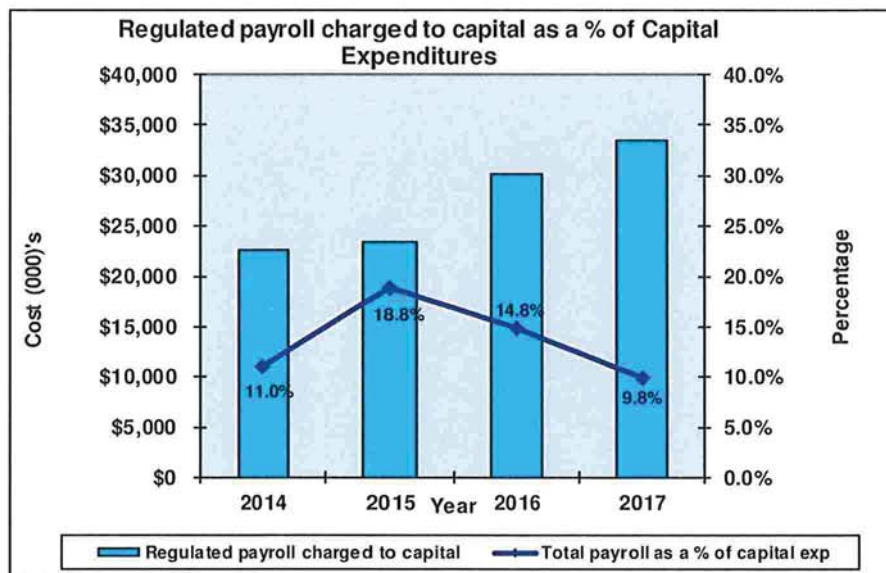
2
 3 Capitalized salaries include the salaries and benefits of the Company's employees whose time is charged
 4 directly to capital projects. The gross payroll costs for 2014 to 2017 were allocated to operations and
 5 capital as follows:

(000)'s	2017	2016	2015	2014	Var 17-16
Payroll charged to operating	\$81,582	\$77,547	\$90,705	\$83,454	\$4,035
Payroll charged to capital	<u>33,511</u>	<u>30,127</u>	<u>23,448</u>	<u>22,613</u>	<u>3,384</u>
	<u>\$115,093</u>	<u>\$107,674</u>	<u>\$114,153</u>	<u>\$106,067</u>	<u>\$7,419</u>

6
 7
 8 The Company's 2017 capitalized payroll increased by \$3,384,000, or 11.2%, over 2016. The amount of
 9 capitalized salaries can vary widely from year to year depending on the type of capitalized projects and the
 10 requirement for manpower versus machine power. The percentage of capital salaries in relation to the
 11 amount of capital expenditures can also fluctuate from year to year.

12
 13 The following table and graph illustrate the relationship between payroll charged to capital and capital
 14 expenditures for the period 2014 to 2017:

(000)'s	2017	2016	2015	2014
Capital expenditures ¹	<u>\$341,000</u>	<u>\$204,000</u>	<u>\$125,000</u>	<u>\$205,000</u>
Regulated payroll charged to capital	<u>33,511</u>	<u>30,127</u>	<u>23,448</u>	<u>22,613</u>
Total payroll as a % of capital exp	<u>9.8%</u>	<u>14.8%</u>	<u>18.8%</u>	<u>11.0%</u>



¹ Balance includes both regulated and non-regulated costs

1 As noted from the table above, the percentage of capital salaries in relation to the amount of capital
2 expenditures can fluctuate significantly from year to year.

3
4 As noted in the table below capitalized salaries consists of two sub-categories of costs; capital salaries
5 and capital overtime.
6

(000)'s	2017	2016	2015	2014	Var 17-16
Capital salaries	\$24,677	\$21,371	\$16,214	\$15,574	\$3,306
Capital overtime	8,834	8,756	7,234	7,039	78
	<u>\$33,511</u>	<u>\$30,127</u>	<u>\$23,448</u>	<u>\$22,613</u>	<u>\$3,384</u>

7
8
9 Capital salaries, which make up the largest portion of this category, experienced an increase of
10 \$3,306,000, 15.5%, in 2017 and capital overtime experienced an increase of \$78,000 over 2016.

11
12 According to Hydro, the increase in capital salaries was primarily due to an increase in cost recovered
13 jobs, such as the Exploits capital program, which accounts for approximately \$1,400,000 of the
14 increase. In addition, this increase in salaries can also be attributed to an increase in salaries on the
15 TL267 Bay d'Espoir to Western Avalon Transmission Line project of approximately \$1,200,000.
16

17 System equipment maintenance

18
19 In 2017, system equipment maintenance costs increased by approximately \$744,000 over 2016. The
20 following table summarizes system equipment maintenance costs incurred from 2014 to 2017 by sub-
21 category.
22

(000)'s	2017	2016	2015	2014	Var 17-16
Maintenance	\$ 10,510	\$ 9,713	\$ 12,712	\$ 13,263	\$ 797
Contract Labour	13,152	13,117	16,421	13,067	35
Contract Materials	59	356	339	140	(297)
	<u>23,721</u>	<u>23,186</u>	<u>29,472</u>	<u>26,470</u>	<u>535</u>
Tools and operating supplies	493	336	602	507	157
Freight expense	501	416	708	681	85
Lubricant, gases & chemicals	1,077	1,110	1,146	962	(33)
	<u>\$ 25,792</u>	<u>\$ 25,048</u>	<u>\$ 31,928</u>	<u>\$ 28,620</u>	<u>\$ 744</u>

23
24
25 The total maintenance material, contract labour and contract materials costs in 2017 increased by
26 \$535,000 from 2016.

1 Maintenance costs are incurred throughout all divisions with the majority of costs incurred in the
2 Transmission Operations and Production Operations divisions. The following table provides a
3 breakdown of Maintenance costs by division for 2014 to 2017:
4

(000)'s	2017	2016	2015	2014	Var 17-16
Executive Leadership	\$ 3	\$ 2	\$ -	\$ 1	\$ 1
Hydro Finance	1,221	986	1,107	1,259	235
Engineering	787	581	1,026	1,194	206
Transmission Operations	9,895	10,510	12,830	12,099	(615)
Production Operations	11,659	10,975	14,215	11,623	684
Regulatory Affairs & Customer Service	156	132	294	294	24
	<u>\$ 23,721</u>	<u>\$ 23,186</u>	<u>\$ 29,472</u>	<u>\$ 26,470</u>	<u>\$ 535</u>

5
6
7
8
9

The following tables provide a departmental breakdown of maintenance costs in both the Transmission Operations and Production Operations divisions, respectively:

Transmission Operations

(000)'s	2017	2016	2015	2014	Var 17-16
System Operation	\$ 29	\$ 3	\$ 15	\$ 2	\$ 26
Generation & Rural Planning Operation	2	-	1	1	2
Western & Eastern Operation	1,695	1,666	2,490	4,958	29
Northern & Labrador Operation	8,169	8,841	10,324	7,138	(672)
	<u>\$ 9,895</u>	<u>\$ 10,510</u>	<u>\$ 12,830</u>	<u>\$ 12,099</u>	<u>\$ (615)</u>

Production Operations

(000)'s	2017	2016	2015	2014	Var 17-16
Gas Turbines	\$ 2,755	\$ 2,540	\$ 1,530	\$ -	\$ 215
Hydro Production	1,256	1,534	1,424	1,639	(278)
Thermal Production	7,648	6,901	11,261	9,984	747
	<u>\$ 11,659</u>	<u>\$ 10,975</u>	<u>\$ 14,215</u>	<u>\$ 11,623</u>	<u>\$ 684</u>

10
11
12
13
14
15
16
17
18
19
20

According to Hydro, Northern & Labrador Operations department decreased by \$672,000 primarily due to the implementation of an inter-company timesheet capability in 2017, whereby costs relating to TWIN Co. operations are no longer recorded as contract labour, but are reflected in the intercompany labour accounts.

With regards to the Production Operations division, the largest increase was in the Thermal Production department, which increased by \$747,000 over 2016. According to Hydro, the increase is primarily due to the added work scope of cleaning the economizer in both Unit 1 and Unit 2 boilers with dry ice in 2017.

1 In 2017, the Thermal Production department incurred the largest cost within the Production
2 Operations division. A breakdown of costs at the Holyrood Thermal Plant is as follows:
3

(000)'s	2017	2016	2015	2014	Var 17-16
Unit # 1	\$1,611	\$1,466	\$2,453	\$2,905	\$145
Unit # 2	1,885	1,286	3,256	2,189	599
Unit # 3	1,174	1,397	1,943	1,286	(223)
Annual routine maintenance*	2,978	2,752	3,609	3,604	226
	<u>\$7,648</u>	<u>\$6,901</u>	<u>\$11,261</u>	<u>\$9,984</u>	<u>\$747</u>

* Annual routine maintenance includes extraordinary repair amortization.

4
5 According to Hydro, the increase in Unit #2 is primarily due to added work scope of cleaning the
6 economizer within the boiler and the incremental costs associated with site supervision, engineering and
7 safety support services related to the increased work scope. Additional costs were also incurred as a result
8 of other repair activities, such as a chemical flush of the Unit #2 FD fan bearings, extra repairs to boiler
9 soot blowers and instrumentation equipment, additional boiler inspections and ash removal.

11 Professional services

12
13 Professional services costs for 2017 totaled \$6,142,000 which reflects a decrease of approximately
14 \$520,000, or 7.8%, from 2016. A breakdown of the cost categories within professional services for
15 2014 to 2017 is outlined below.
16

(000)'s	2017	2016	2015	2014	Var 17-16
Consultants	\$5,141	\$4,232	\$7,192	\$8,848	\$909
PUB Related Costs	110	2,371	5,587	2,227	(2,261)
Software Acquisitions & Maintenance	891	59	1,628	1,554	832
	<u>\$6,142</u>	<u>\$6,662</u>	<u>\$14,407</u>	<u>\$12,629</u>	<u>(\$520)</u>

17
18
19 According to Hydro, of the \$2,261,000 decrease in PUB Related Costs, \$1,700,000 was due to accrual
20 reversals relating to GRA and Phase 1 expenses, \$300,000 was due to an accrual reversal as a result of
21 overestimation of Board costs paid on behalf of Hydro, and \$300,000 was a result of a reduction in
22 GRA amortization costs.

23
24 According to Hydro, the increase of \$832,000 in Software Acquisitions and Maintenance costs was
25 primarily as a result of the reorganization, whereby Hydro specific software acquisition and
26 maintenance costs are now being incurred by the Information and Operational Technology
27 Department within Hydro. In 2016, these costs were incurred by Nalcor and then recovered from
28 Hydro through a Nalcor administration fee.

1 Consultants' fees, which represent the largest portion of total professional fees, were approximately
2 \$5.1 million in 2017. The table below summarizes these fees by department.
3

(000)'s	2017	2016	2015	2014	Var 17-16
Executive Leadership	\$493	\$86	\$352	\$2,339	\$407
Hydro Finance	44	22	110	106	22
Engineering	63	42	399	298	21
Transmission Operations	507	399	778	989	108
Production Operations	1,321	1,008	1,056	1,349	313
Regulatory Affairs & Customer Service	2,713	2,675	4,497	3,767	38
	<u>\$5,141</u>	<u>\$4,232</u>	<u>\$7,192</u>	<u>\$8,848</u>	<u>\$909</u>

4
5

6 According to Hydro, the increase of \$407,000 in the Executive Leadership department over 2016 is
7 primarily attributed to a \$200,000 increase in legal expenses due to an increase in litigation costs, and a
8 \$100,000 increase in HR related consulting costs.
9

10 Transmission Operations and Production Operations also increased in 2017, by \$108,000 and \$313,000,
11 respectively. According to Hydro, the Transmission Operations increase is primarily related to the
12 decommissioning of the Terminal Station in Long Harbour. The increase in the Production Operations
13 division is mainly due to generator inspections, and operations and maintenance reviews for the
14 Hardwoods and Stephenville units within the Gas Turbine department, as well as, air dispersion
15 modeling and recruitment services at the Holyrood Generating Station.
16

17 Miscellaneous

18
19
20
21

Miscellaneous expense in 2017 increased by approximately \$315,000, from 2016. A breakdown of the
cost categories within miscellaneous expense for 2014 to 2017 is outlined below:

(000)'s	2017	2016	2015	2014	Var 17-16
Business and payroll taxes	\$ 3,641	\$ 3,835	\$ 3,736	\$ 3,629	\$ (194)
Bad debt expense	73	124	248	167	(51)
Staff training	646	390	783	716	256
Write offs	333	87	269	29	246
Employee expenses	272	354	568	525	(82)
Sundry costs	211	94	290	251	117
Diesel fuel Hydro	90	2	46	25	88
Energy management	95	170	(44)	1,334	(75)
Collection fees	13	3	5	5	10
	<u>\$ 5,374</u>	<u>\$ 5,059</u>	<u>\$ 5,901</u>	<u>\$ 6,681</u>	<u>\$ 315</u>

22
23
24
25
26

According to Hydro, of the \$194,000 decrease in business and payroll taxes, \$122,000 is related to the
2016 and 2017 US Bank Rebate. The remaining \$73,000 is mainly due to the decrease in municipal
taxes as a result of the decrease in rural revenue, partially offset by an increase in payroll taxes due to
increased salary costs.

1 According to Hydro, the \$256,000 increase in staff training is primarily as a result of deferred non-
2 mandatory training in 2016 to 2017 and later years. As these deferrals are not sustainable, staff training
3 costs returned to normalized levels in 2017.

4
5 According to Hydro, the \$246,000 increase in write offs is related to the write off of obsolete inventory
6 in 2017.

7
8 According to Hydro, the \$117,000 increase in sundry costs over 2016 is primarily related to a fine that
9 was received as a result of a workplace accident in 2017.

10

11 **Other (income) and expenses**

12

13 In 2017, other (income) and expenses totaled \$9,036,000 compared to \$8,286,000 in 2016. A
14 breakdown of this increase of \$750,000 is provided below:

15

(000)'s	2017	2016	2015	2014	Var 17-16
Net book value of disposed assets	\$7,655	\$6,993	\$4,073	\$2,053	\$662
Asset removal costs	254	271	763	1,147	(17)
Disposal proceeds	(199)	(196)	(766)	(1,415)	(3)
Auction fees and expenses	(13)	15	48	14	(28)
	<u>7,697</u>	<u>7,083</u>	<u>4,118</u>	<u>1,799</u>	<u>614</u>
Other Expenses	-	(1,000)	3,950	750	1,000
(Gain)/Loss on AFS Settlement	(459)	23	(23)	(841)	(482)
Foreign Exchange (Gain)/Loss	1,798	2,605	1,717	2,098	(807)
Adjustment Sunnyside	-	(425)	-	-	425
	<u>\$9,036</u>	<u>\$8,286</u>	<u>\$9,762</u>	<u>\$3,806</u>	<u>\$750</u>

16

17 In 2017, the net book value of disposed assets balance experienced a net increase of \$662,000. The net
18 book value of disposed assets balance includes two main accounts; other write-offs and net book value
19 of disposed assets. According to Hydro, this net increase was primarily due to a \$2,915,000 increase in
20 other write-off expenses, mainly attributed to the write-off incurred on a settlement reached with
21 Alderon Iron Ore Corp. This increase was offset by a \$2,253,000 decrease in the net book value of
22 disposed assets account, driven by a \$2,100,000 disposal in 2016.

23

24 Other expenses increased by \$1,000,000 over 2016 primarily due a one-off standalone settlement
25 relating to North Atlantic Refining Limited. The balance was estimated to be \$3.75 million in 2014;
26 however, it settled for \$2.75 million in 2015. The \$1 million credit was applied in 2016 and was non-
27 recurring.

28

29 According to Hydro, the foreign exchange (gain)/loss decreased by \$807,000 primarily due to a net gain
30 of approximately \$400,000 in 2017, in comparison to a net loss of approximately \$400,000 in 2016. This
31 difference is due to more favorable exchange rates on the dates transactions were paid in 2017,
32 compared to the dates the transactions were initially recorded.

1 **Other Costs – cost deferrals**

2
3 In 2017, cost deferrals totaled \$5,712,000 compared to \$22,832,000 in 2016. A breakdown of this
4 decrease of \$17,120,000 compared to 2016 is provided below:

(000)'s	2017	2016	2015	2014	Var 17-16
2014 Cost Deferral	1,043	8,000	7,300	(45,900)	(6,957)
2015 Cost Deferral	(3,119)	1,608	(27,800)	-	(4,727)
2016 Cost Deferral	(3,636)	(32,440)	-	-	28,804
	<u>(5,712)</u>	<u>(\$22,832)</u>	<u>(\$20,500)</u>	<u>(\$45,900)</u>	<u>\$17,120</u>

5
6
7 The 2014 Cost Deferral was approved by Board Order P.U. 58 (2014), as it related to the recovery of
8 the forecast revenue deficiency in 2014 of \$45,900,000. In the Compliance Application arising from
9 Order No. P.U. 49 (2016), Hydro proposed recovery of the Fuel Supply deferral of \$9,650,000 through
10 the 2014 revenue deficiency. As a result, in 2016 Hydro recognized an allowance of \$1,500,000 with the
11 remaining balance of \$8,150,000 re-classified to the 2014 Cost Deferral. In 2016, Hydro decreased the
12 2014 Cost Deferral by \$8,000,000 to recognize an allowance for cost reductions that Hydro has
13 accepted will not be included in the original deferral amount. In 2017, the Board approved the 2014
14 cost deferral of \$37,707,000, resulting in a loss of \$1,043,000.

15
16 The 2015 Cost Deferral was approved by Board Order P.U. 36 (2015), as it related to the recovery of
17 the forecast revenue deficiency in 2015 of \$30,200,000. This amount included revenue deficiency due to
18 delayed rates of \$19,600,000, RSP interest of \$7,600,000, settlement agreements adjustments of
19 \$2,200,000 and GRA hearing deferral of \$800,000. In 2016, Hydro decreased the regulatory asset by
20 \$1,608,000 to recognize an allowance for cost reductions that Hydro has accepted will not be included
21 in the 2015 revenue requirement. In 2017, the Board approved the 2015 cost deferral of \$27,660,000,
22 resulting in a gain in 2017 of \$3,119,000.

23
24 The 2016 Cost Deferral was approved by Board Order P.U. 56 (2016), as Hydro received approval to
25 defer \$38,800,000 relating to the proposed 2016 revenue requirement, with recovery to be determined
26 at a later date. Pursuant to Order No. P.U. 49 (2016), Hydro decreased this regulatory asset by
27 \$6,360,000 to recognize an allowance for adjustments that were outlined in the Order resulting in a
28 balance of \$32,440,000. In 2017, the Board approved the 2016 deferral of other costs of \$5,036,000,
29 and also re-classified \$31,040,000 to the Energy Supply, Isolated Systems and Holyrood Conversion
30 deferrals, in accordance with Order No. P.U. 22 (2017). The net effect resulted in an increase in income
31 of \$3,636,000.

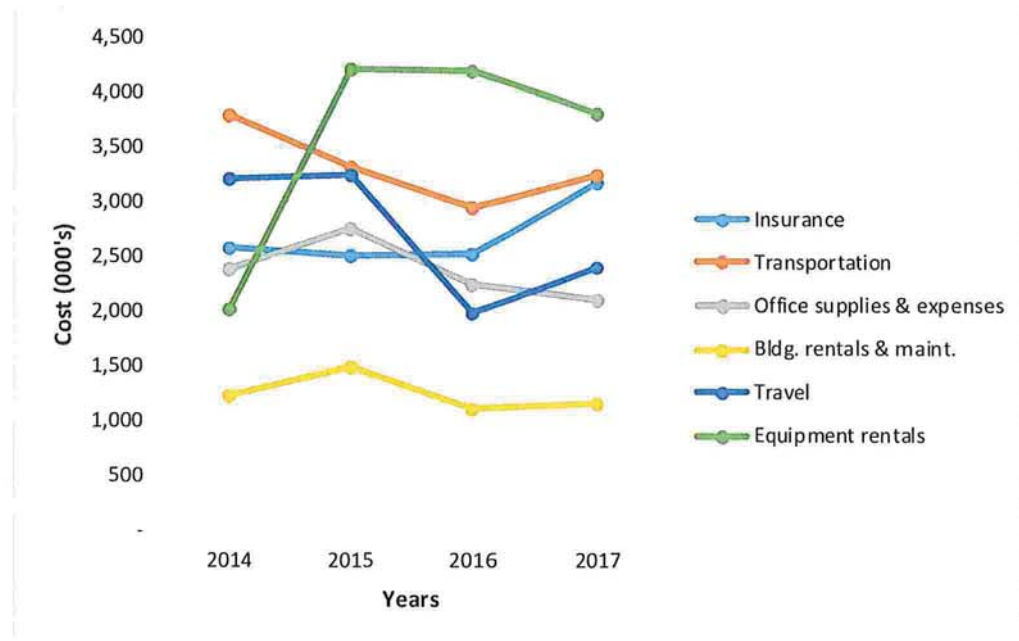
32
33 **Other Costs – GRA and supply deferral adjustments**

34
35 As discussed above, an overall gain of \$5.7 million was recorded for financial reporting purposes in
36 2017 relating to the 2014, 2015 and 2016 Cost Deferrals. The GRA adjustment relates to the reversal of
37 this gain in order to record the costs in the appropriate period. The GRA adjustment was partially
38 offset by a 20% allowance of \$1.8 million on the Energy Supply, Isolated Systems and Holyrood
39 Conversion deferrals. The allowance recorded in 2017 includes \$4.6 million relating to the 2017 deferral
40 balances, partially offset by a \$2.8 million true up adjustment for 2016. The allowance is discussed
41 further in the 'Deferred Charges' section of our report.

1 **Other Costs - remaining account groupings**

2
 3 Variances in the remaining account groupings of Other Costs are detailed in the table and graph below.

(000)'s	2017	2016	2015	2014	Var 17-16
Insurance	3,175	2,530	2,508	2,579	645
Transportation	3,251	2,943	3,317	3,785	308
Office supplies & expenses	2,118	2,249	2,762	2,392	(131)
Bldg. rentals & maint.	1,164	1,109	1,497	1,228	55
Travel	2,412	1,984	3,250	3,208	428
Equipment rentals	3,817	4,197	4,218	2,017	(380)



4
 5 Explanations of the larger variances in the remaining account groupings are as follows:

- 6
 7
- 8 ■ According to Hydro, the main drivers of the \$645,000 (25.5%) increase in insurance costs relates to the insurance retail sales tax implemented in July 2016 and additional coverage obtained on specific transmission lines, as a part of the property insurance policy.
 - 9
 - 10
 - 11 ■ According to Hydro, the increase of \$308,000 (10.5%) in transportation costs is primarily due to both increased fuel prices and increased usage due to capital work.
 - 12
 - 13
 - 14 ■ According to Hydro, travel costs increased by \$428,000 (21.6%) primarily due to 2016 being an exceptionally low year, whereby the cost reductions achieved were not sustainable in
 - 15 an exceptionally low year, whereby the cost reductions achieved were not sustainable in
 - 16 2017.

- 1 ▪ According to Hydro, the decrease of \$380,000 (9.1%) in equipment rentals is primarily due
2 to a decrease in Thermal production blackstart equipment rental costs, with the lease
3 expiring in June 2016.
4

5 **Cost Recovery Charges**

6
7 Cost recovery charges from CF(L) Co. and external sources for 2017 have decreased from 2016 by
8 approximately \$839,000, or 24.9%. The breakdown of cost recovery charges by nature and by division,
9 respectively, is as follows:
10

(000)'s	2017	2016	2015	2014	Var 17-16
Churchill Falls	\$ (47)	\$ (587)	\$ (1,701)	\$ (1,656)	\$ 540
External	(1,625)	(923)	(766)	(1,707)	(702)
Intercompany Admin Fee	(2,164)	(2,648)	(4,812)	(4,561)	484
Nalcor Admin Fee	3,415	3,350	-	-	65
Business System Admin Fee	339	253	-	-	86
CDM Program Cost Deferral	(1,473)	(1,153)	-	(2,430)	(320)
Deferred Phase II	(264)	(869)	-	-	605
Fixed Charge (Recovery)	(684)	(749)	(581)	(533)	65
Intercompany Vehicle Charge (Recovery)	(27)	(43)	(46)	(12)	16
	<u>\$ (2,530)</u>	<u>\$ (3,369)</u>	<u>\$ (7,906)</u>	<u>\$ (10,899)</u>	<u>\$ 839</u>

(000)'s	2017	2016	2015	2014	Var 17-16
Hydro Finance	\$ (2,147)	\$ (2,206)	\$ (1,420)	\$ (2,315)	\$ 59
Engineering	1,615	2,513	(3,947)	(3,706)	(898)
Transmission Operations	(734)	(239)	(232)	(894)	(495)
Production Operations	(25)	(16)	(4)	(26)	(9)
Regulatory Affairs & Customer Service	(1,239)	(3,421)	(2,303)	(3,958)	2,182
	<u>\$ (2,530)</u>	<u>\$ (3,369)</u>	<u>\$ (7,906)</u>	<u>\$ (10,899)</u>	<u>\$ 839</u>

11
12 According to Hydro, the increase of \$898,000 in the Engineering division is primarily due to a decrease
13 of \$892,000 in the Nalcor Administration Fee over 2016. Hydro specific software costs now being
14 expensed within Hydro, as opposed to being incurred in Nalcor and recovered from Hydro through the
15 Nalcor Administration Fee, as was done in 2016. Also, Nalcor's Information Technology costs reduced
16 in 2017, which resulted in a \$300,000 reduction in the Nalcor Administration Fee charged to Hydro.
17

18 The increase of \$495,000 over 2016 in the Transmission Operations division is due primarily to the
19 decommissioning of the Terminal Station in Long Harbour. This expense is recoverable from Vale.
20

21 The decrease of \$2,182,000 over 2016 in the Regulatory Affairs and Customer Service division is due
22 primarily to common services costs, such as human resources and safety and health, now being

1 incurred by Nalcor and recovered from Hydro through an administration fee, in comparison to these
2 costs being incurred by Hydro and then recovered from Nalcor in 2016.

3

4 A comparison between actual 2017 cost recovery expenses to forecast, as per 2017 GRA, is illustrated
5 in the table below:

6

(000)'s	2017 Actual	2017 Forecast	'17A - '17F
Churchill Falls	\$ (47)	\$ (34)	\$ (13)
External	(1,625)	(481)	(1,144)
Intercompany Admin Fee	(2,164)	(2,236)	72
Nalcor Admin Fee	3,415	3,948	(533)
Business System Admin Fee	339	1,029	(690)
CDM Program Cost Deferral	(1,473)	(2,100)	627
Deferred Phase II	(264)	(1,000)	736
Fixed Charge (Recovery)	(684)	(74)	(610)
Intercompany Vehicle Charge (Recovery)	(27)	-	(27)
	<u>\$ (2,530)</u>	<u>\$ (948)</u>	<u>\$ (1,582)</u>

7

8

9 The actual 2017 External cost recoveries increased by \$1.1 million over the amount forecast in the 2017
10 GRA. According to Hydro, \$0.5 million of this increase is related to the decommissioning of the
11 terminal station in Long Harbour, recovered from Vale, and the other \$0.5 million is related to
12 administration fees associated with the RSP surplus, which was not included in the 2017 forecast.

13

14 The actual 2017 Nalcor Admin Fee decreased by \$0.5 million from the forecasted amount in the 2017
15 GRA. According to Hydro, the decrease is primarily due to a reduction in costs allocated to Hydro
16 through the Nalcor Information Technology costs, specifically \$0.3 million in salary and benefits, and
17 \$0.2 million in software and maintenance.

18

19 The actual 2017 Business Admin Fee decreased from the amount forecast in the 2017 GRA, by \$0.7
20 million. According to Hydro, due to the rescheduling of the JD Edwards EnterpriseOne software
21 implementation, the business fee charges relating to depreciation and amortization, and software and
22 maintenance costs, were less than anticipated.

23

24 The actual 2017 CDM Program Cost Deferral decreased by \$0.6 million over the amount forecast in
25 the 2017 GRA. According to Hydro, they had three programs that did not spend their allocated budget;
26 the Industrial Energy Efficiency Program, the Instant Rebate Program and the Isolated Business
27 Efficiency Program (ISBEP). Although the Industrial Energy Efficiency Program is regularly promoted
28 by Hydro to the industrial customers, participation is unpredictable but can require significant Hydro
29 investment if the customer submits a proposal that the Company accepts. In 2017, proposals were
30 submitted by two industrial customers and accepted by Hydro with actual program costs less than the
31 total forecast. The Instant Rebate program was revised in 2017 resulting in one campaign, therefore
32 reducing the overall program costs. The ISBEP did not have the anticipated uptake therefore overall
33 costs were reduced for that program.

1 The actual 2017 Deferred Phase II recovery decreased by \$0.7 million over the amount forecast in the
2 2017 GRA. According to Hydro, this is due to Hydro's anticipation that the Phase II hearing process
3 would be resolved in 2017, with no additional expenditures in future periods. However, the Phase II
4 hearing process is still ongoing.

5
6 According to Hydro, Fixed Charged recoveries in actual 2017 increased by \$0.6 million over the
7 amount forecast in the 2017 GRA due to additional labour charged to non-regulated activities.

8
9 A review of other cost recoveries as well as cost allocations between non-regulated and regulated
10 operations is discussed further in the report under the section entitled 'Cost Allocations'.

11
12 **Interest**

13
14 Net interest decreased by approximately \$22.3 million, or 23.3% in 2017 compared to 2016. The
15 following is a summary of interest expense for 2014 to 2017:
16

(millions)	2017	2016	2015	2014	Var 17-16
Gross interest	\$83.7	\$83.9	\$85.3	\$86.6	(\$0.2)
Debt guarantee fee	4.1	4.5	4.5	3.7	(0.4)
RSP	8.6	25.5	21.8	18.0	(16.9)
Amortization of debt discount and financing costs	0.6	0.6	0.6	0.5	-
	<u>97.0</u>	<u>114.5</u>	<u>112.2</u>	<u>108.8</u>	<u>(17.5)</u>
Less:					
Interest earned	13.0	14.8	14.1	16.1	(1.8)
Interest capitalized during construction	10.6	4.0	3.4	4.8	6.6
	<u>\$73.4</u>	<u>\$95.7</u>	<u>\$94.7</u>	<u>\$87.9</u>	<u>\$ (22.3)</u>

17
18 The overall decrease in net interest is mainly attributable to a decrease in RSP interest and increase in
19 interest capitalized during construction. This net decrease is partially offset by a decrease in interest
20 earned.

21
22 According to Hydro, the decrease in RSP interest of \$16.9 million is due to the disposition of the Utility
23 RSP Surplus, the transfer of Segregated Load Balance to the current plan, reduced current plan balances
24 as a result of the normal operation of the RSP, and a reduction in the interest rate applied to
25 outstanding balances.

26
27 According to Hydro, the decrease of \$1.8 million in Interest Earned is attributed to reduced earnings
28 on sinking funds as a result of Series X sinking funds maturing in July of 2017.

29
30 Interest capitalized during construction increased by \$6.6 million in 2017. According to Hydro, this increase
31 is primarily driven by the TL-267 transmission line from Bay d'Espoir to Western Avalon project. In 2017,
32 this project attracted \$6.7 million of interest during construction compared to \$0.9 in 2016.

1 **Depreciation**

2

3 *Scope: Review Hydro's rates of depreciation and assess their compliance with the 2012*
4 *Gannett Fleming Depreciation Study relating to plant in service as of December 31,*
5 *2009. Assess reasonableness of depreciation expense.*

6

7 Our procedures with respect to depreciation were focused on reviewing the rates of depreciation used
8 and assessing its compliance with the Gannett Fleming Depreciation Study dated November 2012 and
9 compliance with Board Order P.U. 40 (2012). In addition, our procedures included assessing the
10 overall reasonableness of depreciation expense.

11

12 During 2017, Hydro reported depreciation expense of \$77.3 million compared to \$67.4 million in 2016
13 in accordance with the depreciation methodology approved in Order No. P.U. 40 (2012). The 2017
14 depreciation includes \$78.3 million in depreciation of property, plant, and equipment less \$1.0 million
15 relating to insurance proceeds amortization. The increase in depreciation is attributable to the
16 Company's capital expenditure program. The Company had additions to property, plant and
17 equipment of \$386.8 million in 2017.

18

19 In completing our procedures, we recalculated depreciation on a test basis and compared the estimated
20 average service lives used in the calculations to the Gannett Fleming Depreciation Study approved in
21 Order No. P.U. 40 (2012).

22

23 During our review we noted that Holyrood assets not required for synchronous condenser operations
24 were excluded from the Gannett Fleming Depreciation Study. These assets are depreciated using the
25 straight-line method with a remaining useful life of 10 years as Hydro has estimated these assets are
26 expected to be retired in 2020.

27

28 **Based upon our review and analysis, and consistent with our finding in the 2017 GRA, we**
29 **noted an error in the depreciation calculation for asset # 390138. This asset was being**
30 **depreciated using a useful life of 422 months compared to the 2012 Depreciation Study which**
31 **indicated a useful life of 620.4 months. The impact of this particular error, on regulated**
32 **earnings, was insignificant.**

1 Non-Regulated Activity

2
3 *Scope: Review Hydro's non-regulated activity, assess the reasonableness of adjustments in*
4 *the calculation of regulated earnings and review how costs are allocated between*
5 *regulated and non-regulated operations.*
6

7 In Order No. P.U. 7 (2002-2003), the Board ordered Hydro to file separate financial statements for
8 regulated and non-regulated activities, including reconciliation to annual consolidated financial
9 statements. Included below are the details of the Company's Non-Regulated Statement of Earnings
10 and Retained Earnings for the years ended December 31, 2014 to 2017.

(000)'s	Note 2			
	2017	2016	2015	2014
Revenue				
Energy Sales	\$ 43,241	\$ 43,775	\$ 81,067	\$ 73,969
Other Revenue (Loss)	20,262	19,258	14,570	(562)
	<u>63,503</u>	<u>63,033</u>	<u>95,637</u>	<u>73,407</u>
Operations and Administration				
Net Operating	1,378	4,300	4,108	9,207
Transmission Rental and Market Fees	20,310	19,209	21,516	20,372
FX loss	-	-	-	-
Fuels	46	29	23	55
Power Purchased	42,007	42,636	42,088	8,541
Interest	135	197	164	-
	<u>63,876</u>	<u>66,371</u>	<u>67,899</u>	<u>38,175</u>
Net Operating Income	<u>(373)</u>	<u>(3,338)</u>	<u>27,738</u>	<u>35,232</u>
Other Revenue				
Equity in CF(L) Co.	25,868	28,088	30,990	12,334
Preferred Dividends	6,710	12,659	13,717	7,799
	<u>32,578</u>	<u>40,747</u>	<u>44,707</u>	<u>20,133</u>
Net Income	<u>\$ 32,205</u>	<u>\$ 37,409</u>	<u>\$ 72,445</u>	<u>\$ 55,365</u>
Retained earnings, beginning of year	\$ 459,950	\$ 435,489	\$ 407,732	\$ 388,653
IFRS Adjustment	-	-	-	5,558
Restatement (Note 1)	-	-	-	948
Net Income	32,205	37,409	72,445	55,365
Dividends				
Nalcor	-	(289)	(30,971)	(34,993)
CF(L)Co.	(6,710)	(12,659)	(13,717)	(7,799)
Retained earnings, end of year	<u>\$ 485,445</u>	<u>\$ 459,950</u>	<u>\$ 435,489</u>	<u>\$ 407,732</u>

Note 1: The December 31, 2014 figures have been restated as a result of a misstatement relating to the calculation of the other post-employment benefit health and dental liabilities for retirees.

Note 2: The December 31, 2015 figures have been restated as a result of a misstatement relating to the calculation of the other post-employment benefit health and dental liabilities for retirees and equity return on investment. The December 31, 2015 annual figures have been restated resulting in an increase in net operating income of \$0.3 million and a decrease in equity in CF(L) Co of \$0.3 million.

- 1 Our review of non-regulated operations included the following procedures:
2 • assessed the Company's compliance with Order No. P.U. 7 (2002-2003); and,
3 • compared non-regulated expenses and operations for 2017 to prior years and investigated
4 any unusual fluctuations.
5

6 The Company has complied with Order No. P.U. 7 (2002-2003) and has filed separate financial
7 statements for both regulatory and non-regulatory operations for 2017. Based on our review, we
8 conclude that Hydro has appropriately identified and defined its various non-regulated operations and
9 has established appropriate procedures for recording and reporting on these activities. Separate
10 business units for the various non-regulated operations within its financial reporting system were used
11 throughout the year.
12

13 **Based upon our review and analysis, the amounts reported as non-regulated expenses are in**
14 **compliance with Board Orders, including Order Nos. P.U. 7 (2002-2003) and P.U. 14 (2004).**

1 Cost Allocations

2
3 *Scope: Review how costs are allocated between the regulated and non-regulated*
4 *operations including a review of Hydro's labour costing relating to its billing rates.*
5

6 In Order No. P.U. 49 (2016), the Board required Hydro to file on or before March 31, 2017 a proposal
7 in relation to annual reporting, starting in 2017, of its intercompany activity, including a description of
8 all services rendered, the cost charged back to and from the affiliates, the amounts involved and the
9 methods used for determining these amounts. The proposal was filed with the Board on March 30,
10 2017 and Hydro began to file quarterly intercompany transactions reports starting with Q2 of 2017, for
11 the period ended June 30, 2017.
12

13 In Order No. P.U. 49 (2016), the Board also expected that Hydro would address in the next general
14 rate application any impact of the intervening change in organization structure on intercompany
15 charges and policies governing cost recoveries of such charges. As reported in the 2017 GRA there has
16 been no change in the underlying policies that govern intercompany transactions since the 2015 test
17 year. The change in corporate structure which occurred in 2016 and continued into 2017 resulted in the
18 transfer of certain common service business units from Hydro to Nalcor and the creation of a separate
19 and dedicated Executive team which resulted in a reduction in time charged by executives to and from
20 Hydro. These changes are discussed in detail below.

21 We reviewed Hydro's methodology relating to the procedures the Company has in place to allocate
22 costs between regulated and non-regulated operations. We also reviewed how costs are allocated
23 between shared services. New billing rates were implemented in the prior year, on January 1, 2016, to
24 reflect the increase of the variable component from 57% to 68%. In 2017, Hydro calculated a three year
25 average billing rate of 64% and determined that this was not materially different from the variable
26 component implemented in 2016, therefore a billing rate of 68% was used in 2017.
27

28 Business units required to capture the costs associated with non-regulated activities are approved by the
29 Controller of Hydro, and if applicable, work orders are set up to track costs. Intercompany salary and
30 benefits charged to and from Nalcor Energy and its subsidiaries are captured in the JD Edwards
31 integrated suite of applications and a Lotus Notes Time Reporting application. These costs are
32 recharged through the cost account '6014 – intercompany salaries' in the appropriate business units.
33

34 Hydro's Organizational Structure

35
36 In mid-2016 changes to Hydro's organizational structure were implemented which, according to the
37 Company, was to ensure focus on the regulated business and a clear separation from Nalcor, while
38 continuing to provide safe, reliable, least cost service to customers. The outcome of the change was the
39 creation of a separate and dedicated executive team for Hydro. According to Hydro, the new executive
40 structure reflects an organizational model required to operate the Company on an independent,
41 standalone basis to ensure continued focus on Hydro's core mandate. The revised executive structure
42 includes a President of Hydro, who is accountable for all functions associated with delivering utility
43 service, five Vice Presidents, and General Counsel. The President, each of the Vice Presidents, and
44 General Counsel have no shared responsibilities with any other Nalcor line of business. Each of the
45 Vice Presidents and General Counsel are accountable directly to the President of Hydro. According to
46 Hydro, the revised structure was designed to increase focus on system reliability and customer service,
47 to enhance regulatory focus, and to ensure Hydro is prepared for the changes that will result from the
48 interconnection to the North American grid.

1 The primary changes in 2016 were:

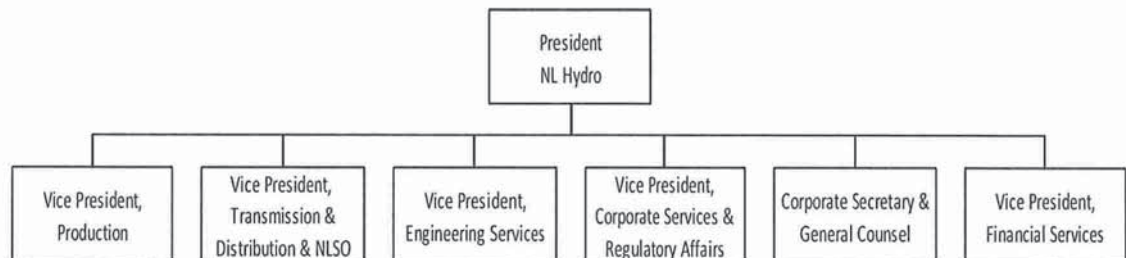
2

- 3 • the creation of a separate and dedicated Executive team for Hydro. The organization chart below
4 shows the revised Executive structure of Hydro;
- 5 • reduced reliance on the parent company for services that were previously shared among the Nalcor
6 lines of business; and
- 7 • the transfer of certain functions that provided common services to all Nalcor lines of business and
8 recovered costs through an Administration Fee from Hydro to Nalcor.
- 9

10 In 2016, services in the area of Information Systems were being provided by Nalcor and recovered
11 from Hydro. In 2017, Hydro specific software acquisition and maintenance costs were incurred directly
12 within Hydro's Information and Operational Technology Department.

13

14 Services relating to Human Resources and Safety and Health were transferred to Nalcor in 2017.



15

16

17

18 **Determination of Billing Rates**

19

20 Bill rates for Hydro and its related companies are determined on a cost recovery basis designed to cover
21 salary, benefits, and vacation. There is no profit margin element to the billing rate. However, charges
22 for external billings do incorporate a profit margin.

23

24 According to Hydro, the time sheet policy / guidelines are as follows:

25

26 All Nalcor employees (except CF(L) Co. employees) are to prepare weekly time sheets and code all
27 paid hours (i.e. 37.5 or 40 per week) to a work order or to leave. Employees are responsible to
28 record the 37.5 or 40 hour work week, plus any additional overtime and/or premiums. Time
29 sheets are to be completed and submitted no later than the following week.

30

31 The billing rates were developed to include a base wage amount (hourly wage), a variable component,
32 and a fixed charge. The Company's billing rate is derived from a base wage amount and a variable
33 component. The fixed charge is a separate charge based on each hour billed.

34

35 Variable component

36 The Company uses a proxy amount of 68% as the basis to determine bill rates which is calculated as
37 follows: total salary costs and benefits (as described below) are divided by total billable hours. Billable
38 hours are available hours less annual leave, training, sick leave, statutory holidays or other time
39 associated with paid leave. The ratio of the bill rate to the hourly rate is applied to the various pay
40 grades to determine the charge out rates of employees. The rates were determined using billable hours
41 and were determined in aggregate for the Nalcor group of companies excluding CF(L) Co.

1 Hydro provided documentation on the analysis prepared by Nalcor for the years 2014 to 2016 with a
2 bill rate calculated at 64%. The current bill rate in the system is 68%. According to Hydro, this
3 calculation is an estimate and therefore the 2017 actual bill rate calculation could materially differ from
4 this average of the past three years. Therefore, Hydro has concluded that a change of 4% to the bill rate
5 from 2016 to 2017 is not deemed material and the bill rate in the system has remained at 68% for 2017.
6 A schedule of billing rates for the year was provided so that we could test for accuracy. We recalculated
7 the proxy percentage of 68% for each hay grade by dividing the bill rate by the hourly rate and no
8 discrepancies were noted.
9

10 The following costs were included in the analysis to determine the variable component:

11 *Benefits*

- 12 • Fringe benefit costs, e.g. CPP, EI, Public Service Pension Plan, Group Money Purchase Plan,
13 Prior Service Matched PSPP, WHSCC.
- 14 • Insurances, e.g. Life, A D&D, Medical, Dental.
- 15 • Company costs, e.g. EE future benefits, payroll taxes, bonus, performance contracts, signing
16 bonus.

17 *Leaves*

- 18 • Annual leave, medical travel and appointments, sick leave, training hours, floaters, family leave,
19 compassion leave, jury duty, statutory holiday, union leave, banked overtime.

20 We also selected a sample of employees from the detailed intercompany salary accounts including
21 samples for charges from Nalcor Energy to Hydro, from CF(L) Co. to Hydro, and to various business
22 units from Hydro. The selection of samples included both executive and non-executive employees,
23 however, as a result of the 2016 reorganization, Hydro now has an independent executive leadership
24 team, and thus, intercompany salary related to executive employees was minimal.
25

26 Our procedures included:

- 27 • Agreeing hours charged to the summary of inter-corporate transactions provided by Hydro.
- 28 • Recalculation of the billing charge in the general ledger as based on the billing rate and hours.
- 29 • Assess the reasonableness of the billing rate(s) applied in comparison to the proxy 68%
30 variable component.
31

32 The proxy percentage from the base rate was not expected to be precisely 68% for non-union
33 employees as billing rates were applied to the top of the scale. As a result, the variable component was
34 skewed depending on where the non-union employee was paid within the pay scale. All union employee
35 samples tested were within the expected range of the 68% variable component. For the executive, we
36 noted certain executive billing rates where there were variations from the 68% variable component.
37 According to Hydro, the executive leadership team pay scales fall into groups for operating bill
38 purposes based upon their actual salary. Each grouping is assigned a group dollar value that is
39 representative of the salaries in the grouping. As there are significant differences in executive pay, the
40 variable component percentage varied from the proxy of 68%. According to Hydro, CF(L) Co. billing
41 rates have historically been higher than Hydro and Nalcor because they have additional pay types and
42 premiums. According to Hydro, the variable component for charges from CF(L) Co. was 89%,
43 effective April 1, 2017, and 150%, effective October 23, 2017. This increase was due to the inclusion of
44 the cost of site services for Churchill Falls in the calculation of the billing rate. We recalculated these
45 proxy percentages within our testing and no discrepancies were noted.

1 **Common Service Costs Allocation**

2

3 Certain departments based in Hydro provide common services to various lines of business of Nalcor.
 4 Hydro recovers costs incurred related to these common services through an administration fee. During
 5 2016 and 2017, Hydro transferred certain functions to Nalcor that provided common services to all
 6 lines of business. Hydro now incurs a fee for these services from Nalcor.

7

8 The following table provides a breakdown of the administration fees and cost recoveries charged to and
 9 from Hydro for 2017, 2016, 2015 and 2014:

<u>Costs Incurred (Recovered) by Nature</u>	<u>Total</u>				
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2017-2016</u>
Churchill Falls	\$ (47)	\$ (587)	\$ (1,702)	\$ (1,656)	\$ 540
Intercompany Admin Fee- Hydro	(2,164)	(2,648)	(4,812)	(4,562)	484
Business Admin Fee	339	253	-	-	86
Nalcor Admin Fee	3,415	3,350	-	-	65
Fixed Charge (Recovery)	(654)	(711)	581	(533)	57
Nalcor Fixed Charged	(31)	(39)	-	-	8
	<u>\$ 859</u>	<u>\$ (382)</u>	<u>\$ (5,933)</u>	<u>\$ (6,750)</u>	<u>\$ 1,241</u>

10

11

12 We address each of the administrations fees in turn.

13

14 Hydro Intercompany Administration Fee and CF(L) Co.

15 The following table provides a summary of the intercompany administration fee and cost recoveries
 16 charged in Hydro to Nalcor's various lines of business and CF(L) Co. for 2017, 2016, 2015 and 2014:

17

<u>Cost Recoveries</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2017-2016</u>
<u>Intercompany Administration Fee</u>					
Regulated recovery	\$ (2,164,383)	\$ (2,647,851)	\$ (4,812,200)	\$ (4,561,878)	\$ 483,468
<u>Cost recovery</u>					
CF (L) Co.	\$ (46,951)	\$ (587,159)	\$ (1,701,549)	\$ (1,655,871)	\$ 540,208

18

19

20 Intercompany administration fees for 2017 regulated recovery have decreased by \$483,468 and for
 21 CF(L) Co. cost recoveries have decreased by \$540,208. A further breakdown of these costs by
 22 department is provided below in 'Other Lines of Business'. The decrease in intercompany
 23 administration fees and CF(L) Co. cost recoveries is due to the transfer of common services to Nalcor
 24 as discussed above.

25

26 The following table provides a breakdown of the 2017 common costs allocated to each line of business,
 27 along with comparative data for 2014, 2015 and 2016.

Common cost allocation	2017	2016	2015	2014	2017-2016
Nalcor divisions (Note 1)	\$ 2,164,386	\$ 2,647,851	\$ 4,812,200	\$ 4,561,878	\$ (483,465)
CF(L) Co.	46,951	587,159	1,701,549	1,655,871	(540,208)
Hydro Regulated	<u>2,377,352</u>	<u>3,718,829</u>	<u>8,087,971</u>	<u>8,102,451</u>	<u>(1,341,477)</u>
Total common costs allocated	<u>\$ 4,588,689</u>	<u>\$ 6,953,839</u>	<u>\$ 14,601,720</u>	<u>\$ 14,320,200</u>	<u>\$ (2,365,150)</u>

Note 1: Nalcor divisions include Oil and Gas, Bull Arm, Exploits, Menihok, Lower Churchill Project and Energy Marketing (non-regulated).

1
2
3
4
5

The following table provides a breakdown of common costs by department for actual 2017, along with comparative data for 2014, 2015 and 2016:

Department / Costs (000's)	Total				
	2017	2016	2015	2014	2017-2016
Human Resources	\$ -	\$ 1,777	\$ 2,168	\$ 1,885	\$ (1,777)
Safety and Health	-	724	957	1,038	(724)
Information Systems	281	372	6,861	6,727	(91)
Office space and related costs	3,785	3,628	4,173	4,246	157
Telephone and LAN costs and mobile devices	523	453	443	424	70
	<u>\$ 4,589</u>	<u>\$ 6,954</u>	<u>\$ 14,602</u>	<u>\$ 14,320</u>	<u>\$ (2,365)</u>

Department / Costs (000's)	Hydro Regulated				
	2017	2016	2015	2014	2017-2016
Human Resources	\$ -	\$ 983	\$ 1,294	\$ 1,133	\$ (983)
Safety and Health	-	400	572	624	(400)
Information Systems	131	174	3,520	3,594	(43)
Office space and related costs	1,985	1,925	2,441	2,479	60
Telephone and LAN costs and mobile devices	261	237	261	272	24
	<u>\$ 2,377</u>	<u>\$ 3,719</u>	<u>\$ 8,088</u>	<u>\$ 8,102</u>	<u>\$ (1,342)</u>

Department / Costs (000's)	Other Lines of Business (Note 1)				
	2017	2016	2015	2014	2017-2016
Human Resources	\$ -	\$ 794	\$ 874	\$ 752	\$ (794)
Safety and Health	-	324	385	414	(324)
Information Systems	149	198	3,341	3,133	(49)
Office space and related costs	1,800	1,703	1,732	1,767	97
Telephone and LAN costs and mobile devices	262	216	182	152	46
	<u>\$ 2,211</u>	<u>\$ 3,235</u>	<u>\$ 6,514</u>	<u>\$ 6,218</u>	<u>\$ (1,024)</u>

Note 1: Other lines of business include Nalcor divisions and CF(L) Co.

6
7
8
9
10
11
12
13
14

Business System Administration Fee

According to Hydro, the Business System Administration Fee consists of program management costs as well as depreciation and software maintenance associated with the Business Transformation Program. The Business Transformation Program is being managed by Nalcor as a part of a shared program for all Nalcor companies including Hydro. The program includes three main projects: migrating the current Enterprise Resource Planning (ERP) system to JD Edwards (JDE) EnterpriseOne (E1); upgrading the Planning, Budgeting and Forecasting solution to Cognos TM1; and

1 implementing an information management (IM) program. A portion of the costs relating to the
 2 Business Transformation Program are charged based on average users and the remainder are shared on
 3 a fixed fee basis among the lines of business. The Business System Administration Fee was \$339,000 in
 4 2017 compared to \$253,000 in 2016.

5
 6 Nalcor Administration Fee

7 In 2015, Information Systems services were provided by Hydro to all lines of business. As previously
 8 mentioned, changes to Hydro's organizational structure were implemented in 2016 resulting in the
 9 transfer of these services from Hydro to Nalcor. In 2016, Nalcor charged Hydro an administration fee
 10 for services provided for Information Systems. In 2017, Hydro specific software acquisition and
 11 maintenance costs were incurred directly by the Information and Operational Technology department
 12 in Hydro. The remaining services associated with Information Systems were provided by Nalcor and
 13 charged to Hydro through an administration fee on an average user basis.

14
 15 Human Resources services were transferred from Hydro to Nalcor in 2017. The Human Resources
 16 department is responsible for the administration and coordination of all employee related services.
 17 Operating costs incurred in providing Human Resources services are allocated to Hydro and other lines
 18 of business based on a per full time equivalent ("FTE") basis.

19
 20 Safety and Health services were transferred from Hydro to Nalcor in 2017. The Safety and Health
 21 department is responsible for occupational health services including coordinating corporate efforts with
 22 regard to employee safety, wellness, disability and sick leave management, and medical screening.
 23 Operating costs incurred in providing Safety and Health services are allocated to Hydro and other lines
 24 of business on a per FTE basis.

25
 26 Environment services were provided by Nalcor to Hydro in 2017. The Environment department is
 27 responsible for coordinating corporate efforts with regard to environmental stewardship. Operating
 28 costs incurred in providing Environment services are allocated to Hydro and other lines of business
 29 based on a per FTE basis.

30
 31 The 2017 administration fee charged to Hydro totaled approximately \$3,415,000, compared to
 32 \$3,350,000 in 2016.

33
 34 The following table provides a breakdown of costs by department for actual 2017, along with
 35 comparative data for 2016:

<u>Department / Costs (000's)</u>	<u>Total</u>	
	<u>2017</u>	<u>2016</u>
Human Resources	\$ 559	\$ -
Safety and Health	351	-
Environmental	49	-
Information Systems	2,457	3,350
	<u>\$ 3,415</u>	<u>\$ 3,350</u>

36
 37 Fixed Charge (Recovery)

38 Effective October 1, 2009 the Company included a fixed charge for time charged to entities. The fixed
 39 charge was determined to be \$80 per day for all Nalcor employees, or \$10.67 per hour based on a 7.5
 40 hour day for 2009-2011. In 2012 the fixed charge was determined to be \$98.25 per day or \$13.10 per
 41 hour based on a 7.5 hour day. The fixed charge component included the following costs in its analysis:

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44

- *Hydro Place costs* e.g. Heat & Light, insurance, maintenance, reception, depreciation, and interest.
- *Common Services* e.g. IT services such as software, servers & help desk, HR services such as payroll, recruitment, health, safety.
- *Employee related costs* e.g. Telephone & Fax, books & subscriptions, training, membership and dues, conferences, training.

According to Hydro, the fixed charge recovery is booked to account for the additional cost of having an employee available for service beyond salary and benefits. The fixed charge recovers costs originally charged in the administration fee allocation, as well as other employee related costs described above. The fixed charge for Hydro is recorded in business unit # 2003 NLH Controller Dept. under Account # 7141 'intercompany fixed charge' and is grouped under cost recoveries. The fixed charges netted to a credit of \$653,748 in 2017 compared to a credit of \$711,016 in 2016.

Nalcor Fixed Charge

In addition to labour costs, a fixed rate will be applied to each hour of regular labour charged to lines of business. The fixed charge accounts for the additional cost. Beyond basic salary and benefits costs, of having an employee available to provide service. The fixed charge recovers costs originally charged in the Business System Administration Fee as well as other employee related costs, including:

- telephone and fax;
- books and subscriptions;
- membership fees and dues;
- conferences;
- training; and,
- employee expenses (e.g. overtime meal allowance).

The Nalcor fixed fee netted to a credit of \$31,000 in 2017, compared to a credit of \$39,000 in 2016.

Department Cost Allocations

According to Hydro, the department/costs included in the determination of the administrative fees charged to Nalcor and other lines of business, along with the allocation basis, is summarized in the following table:

Department/ Costs	Allocation Basis
Information systems	Average Users
Office space and related costs	Square footage
Telephone, LAN costs, and mobile devices	Average Users

We address each of the departments/costs allocations in turn.

Information Systems

The Information Systems ("IS") department is responsible for providing assistance and support in the areas of Software Applications, Planning and Integration and Business Solutions, providing maintenance and administration of the corporate wide computer infrastructure and network, and providing technical support. Operating costs incurred in providing IS services are allocated to the lines

1 of business on an average user basis. Depreciation expense and a return on rate base at the weighted
2 average cost of capital (“WACC”) for costs capitalized such as servers and software are allocated to
3 each line of business on an average user basis. Costs specific to a particular line of business are charged
4 to that line of business and are excluded from the determination of shared costs.

5
6 Office Space

7
8 Each line of business occupying floor space at Hydro Place is charged a rental charge. The square
9 footage rental rate reflects the average annual capital and operating cost for Hydro Place as determined
10 by the following formula:

11
12
$$\text{Rental Rate} = \frac{\text{Hydro Place operating costs} + \text{return on rate base} + \text{annual depreciation}}{\text{(divided by) Hydro Place total square footage.}}$$

13
14
15 According to Hydro, the cost based rental rate includes the following expenses for Hydro Place:

- 16 • Annual depreciation for all common assets.
- 17 • System Equipment Maintenance and operating projects.
- 18 • Expenses relating to salaries, fringe benefits, group insurance and employee future benefits for
19 Office Services, Building Maintenance, and Transportation.
- 20 • Heat & Light.
- 21 • Office Supplies.
- 22 • Postage.
- 23 • Safety Supplies.
- 24 • Consulting expenses related to Hydro Place.
- 25 • Security Card Maintenance Contract.
- 26 • Return on Rate base at WACC for all common assets.

27
28 In 2017, the cost per square footage rental rate was \$24.86 (2016 - \$23.79) which resulted in an increase
29 in office space and rental costs recovered.

30
31 Telephone Infrastructure (PBX) Costs

32
33 All lines of business are charged a share of Telephone Infrastructure (PBX) costs including long
34 distance charges. The Local Area Network (LAN) costs provided by Network Services are divided by
35 the total number of LAN ports to derive a cost per user. The telephone costs provided by Network
36 Services are divided by the number of telephone, fax, and modem lines to derive a cost per telephone
37 per user. The mobile devices costs provided by Network Services are divided by the number of mobile
38 devices to derive a cost per user. The average number of users is the factor used for the allocated costs
39 per line of business. The cost per user allocated to lines of business for telephone costs in 2017 was
40 \$373 per user (2016 - \$373), for LAN costs was \$161 per user (2016 - \$161) and for Mobile Devices
41 was \$45 (2016 - \$Nil). Costs associated with mobile devices were not recovered in prior years.

42
43 In completing our procedures, we obtained the Company’s supporting calculation of its intercompany
44 administration fees charged for 2017. Our procedures included a recalculation of administration fee
45 charged based on the allocation basis included in the table above. We did not note any exceptions in
46 our procedures.

47
48 **As a result of completing our procedures, we report that cost allocations for 2017 are in**
49 **accordance with Hydro’s methodology.**

1 Rate Stabilization Plan (“RSP”)

2
 3 *Scope: Conduct an examination of the changes to the Rate Stabilization Plan to assess*
 4 *compliance with Board orders.*

5
 6 Our examination of the RSP for 2017 included reviewing compliance with Board Orders and assessing
 7 the charges and credits including financing charges for reasonableness.
 8

9 The RSP reviewed in this section describes the RSP operations based on 2015 test year inputs. At the
 10 conclusion of the 2013 Amended General Rate Application, the Board issued Order No. P.U. 49(2016).
 11 This Order included the approval of the 2015 test year inputs for hydrology, fuel price, customer load
 12 and the weighted average cost of capital that would also impact the 2015 and 2016 RSP activity. Order
 13 No. P.U. 49(2016) also approved the 2015 test year Rural Deficit allocations and the energy allocation
 14 approach, such that the allocation of the year to date load variations in the RSP load variation
 15 component between Newfoundland Power and the Island Industrial Customers would be based on
 16 energy ratios effective September 1, 2013.
 17

18 In its Compliance Application relating to Order No. P.U. 49(2016), Hydro updated the operation of the
 19 2015 and 2016 RSP based on the Order, with the exception of the 2015 test price of No. 6 fuel per
 20 barrel, however the impact of these adjustments were not reflected in the RSP until the beginning of
 21 2017. These adjustments reduced the RSP balance as of December 31, 2016 from \$343.630 million to
 22 \$267.188 million. The difference of \$76.442 million is adjusted in the RSP as of January 1, 2017 (See
 23 Table B in this section for a breakdown of the adjustments). The 2015 test year price of \$64.41 per
 24 barrel of No. 6 fuel was not implemented in the RSP until the beginning of 2017.
 25

26 The RSP had an accumulated credit balance of approximately \$74.244 million at December 31, 2017.
 27 The breakdown of the various components included in the 2017 Plan is as follows:
 28

	2017		2016	
Utility Customer	\$ (52,440,260)	due to customer	\$ (68,976,964)	due to customer
Industrial Customer	(1,608,676)	due to customer	(2,578,000)	due to customer
Utility - RSP Surplus	(12,638,065)	due to customer	(143,390,469)	due to customer
Industrial - RSP Surplus	-	due to customer	(388,883)	due to customer
Segregated Load Balance	-		(91,277,187)	deferred until Board Decision
Sub-total	(66,687,001)		(306,611,503)	
Hydraulic Balance	(7,557,375)		(37,018,152)	
Total Plan Balance	\$ (74,244,376)		\$ (343,629,655)	

29 30 31 **Highlights of the RSP for 2017 include:**

- 32 • Unfavourable hydraulic conditions for the second consecutive year contributed to lower hydraulic
 33 production relative to the cost of service production resulting in additional fuel costs of \$11.3
 34 million. Actual net hydraulic production in 2017 was 4,507.3 GWh in comparison to the cost of
 35 service net hydraulic production of 4,603.6 GWh.
- 36 • The Holyrood Operating Efficiency factor included in the calculation of the fuel savings in the
 37 Hydraulic plan is 618 kWh/barrel, which was set in the 2015 cost of service. The actual Holyrood
 38 Operating Efficiency factor based on the Holyrood production in 2017 and the number of barrels
 39 of oil used was 602 kWh/barrel (1671 GWh/2,776,834 barrels).

- 1 • The average No. 6 fuel price in 2017 was approximately \$68.60 per barrel in comparison to the
2 2015 cost of service price of \$64.41 per barrel which resulted in a fuel variation of approximately
3 \$10.6 million due from customers.
- 4 • The fuel price rider was established to adjust RSP rates for anticipated forecast fuel price
5 changes. During 2017, the RSP adjustment for the utility customer, which includes the fuel
6 price rider, resulted in \$51.3 million in recoveries (See Table B below). The RSP adjustment
7 rate for the utility was (1.236) cents per kWh effective July 1, 2016 to June 30, 2017, as per
8 Order No. P.U. 21 (2016), and (0.371) cents per kWh effective July 1, 2017, as per Order No.
9 P.U. 22 (2017). The fuel rider was calculated based on a forecast fuel price of \$81.40 per barrel
10 for the period July 1, 2017 to June 30, 2018. This rate also include a mitigation adjustment as
11 per Order No. P.U. 22 (2017).
- 12
- 13 • In accordance with Order No. P.U. 26 (2017), the RSP adjustment rate for Industrial
14 customers was (0.061) cents per kWh effective July 1, 2017. This rate also included a fuel rider
15 and the mitigation rate adjustment, as per Order No. P.U. 26 (2017). For the seven months
16 ended December 31, 2017, there was \$0.191 million of recoveries. (See Table B below).
- 17
- 18 • On December 8, 2015, the Board issued Order No. P.U. 35 (2015). This Order approved a
19 3.7% increase in interim base rates for the Island Industrial customers, with an offsetting RSP
20 Surplus adjustment so that there would be no increase in the rates paid by these customers.
21 This Order was effective January 1, 2016. The drawdown of the Industrial customers RSP
22 surplus balance effective January 1, 2016 as a result of this Order are (\$1.52)/kW and (0.294)
23 cents per kWh . As of June 30, 2017 the amount of the 2017 drawdown was \$1.557 million.
24 This resulted in the Industrial RSP Surplus account to be overdrawn by \$1.321 million
25 (including finance charges). In Order No. P.U. 31 (2017), the Board approved the transfer of
26 this amount to the Industrial Customers Current Plan.
- 27
- 28 • Also, effective July 1, 2015, the RSP drawdown adjustment rate for Teck Resources was 1.141
29 cents per kWh. For the seven months ended December 31, 2017, there was \$23,000 of
30 refunds included in the Industrial Surplus component as the accumulated amount that has
31 been segregated relating to Teck Resources. This RSP drawdown adjustment rate for Teck
32 Resources ended June 30, 2017. The amount of \$1.557 million noted above and the \$23,000
33 for Tech Resources is included in Table B below as \$1.580 million, under the column “Refund
34 and Recovery”.
- 35
- 36 • In Order No. P.U. 35 (2016), the Board approved the “Newfoundland Power Customer
37 Refund Plan” (the “Plan”) to refund to its customers a portion of the RSP Surplus. These
38 refunds commenced during 2017 and as of December 31, 2017, the payout of \$130.8 million
39 consisted of \$120.4 million of refunds to Newfoundland Power customers, \$8.36 million of
40 refunds to Hydro customers, admin costs of \$1.47 million to Newfoundland Power and \$0.57
41 million of admin costs to Hydro. (See Table B below)

1 The tables below provide a breakdown of the activity in the RSP for 2017 as well as a continuity of the
2 various component balances:

3
4 **2017 RSP activity – Table A**

5 (000)'s

	Hydraulic Variation	Fuel Variation	Load Variation	Rural Rate Alteration	Total
Hydraulic balance	\$ 11,331	\$ -	\$ -	\$ -	\$ 11,331
Utility customers	-	9,665	(1,559)	2,783	10,889
Industrial customers	-	892	(156)	-	736
Segregated load variation	-	-	(1,159)	-	(1,159)
Labrador Interconnected	13	-	-	-	13
Net change 2017	\$ 11,344	\$ 10,557	\$ (2,874)	\$ 2,783	\$ 21,810

6
7
8 **2017 RSP activity – Table B**

9 (000)'s

	Balance Beginning of Year	Update 2015 & 2016 for 2015 Test Year	Utility Net Revenue Sufficiency	Current Variation	Current Interest	Hydraulic Allocation	Refund (Recovery)	Load Allocations	Reallocate Industrial Balance	Balance December 31st 2017
Hydraulic balance	\$ (37,019)	\$ 15,611	-	\$ 11,331	\$ (1,763)	\$ 4,283	\$ -	\$ -	\$ -	\$ (7,557)
Utility customers	(68,978)	18,313	(5,773)	10,889	(3,515)	(3,909)	51,270	(50,737)	-	(52,440)
Industrial customers	(2,578)	760	-	736	(132)	(361)	191	(1,546)	1,321	(1,609)
Segregated load variation	(91,277)	39,299	-	(1,159)	(847)	-	-	53,984	-	-
Utility Surplus	(143,390)	2,361	-	-	(2,415)	-	130,806	-	-	(12,638)
Industrial Surplus	(388)	97	-	-	32	-	1,580	-	(1,321)	-
Labrador Interconnected (1)	-	-	-	13	-	(13)	-	-	-	-
Net change 2017	\$ (343,630)	\$ 76,441	\$ (5,773)	\$ 21,810	\$ (8,640)	\$ -	\$ 183,847	\$ 1,701	\$ -	\$ (74,244)
Industrial-Revenue Deficiency	-	-	-	-	-	-	-	(1,527)	-	-
Payment to NARL Refining	-	-	-	-	-	-	-	(174)	-	-
								\$ -		

10 (1) The amount is written off to net income.

11
12 There were various Orders issued by the Board during 2017 that impacted the operation of the RSP.
13 We have provided highlights of them below:

14
15 **Order No. P.U. 16 (2017)**

16
17 In Order No. P.U. 16 (2017), issued May 12, 2017 the Board ordered that the Utility segregated load
18 variation balance of \$50,737,152 would be transferred to the Newfoundland Power Current Plan as of
19 March 31, 2017 to mitigate the proposed July 1, 2017 RSP Adjustment rate increase. This amount is
20 included in Table B above, under the “Load Allocation” column.

21
22 **Order No. P.U. 22 (2017)**

23
24 On June 14, 2017, the Board approved the following matters that impacted the operation of the RSP:

- 25
26 • Approved Hydro’s proposal to credit \$6.577 million to increase the balance in the
27 Newfoundland Power RSP Current Plan balance effective January 1, 2017, and to debit \$0.804
28 million from the Newfoundland Power RSP Current Plan balance effective June 30, 2017, to

1 eliminate the cumulative excess earnings for the period 2014 to 2017 from Newfoundland
2 Power. The net amount of \$5.773 million is included above in Table B, under the “Utility Net
3 Revenue Sufficiency” column.
4

- 5 • Approved the following riders and adjustments for Hydro’s Utility Customer rate to be
6 effective July 1, 2017:

- 7
- 8 a) RSP Fuel Price Projection Rider of 0.672 cents per kWh
- 9 b) RSP Recovery Adjustment of (0.132) cents per kWh
- 10 c) RSP Mitigation Adjustment rate of (0.911) cents per kWh
- 11

- 12 • The combined rate is (0.371) cents per kWh effective July 1, 2017.
- 13

14 **Order No. P.U. 24 (2017)**

15
16 On June 20, 2017, the Board ordered the following:
17

- 18 • Hydro was required to transfer the necessary funds from the Industrial Customer RSP Load
19 Variation balance to eliminate the cumulative revenue deficiency for the period 2014 to 2017
20 for Island Industrial customers. This amount was calculated to be \$1.527 million. See Table B
21 above, under the “Load Allocation” column.
22
- 23 • Hydro was required to make a one-time payment of \$0.174 million from the Industrial
24 Customer RSP Load Variation balance to NARL Refining Limited Partnership on or before
25 July 1, 2017. See Table B above, under the “Load Allocation” column.
26
- 27 • Hydro was required to transfer the remaining Industrial Customer RSP Load Variation balance
28 to the Industrial Customer RSP Current Plan to mitigate the proposed July 1, 2017 RSP Rate
29 Adjustment rate increase. This amount was calculated to be \$1.546 million. See Table B above,
30 under the “Load Allocation” column.
31
- 32 • Hydro was required to file for Board approval, a revised Schedule of Rates, Tolls and Charges
33 and RSP Rules, effective July 1, 2017, incorporating the findings of the Board in this Order and
34 providing detailed calculations in relation to the transfers from the Industrial Customer RSP
35 Load Variation balance and the resulting impacts on rates.
36
- 37 • The revised Schedule of Rates, Tolls and Charges and RSP Rules shall set out the proposed
38 RSP Current Plan rate, calculated in the ordinary course, and the RSP Current Plan mitigation
39 rate.

1 **Order No. P.U. 26 (2017)**

2
3 On June 29, 2017, Hydro filed an Application in accordance with Order No. P.U. 24(2017), seeking
4 approval of a change in the rates to be charged for the supply of power and energy to Hydro's Island
5 Industrial customers and for approval of changes to the RSP rules.

6
7 The proposed rates relating to the operation of the RSP for the Island Industrial customers included:

- 8
9 a) RSP Fuel Price Projection Rider of 0.625 cents per kWh
10 b) RSP Recovery Adjustment of (0.373) cents per kWh
11 c) RSP Mitigation Adjustment rate of (0.313) cents per kWh
12

13 The combined rate is (0.061) cents per kWh effective July 1, 2017.

14
15 Hydro also proposed changes to the RSP rules to discontinue the segregation of the RSP Load
16 Variation balance effective April 1, 2017 to reflect the findings of the Board in Order No. P.U. 24
17 (2017) which resulted in a zero balance in the segregated RSP Load Variation as of March 31, 2017.

18
19 On July 6, 2017, the Board approved the rates proposed by Hydro for the Island Industrial customers
20 effective for electrical consumption on or after July 1, 2017. The Board also approved the proposed
21 changes to the RSP rules.

22
23 **Order No. P.U. 31 (2017)**

24
25 On September 14, 2017, Hydro filed an application requesting approval of:

- 26 (i) Required revisions to the RSP rules to reflect changes to the published Bank of Canada
27 foreign exchange rates and to clarify that fuel price projection calculations reflect that
28 fuel price changes are relative to the test year fuel cost.
29
30 (ii) Revision to the Industrial customer rate sheet to remove the reference to the RSP
31 Surplus rate adjustment which was discontinued effective July 1, 2017.
32
33 (iii) A one-time transfer, effective September 30, 2017, to the Industrial Customer RSP
34 Current Plan of the debit balance owing to Hydro from the Industrial customers in
35 relation to the RSP Surplus rate adjustment, to permit recovery of the balance through
36 the normal RSP adjustment on January 1, 2018.
37

38 The current RSP rules (Sections C.1 and C.2), required the use of the US to Canada noon exchange rate
39 for the purpose of calculating fuel price projections for Island Industrial Customers and Newfoundland
40 Power. However, Hydro noted that effective April 28, 2017, the Bank of Canada no longer publishes
41 noon exchange rates, instead, the Bank publishes foreign exchange rates once daily to represent the daily
42 average rate against the Canadian dollar. Hydro proposed that Sections C.1 and C.2 to become effective
43 September 30, 2017 to reflect the availability of the foreign exchange rates from the Bank of Canada.
44

45 The other change to the RSP rules was just to clarify that in Sections C.1 and C.2 the fuel price projection
46 calculation reflect that the fuel price changes are relative to the test year fuel cost. Hydro proposed
47 removing the reference to "average Test Year Cost of Service purchase price for No. 6 Fuel" to "average
48 Test Year Cost of Service cost of No. 6 Fuel". This proposal was consistent with the current practice of
49 the Board in computing the fuel price projection.

1 In accordance with OC2013-89, Hydro has refunded the Island Industrial Customer RSP Surplus balance
2 through the RSP Surplus rate adjustments applied to customer bills. Since these rate riders remained in
3 effect for longer than forecast, it resulted in a refund in excess of the balance owed to the Island Industrial
4 Customers, which meant that the Island Industrial Customer RSP Surplus balance was in a debit balance
5 of \$1.321 million, owing to Hydro.

6
7 Hydro noted that there was no provision in the RSP rules to provide recovery of the RSP Surplus balance
8 owing from the Island Industrial Customers, and proposed that the disposition of this remaining balance
9 be done as a one-time transfer to the Island Industrial Customer RSP Current Plan, effective September
10 30, 2017 and be recovered through the normal RSP adjustment update required on January 1, 2018.

11
12 The Board agreed that the proposed revisions were required to accurately reflect the Industrial customer
13 rates, to provide for the recovery of the balance owing to Hydro with respect to the RSP Surplus rate
14 adjustment, and to provide clarity to the operation of the RSP.

15
16 If the Board approved this proposed transfer, Hydro also proposed to modify Section E of the RSP rules
17 to reflect the completion of the disposition of the RSP Surplus for the Island Industrial customers.

18
19 On October 10, 2017, the Board ordered that the following would be approved effective September 30,
20 2017:

- 21
22 (i) The proposed revisions to the RSP rules.
23 (ii) The revision to the Industrial Customer rate sheets
24 (iii) A transfer of the balance in the Industrial Customer RSP Surplus account to the Industrial
25 Customer RSP Current Plan. See Table B above for the transfer of the \$1.321 million to the
26 Industrial Customers plan balance.
27

28 **Order No. P.U. 44 (2017)**

29
30 On December 21, 2017, Hydro filed an application for an Order of the Board to continue the current
31 Island Industrial Customer RSP Fuel Rider and the RSP Current Plan Adjustment rates past January 1,
32 2018 and to direct Hydro to file an application to update the Island Industrial Customer RSP Fuel Rider
33 and RSP Current Plan Adjustment to be effective no later than July 1, 2018.

34
35 The current RSP rules provided that the Island Industrial customer rates be adjusted on January 1 each
36 year to update the RSP Fuel Rider and the RSP Current Plan Adjustment.

37
38 Hydro's reasoning for delaying the RSP Fuel Rider and the RSP Current Plan adjustment was that the
39 January 1, 2018 update of the RSP Fuel Rider would have resulted in a material rate decrease and as a
40 result of the expiry of the rate mitigation approved in Order No. P.U. 24 (2017), a material increase in
41 Island Industrial customer rates was projected for July 1, 2018. Also, Hydro filed a general rate
42 application in July 2017 for the Test Years 2018 and 2019 which was also requested a rate increase in
43 2018.

44
45 Hydro stated in their Application, that the potential implementation of three customer rate changes in a
46 relatively short time period was contrary to customer rate stability and was not conducive to regulatory
47 efficiency.

1 The Board agreed that suspending the January 1, 2018 RSP Fuel Rider and the RSP Current Plan
2 Adjustment rates for the Island Industrial customers and continuing with the current Island Industrial
3 customer rates on an interim basis was reasonable in the circumstances.

4 On December 28, 2017, the Board ordered the following:

5

6 (i) The January 1, 2018 adjustment to the Island Industrial customer RSP rates was
7 suspended until a further Order of the Board.

8

9 (ii) The current Island Industrial customer rates will continue on an interim basis, effective
10 January 1, 2018 and Hydro shall within 30 days of this Order file a revised Schedule of
11 Rates, Tolls and Charges setting out that the rates for the Island Industrial customers
12 are interim.

13

14 **Based upon our review, we report that the RSP is operating in accordance with Board Orders**
15 **and the charges and credits made to the Plan in 2017 are supported by Hydro's documentation**
16 **and accurately calculated.**

Deferred Charges

Scope: Conduct an examination of the changes to deferred charges and assess their reasonableness and prudence in relation to sales of power and energy.

The following table shows the transactions in the deferred charges account for 2016 to 2017:

('000s)	Balance Jan 1/17	Add. (Disp)	Reclass	Recovery	Amort.	Balance Dec 31/17	Balance Dec 31/16
Realized Foreign Exchange Losses	\$ 53,924	\$ -	\$ -	\$ -	\$ (2,157)	\$ 51,767	\$ 53,924
CDM Program	8,363	1,463	-	(503)	-	9,323	8,363
Deferred Foreign Exchange on Fuel	(158)	(400)	-	-	-	(558)	(158)
2014 Cost Deferral	38,750	(1,043)	-	(37,707)	-	-	38,750
2015 Cost Deferral	24,541	3,119	-	(27,660)	-	-	24,541
2016 Cost Deferral	32,440	3,636	(31,040)	(5,036)	-	-	32,440
Deferred Lease Costs	4,471	-	-	-	(1,341)	3,130	4,471
Phase II Hearing Costs	869	264	-	-	-	1,133	869
Deferred Hearing Costs	250	-	-	-	(250)	-	250
Asset Disposal	387	-	-	-	(19)	368	387
Fuel Supply Deferral	-	-	-	-	-	-	-
Energy Supply Deferral	-	18,707	28,320	-	-	47,027	-
Holyrood Conversion	-	3,532	4,400	-	-	7,932	-
Isolated Systems	-	(954)	(1,680)	-	-	(2,634)	-
Labrador RSP Refund	-	(376)	-	-	-	(376)	-
Deferred Power Purchases	-	(317)	-	-	-	(317)	-
	<u>\$ 163,837</u>	<u>\$ 27,631</u>	<u>\$ -</u>	<u>\$ (70,906)</u>	<u>\$ (3,767)</u>	<u>\$ 116,795</u>	<u>\$ 163,837</u>
Deferred charges excluded from rate base						<u>\$ (53,458)</u> ¹	<u>\$ (96,600)</u> ²
						<u>\$ 63,337</u>	<u>\$ 67,237</u>
Average deferred charges						<u>\$ 65,287</u>	<u>\$ 67,756</u>

Realized Foreign Exchange Losses

Hydro continues to amortize costs associated with foreign exchange losses consistent with past practice.

Conservation Demand Management (CDM) Program

Pursuant to Order No. P.U. 49 (2016), Hydro received approval to defer 2016 costs related to the CDM Program. Actual costs deferred in 2017 were \$1,463,000 (2016 - \$1,154,000). In Order No. P.U. 22 (2017), the Board approved the CDM deferral account definition which stated that the account balance as at December 31 each year shall be recovered over a period of seven years using a CDM Recovery Adjustment and that recovery of annual amortizations of costs in this account shall be through an annual application. The rates came into effect and recovery of the balance began on July 1, 2017.

Deferred Foreign Exchange on Fuel

Hydro purchases a significant amount of fuel for the Holyrood Thermal Generating Station (HGTS) in US dollars. Hydro notes that the RSP allows Hydro to defer variances in fuel prices, including foreign exchange fluctuations. During 2017, Hydro recognized in regulatory assets, foreign exchange gains on

1 fuel purchases of \$400,314. According to Hydro the foreign exchange deferral is a change in accounting
2 required due to adoption of IFRS. Prior to IFRS, Hydro recorded the full amount of the foreign
3 exchange gain or loss in inventory. Upon adoption of IFRS, Hydro segregated the foreign exchange
4 gain or loss which would require immediate change to the company's profit and loss instead of
5 inventory. In order to keep accounting for the RSP consistent with prior years Hydro created a
6 regulatory asset/liability to segregate the foreign exchange gain or loss until the fuel is consumed at
7 which time the fuel inventory used and the relevant deferred foreign exchange on inventory would be
8 realized and flow through the RSP.
9

10 2014, 2015, and 2016 Cost Deferrals

11 In Order No. P.U. 22 (2017), the Board approved \$37,757,000 of the \$38,750,000 2014 cost deferral,
12 resulting in a loss in 2017 of \$1,043,000 and the disposition of the balance from the RSP.
13

14 In Order No. P.U. 22 (2017), the Board approved \$27,700,000 of the \$24,541,000 2015 cost deferral,
15 resulting in a gain in 2017 of \$3,119,000 and the disposition of the balance from the RSP.
16

17 The 2016 cost deferral of \$32,440,000 consisted of energy supply costs of \$31,040,000 and other costs
18 of \$1,400,000. As a result of Order No. P.U. 22 (2017), \$31,040,000 was reclassified to the Energy
19 Supply, Isolated Systems and Holyrood Conversion deferrals. The Board also approved other 2016
20 costs of \$5,000,000, which resulted in an increase to profit in 2017 of \$3,636,000 and the disposition of
21 the balance from the RSP.
22

23 Deferred Lease Costs

24 Pursuant to Order No. P.U. 38 (2013), Hydro received approval to defer lease costs associated with the
25 16 MW diesel plant and other necessary infrastructure estimated to be \$5,763,200. Actual costs
26 deferred in 2014 were \$3,680,000. In 2015, Hydro deferred an additional \$1,440,000. In 2016, pursuant
27 to Order Nos. P.U. 17 (2016) and P.U. 23 (2016) Hydro received approval to defer additional lease
28 costs of \$1,300,000 and \$300,000 respectively. The actual cost incurred in 2016 was \$1,584,000. In
29 Order Nos. P.U. 17 (2016), P.U. 23 (2016) and P.U. 49 (2016), the Board also approved the
30 amortization of the deferred balance over a period of five years.
31

32 Phase II Hearing Costs

33 In Order No. P.U. 13 (2016), Hydro received approval to defer costs for 2014, 2015 and subsequent
34 years, including consulting fees, salary transfers and overtime, relating to Phase II of the investigation
35 into the reliability and adequacy of power on the Island Interconnected System after the
36 interconnection with the Muskrat Falls generating station. Total costs of \$869,000 were deferred by
37 Hydro in fiscal 2016. In 2017, Hydro is deferring an additional \$264,000 relating to this account, for a
38 total balance of \$1,133,000. According to the 2017 GRA, Hydro has not proposed any amortization
39 cost to be included in 2018 or 2019 revenue requirement and therefore have excluded these deferred
40 charges from the calculation of average rate base in 2017.
41

42 Deferred Hearing Costs

43 In Order No. P.U. 49 (2016), Hydro received approval to amortize, over a three-year period beginning
44 in 2015, general rate application costs for 2015 in the amount of \$750,000. This deferral was fully
45 amortized at December 31, 2017.
46

47 Asset Disposal

48 In Order No. P.U. 49 (2016), the Board ordered that Hydro defer the \$425,000 loss on disposal related
49 to the Sunnyside transformer that was disposed of in 2014. Hydro is required to recover the deferred
50 asset in rate base and amortize the asset over a 22 year period, which commenced in 2015. The 2017
51 deferral is net of amortization.

Energy Supply Deferrals (Energy Supply, Holyrood Conversion and Isolated Systems)

In Order No. P.U. 22 (2017), the Board approved the Energy Supply, Holyrood Conversion and Isolated Systems deferral account definitions which stated that an application is required annually by March 31. As the deferral account definitions were not approved until July 2017, an application was filed by Hydro on October 11, 2017, for approval of the recovery of the 2015 and 2016 balance of these accounts. On November 29, 2017, the Board issued Order No. P.U. 39 (2017) and dismissed this application. On March 29, 2018, Hydro filed its 'Application for Approval to Defer the 2015, 2016 and 2017 Balances in i) the Isolated Systems Supply Cost Variance Deferral Account; ii) the Energy Supply Cost Variance Deferral Account; and iii) the Holyrood Conversion Rate Deferral Account'. These balances have not yet been approved by the Board and have been excluded from the calculation of average rate base in 2017. The recovery of the deferral is subject to a future Board Order.

In 2017, \$31,040,000 relating to energy supply deferred for 2015 and 2016 was reclassified from the 2016 Cost Deferral to the Energy Supply, Isolated Systems and Holyrood Conversion deferrals. The net increase to profit in 2017 was \$21,285,000.

The Board has not approved recovery of costs associated with these deferral accounts. Therefore, according to Hydro, for financial reporting purposes the Company has recorded an allowance of 20% of the balance of these deferral accounts. As a result, the deferral balances presented above differ from the amounts reported in Hydro's 'Application for Deferral of 2015, 2016 and 2017 Supply Costs' by approximately \$13,076,186, or 20%, as shown below.

('000s)	Energy Supply	Holyrood Conversion	Isolated Systems	Totals
Total Deferrals - Deferral Application	\$ 58,798	\$ 9,896	\$ (3,293)	\$ 65,401
20% Allowance	(11,771)	(1,964)	659	(13,076)
Total Deferrals - Annual Return	<u>\$ 47,027</u>	<u>\$ 7,932</u>	<u>\$ (2,634)</u>	<u>\$ 52,325</u>

Labrador RSP Refund

Pursuant to Order No. P.U. 22 (2017), during 2017 Hydro refunded Labrador Industrial Transmission customers' excess revenues relating to the period of 2014 to 2017. The Board also ordered that Hydro apply a rate reduction for a 30 month period to address excess revenues relating to Hydro's rural customers on the Labrador Interconnected System. In July 2017, Hydro began amortization of excess revenues which resulted in a decrease to profit of \$376,000.

Deferred Power Purchases

In 1997, the Board ordered Hydro to defer \$1.1 million related to reduced purchase power rates resulting from the interconnection of communities in the area of L'Anse au Clair to Red Bay to the Hydro-Quebec system and amortize the balance over a 30 year period. This deferral was added as a recovery in 2017 with remaining unamortized savings in the amount of \$317,000 deferred as a regulatory liability. Prior to 2017, this balance was excluded from rate base but should have been included.

Based upon our analysis, we noted:

- Energy Supply, Holyrood Conversion and Isolated Systems deferral accounts have not yet been approved by the Board; and
- The recovery of Phase II Hearing Costs has not yet been approved by the Board.

These deferral accounts have been excluded from rate base.

1 Key Performance Indicators and Initiatives and Efforts Targeting 2 Productivity and Efficiency Improvements 3

4 *Scope: Review Hydro's Annual Report on Key Performance Indicators and any other*
5 *information on initiatives and efforts targeting productivity or efficiency*
6 *improvements in 2017.*
7

8 In Order No. P.U. 14 (2004) Hydro was ordered to file annually with the Board a report outlining:

- 9 i. a strategic overview highlighting core strategies, corporate goals and achievements;
- 10 ii. appropriate historic, current and forecast comparisons of reliability, operating, financial
11 and other key targeted outcomes/measures, including certain specified KPI's; and
- 12 iii. initiatives targeting productivity or efficiency improvements, including the status of
13 ongoing projects and improved performance resulting from completed projects.

14
15 The 2017 annual report on strategic goals and objectives and productivity initiatives was filed with
16 Hydro's December 31, 2017 quarterly report.
17

18 In addition to the filing requirements identified above, Order No. P.U. 14 (2009) requires the filing of a
19 report on Hydro's Conservation and Demand Management activities. This report is included as Return
20 21 in the 2017 annual financial return.
21

22 Strategic Goals and Objectives

23 The quarterly report referenced above provides information on Hydro's achievements relative to its
24 2017 strategies, goals and initiatives. This section provides details on activities and outcomes relative to
25 a broad range of initiatives undertaken during the 2017 fiscal year.
26

27 Safety

28 To track their performance on this objective Hydro continued to monitor All Injury Frequency, Lost
29 Time Injury Frequency, the ratio of condition and incident reports to lost time and medical treatment
30 injuries, and the severity rate. According to Hydro, during 2017, the Company continued executing its
31 annual safety plan. Some of its initiatives, as noted by Hydro, are highlighted below.

- 32 • Hydro's Safety and Health Monitoring Plan continued to focus on program assessment and
33 audits designed to provide assurance of program compliance, and to identify opportunities for
34 improvement.
- 35 • Hydro has continued to work on the development of a Safety Management System (SMS).
- 36 • Hydro continued to roll out its Corporate Injury Prevention Campaign, which emphasizes the
37 company's top injury trends.
- 38 • Hydro's Public Safety Campaign regarding power line hazards continued in partnership with
39 other utilities and agencies. The campaign focused heavily on promoting public awareness of
40 the hazards posed by power lines. Hydro is also participating in the Technical Advisory
41 Committee with WorkplaceNL to update the power lines hazard course provided to non-utility
42 companies working near power lines.
- 43 • The field visibility of management and safety professionals continued to be high priority for
44 Hydro. Hydro targeted 12 field compliance audits for 2017 and had completed 31 as of the end
45 of the year.

1 The results of these metrics have been presented in the table below.

Measurement	Year-to-date 2017 Actual	Annual 2017 Plan	Annual 2016 Actual	Target Met
All Injury Frequency (AIF)	0.71	0.6	0.74	No
Ratio of condition and incident reports to lost time and medical treatment injuries (lead/lag ratio)	743:1	750:1	629:1	No

2
 3 Hydro's safety targets noted above were not met in 2017. With regards to the All Injury Frequency
 4 metric, Hydro has been successful in reducing the average; however, they did not meet their target for
 5 2017.

6
 7 Environment and Conservation

8
 9 Targets used to evaluate this goal are summarized below:

Measurement	Year-to-Date 2017 Actual	Annual 2017 Target	Annual 2016 Actual	Target Met
Achievement of EMS targets	100%	>95%	100%	Yes
Annual energy savings from Residential and Commercial Conservation and Demand Management Programs	2,631 MWh	1,215 MWh	1,976 MWh	Yes
Annual energy savings from Internal Energy Efficiency Programs	405 MWh	220 MWh	669 MWh	Yes

11
 12
 13 The measurement of annual energy savings from Residential and Commercial Conservation and
 14 Demand Management Program exceeded the 2017 target. Hydro also achieved results of 405 MWh of
 15 energy savings for the Internal Energy Efficiency activities, compared to the target of 220 MWh. These
 16 results are primarily due to partnerships and programs detailed below.

- 17 • The takeCHARGE partnership offers rebate programs to assist residential and commercial
 18 customers in reducing their electricity usage.
- 19 • The Hydro Residential Program relates to five programs offered jointly by the utilities and an
 20 additional program offered solely by Hydro.
- 21 • Isolated Systems Community Energy Efficiency Program provides outreach, education and
 22 energy efficient products in the remote diesel-system communities within Newfoundland and
 23 Labrador free of charge.
- 24 • Hydro's Commercial Program includes the Business Efficiency and Isolated Business
 25 Efficiency programs which are available to business customers in Hydro's interconnected
 26 system and isolated diesel service areas.
- 27 • Hydro's Internal Program aims to achieve energy savings form initiatives to reduce electricity
 28 consumption at its facilities located in both diesel and interconnected service areas.

1 **Key Performance Indicators**

2

3 Section 4 to the December 31, 2017 quarterly report filed by Hydro includes the 2017 Annual Report
4 on Key Performance Indicators. The Key Performance Indicators (“KPI”) results for 2017 as
5 compared with prior years are summarized in the following table:

Category / KPIs ⁵	Measure Definition	Units	2013	2014	2015	2016	Avg. 13-16	2017	Variance from Average
Reliability									
Generation									
Weighted Capability Factor	Availability of Units for Supply	%	75.5	79.7	79.9	77.1	78.1	81.8	3.8
Weighted DAFOR	Unavailability of Units due to Forced Outage	%	12.2	8.2	3.4	10.0	8.5	6.4	(2.1)
Transmission									
SAIDI	Outage Duration per Delivery Point	Minutes / Point	468.5	458.0	476.0	325.0	431.9	398.3	(33.6)
SAIFI	Number of Outages per Delivery Point	Number / Point	3.5	3.8	3.1	2.9	3.3	2.1	(1.2)
SARI	Outage Duration per Interruption	Minutes / Outage	133.9	121.0	154.0	112.0	130.2	189.5	59.3
Distribution									
SAIDI	Average Outage Duration for Customers	Hours / Customer	18.6	19.6	17.5	15.7	17.8	19.6	1.8
SAIFI	Number of Outages for Customers	Number / Customer	5.7	6.8	7.0	6.6	6.5	5.3	(1.2)
End User SAIDI	Average Outage Duration for Customers	Hours / Customer	N/A	N/A	3.1	2.4	2.8	2.8	0.0
End User SAIFI	Number of Outages for Customers	Number / Customer	N/A	N/A	2.0	1.3	1.7	1.3	(0.4)
Under Frequency Load Shedding									
UFLS	Customer Load Interruptions Due to Generator Trip	Number of Events	7	14	8	6	9	9	0
Operating									
Hydraulic Conversion Factor ¹	Net Generation / 1 Million m ³ Water	GWh / MCM	0.432	0.433	0.433	0.432	0.433	0.432	(0.001)
Thermal Conversion Factor ²	Net kWh / Barrel No. 6 HFO	kWh / BBL	595	584	602	608	597	601	3.8
Financial (Regulated)									
Controllable Unit Cost ³	Controllable OM&AS / Energy Deliveries	\$ / MWh	\$15.53	\$18.09	\$16.71	\$20.07	\$17.60	\$13.90	(\$1)
Generation Controllable Costs	Generation OM&AS / Installed MW	\$ / MW	\$26,774	\$30,013	\$32,599	\$27,095	\$29,120	\$28,457	(\$663)
	Generation OM&AS / New Generation	\$ / GWh	\$7,368	\$8,150	\$9,010	\$7,738	\$8,117	\$7,991	(\$126)
Transmission Controllable Costs	Transmission OM&AS / 230 kV Eqv Circuit	\$ / Km	\$5,281	\$7,043	\$7,615	\$6,148	\$6,522	\$4,979	(\$1,544)
Distribution Controllable Costs	Distribution OM&AS / Circuit Km	\$ / Km	\$3,345	\$3,304	\$3,053	\$3,338	\$3,260	\$3,493	\$232
Other									
Percent Satisfied Customers ⁴	Satisfaction Rating	Max = 100%	N/A	84%	N/A	90%	87%	N/A	N/A

6

Notes:

1. For the Bay d'Espoir hydroelectric plant.
2. For Holyrood thermal plant.
3. Energy deliveries have been normalized for weather, customer hydrology, and industrial strikes.
4. There was no customer satisfaction survey completed in 2017.
5. Grant Thornton did not independently verify the calculation of the KPIs

7

1 As consistent with prior year, Hydro reports on 18 KPIs covering the following four areas: reliability,
2 operating, financial and customer related.

Category	KPI	Units	2017 Target	2017 Results	Target Achieved
Reliability	Weighted Capability Factor (WCF)	%	79.4 ¹	81.8	Yes
	Weighted DAFOR	%	5.5	6.4	No
	T-SAIDI	Minutes / Point	551	398.3	Yes
	T-SAIFI	Number / Point	3.3	2.1	Yes
	T-SARI	Minutes / Outage	167	189.5	No
	D-SAIDI	Hours / Customer	12.0	19.6	No
	D-SAIFI	Number / Customer	5.6	5.3	Yes
	End User SAIDI	Hours / Customer	2.4	2.8	No
	End User SAIFI	Number / Customer	1.5	1.3	Yes
	Underfrequency Load Shedding	# of events	6	9	No
Operating	Hydraulic CF	GWh / MCM	0.433	0.432	No
	Thermal CF	kWh / BBL	618 ²	601	No
Financial	Controllable Unit Cost	\$/MWh	N/A	\$13.90	N/A
	Generation Controllable Costs	\$/MW	N/A	\$28,457	N/A
	Generation Output Controllable Cost	\$/GWh	N/A	\$7,991	N/A
	Transmission Controllable Cost	\$/Km	N/A	\$4,979	N/A
	Distribution Controllable Cost	\$/Km	N/A	\$3,493	N/A
Other	Customer Satisfaction (Residential)	Max = 100%	N/A	N/A	N/A

Notes:

1. Target is based on planned annual maintenance outages, an allowance for other short duration maintenance outages and targeted forced outage durations.
2. Hydro's target of 618 is based on the approved conversion factor in Board Order No. P.U. 49(2016). This differs from Hydro's 2017 forecast conversion factor of 602, which is derived based on forecast kWh and fuel consumption.
3. There was no customer satisfaction survey completed in 2017.

During 2017, Hydro met 5 out of the 10 reliability KPIs.

Within the operating category, Hydro achieved a net hydraulic conversion factor of 0.432 GWh/MCM, which is below the 2017 target of 0.433 GWh/MCM. According to Hydro, the lower conversion factor for hydraulic generation is primarily due to lower inflows to the Bay d'Espoir system as a whole. There was minimal spill in the Bay d'Espoir system in 2017, which was related to a spill event at Granite and approximately 15 days of bypass in May. In addition, the periods of inflow from July through to the end of year were lower than target, also contributing to the lower conversion factor.

The net thermal conversion factor of 601 kWh per barrel was below the target of 618 kWh per barrel, however comparable to Hydro's 2017 budget of 602 kWh per barrel.

As indicated by Hydro, the Customer Satisfaction Survey is completed on a biennial basis, and thus, the next survey is to be completed in 2018. The Customer Satisfaction KPI is therefore not applicable for 2017.

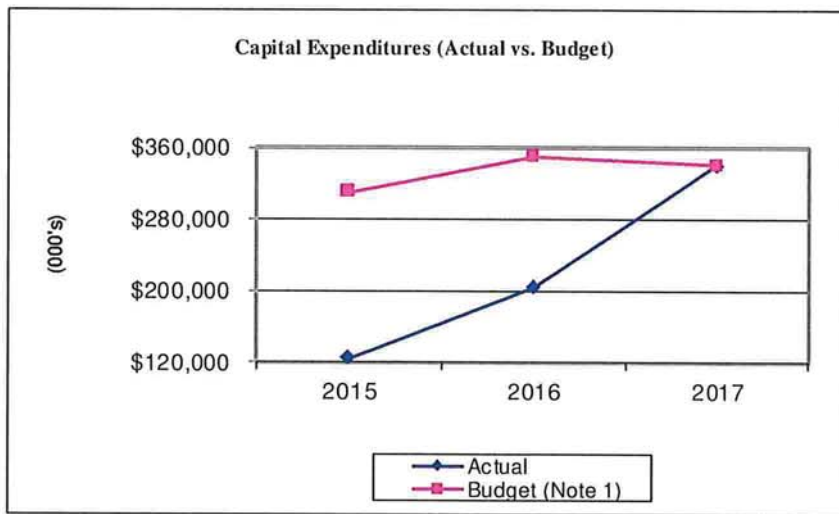
We have reviewed the KPI results and the explanations provided by Hydro for the changes and variations experienced in 2017 and find them to be consistent with our observations and findings noted in conducting our annual financial review. There were no internal inconsistencies identified in Hydro's report.

Capital Expenditures

Scope: Review the Company's 2017 capital expenditures in comparison to budgets and follow up on any significant variances.

The following table details the actual versus budgeted capital expenditures for the past three years from 2015 to 2017:

(000's)	2015	2016	2017
Actual	\$ 125,119	\$ 203,941	\$ 340,742
Budget (Note 1)	\$ 311,177	\$ 350,602	\$ 340,501
Under/Over Budget	(59.79%)	(41.83%)	0.07%



Note 1: The 2017 budget consists of the following: capital budget approved under Order No. P.U. 45 (2016) - \$271,266,000; new projects approved under Order No. P.U. 20 (2016) - \$1,533,000; new projects approved under Order No. P.U. 5 (2017) - \$3,045,000; new projects approved under Order No. P.U. 7 (2017) - \$3,169,000; new projects approved under Order No. P.U. 10 (2017) - \$1,349,000; new projects approved under Order No. P.U. 11 (2017) - \$2,585,000; new projects approved under Order No. P.U. 13 (2017) - \$11,425,000; new projects approved under Order No. P.U. 15 (2017) - \$500,000; new projects approved under Order No. P.U. 20 (2017) - \$2,610,000; new projects approved under Order No. P.U. 21 (2017) - \$3,715,000; new projects approved under Order No. P.U. 27 (2017) - \$540,000; new projects under \$50,000 approved by Hydro - \$508,000; projects carried forward to 2017 - \$38,256,000.

The above graph demonstrates that in 2015 and 2016 the Company was under budget on its capital expenditures by 59.79% and 41.83% respectively, and consistent with budget in 2017. Actual expenditures increased from \$203,941,000 in 2016 to \$340,742,000 in 2017. This increase in expenditures is primarily as a result of the 230kV Transmission Line from Bay d'Espoir to Western Avalon project, along with other new transmission infrastructure, being largely completed in 2017 as opposed to 2018. This is further explained within the 'Capital Budget Guidelines Policy' section below.

1 The following table details the actual versus forecast capital expenditures for 2017, included in the Company's
2 2017 GRA:

(000's)	<u>2017</u>
Actual	\$ 340,742
Forecast	\$ 370,195
Under/Over Forecast	<u>(7.96%)</u>

3
4

5 The 2017 actual capital expenditures was 7.96% less than the amount forecast in the 2017 GRA. As per
6 review of the Capital Expenditures and Carryover Report, the Company carried over \$24,889,900 into 2018
7 that was originally forecasted for 2017.

8

9 Upon order from the Board, the Company must excluded certain capital assets from the rate base
10 calculation. The following table presents a breakdown of the total assets excluded from rate base for
11 2016 and 2017:

	<u>2017</u>	<u>2016</u>
HRD Unit 1	2,709	3,502
Holyrood Fuel Oil Heat Trace	968	1,235
Charlottetown Diesel Plant	340	399
Sunnyside Transformer T8	4,480	4,623
Sunnyside Breaker, B1L17, Overhaul	333	343
Lab City Voltage Conversion	191	196
WAV Transformer T5 - Perform Upgrades	1,297	659
Re-heat Boiler - Holyrood unit # 2	1,083	613
Re-heat Boiler - Holyrood unit # 1	653	370
Transmission Line Reroutes - Sally's Cove	1,335	678
Penstock # 1 Refurbishment - Bay d'Espoir	6,691	3,284
Access Roads Refurbishment - Bay d'Espoir	2,675	1,358
Allowance for Unforeseen	(2,000)	(1,000)
Other ¹	<u>386</u>	<u>417</u>
Total	<u>21,141</u>	<u>16,676</u>

Note 1: Other relates to 11 expenditures within the Prudence Review order P.U. 13 (2016).

12
13

14 **Capital Budget Guidelines Policy**

15

16 The Company is required to follow Capital Budget Guidelines Policy number 1900.6. Within these
17 guidelines the Company must apply for approval of supplemental capital budget expenditures and file
18 an annual capital expenditure report by March 1 of the following year explaining variances of both
19 \$100,000 and 10% from budget. Included in the Company's 'Capital Expenditures and Carryover
20 Report' dated March 1, 2018, the Company has provided explanations for variances on 70 projects. We
21 confirm that the Company is in compliance with this guideline.

1 Guideline 1900.6 also requires that the Company provide a summary of the actual versus budget
 2 variance for the past 10 years and “should the overall variance in any two years exceed 10% of the
 3 budgeted total the report should address whether there should be changes to the forecasting or capital
 4 budgeting process which should be considered”.

5
 6 In the Company’s ‘Capital Expenditures and Carryover Report’ the required schedule was provided which
 7 compared budget versus actual expenditures for 2008 to 2017. Of this 10 year period, the Company was
 8 under budget for 9 years (ranging from a 6.4% variance in 2011 to a 59.8% variance in 2015). However, in
 9 2017, the Company’s capital spending was consistent with budget. The average percent variance during this
 10 10 year period is 21.79%.

11
 12 The Company has noted that over the 9 year period, 2008 to 2016, the annual variance between budget and
 13 actual capital expenditures was primarily due to under-spending as a result of not completing all projects
 14 approved each year. The Company attributes this to unavoidable delays due to factors such as system
 15 constraints which are precipitated by changes in hydrology, and equipment failures.

16
 17 In 2017, there was a significant increase in spending which, according to Hydro, is primarily as a result of the
 18 accelerated in-service date for the 230kV Transmission Line from Bay d’Espoir to Western Avalon (TL 267)
 19 project. Expenditures related to this project totalled \$213,663,700 in 2017; this caused a redistribution of
 20 \$38,000,000 from 2018 planned expenditures to 2017 to better reflect when the funds would be expended.
 21 Excluding the TL 267 project from the Company’s current variance of 0.07% over budget, results in the
 22 overall variance being approximately 22.75% under budget. The acceleration of the TL 267 project resulted
 23 in several projects being carried over into 2018, resulting in the underspending on numerous other projects
 24 in 2017.

25
 26 A breakdown of the total capital expenditures and budget for 2017 with variances by asset category is as
 27 follows:

(000's)	2017 Actual	2017 Budget	Variance	%
Generation	\$ 20,120	\$ 27,853	\$ (7,733)	(27.76%)
Transmission and Rural Operations	283,592	268,685	14,907	5.55%
General Properties	8,382	10,007	(1,625)	(16.24%)
Allowance for Unforeseen Events	5,646	2,040	3,606	176.76%
Supplemental Projects	22,500	31,387	(8,887)	(28.31%)
New Projects Approved under \$50,000	502	530	(28)	(5.28%)
Total	\$ 340,742	\$ 340,501	\$ 241	0.07%

28
 29 As indicated in the table, total capital expenditures are consistent with budget. This budgeted amount
 30 includes the approved capital budget projects by the Board for \$302,245,000 and carryovers from 2016
 31 to 2017 of \$38,255,700. The Company has reported that there are 60 projects which were included in
 32 the 2017 budget which have expenditures totaling \$24,889,900 carried forward to 2018.

33
 34 Hydro’s ‘Capital Expenditures and Carryover Report’ discloses actual and budgeted past expenditures, as
 35 well as actual and budget forecasted expenditures beyond 2017 for each project. A breakdown of these
 36 expenditures with variances by category is as follows:

(000's)	Budget				Actual				Variance	
	Up to 2016	2017	Forecast	Total	Up to 2016	2017	Forecast	Total	\$	%
Generation										
Hydro Plants	\$ 4,183	\$ 12,923	\$ 17,711	\$ 34,817	\$ 2,387	\$ 7,089	\$ 25,501	\$ 34,977	\$ 160	0%
Thermal Plants	2,724	7,247	1,368	11,339	2,240	8,441	1,849	12,530	1,191	11%
Gas Turbines	45	1,975	787	2,807	12	1,033	840	1,884	(922)	(33%)
Total Generation	6,952	22,145	19,866	48,962	4,639	16,563	28,189	49,391	429	1%
Transmission and Rural										
Terminal Stations	12,235	29,435	65,790	107,460	10,689	21,451	74,793	106,933	(527)	(0%)
Transmission Lines	85,254	173,193	68,852	327,299	65,159	229,928	32,961	328,048	749	0%
Distribution	286	14,891	1,550	16,726	362	13,496	2,429	16,287	(438)	(3%)
Generation	7,457	9,685	6,589	23,731	4,305	10,263	7,335	21,903	(1,829)	(8%)
Properties	2,179	4,453	1,034	7,666	1,261	4,424	1,218	6,904	(763)	(10%)
Metering	434	1,008	1,892	3,333	130	1,691	1,996	3,817	484	15%
Tools and Equipment	312	827	-	1,139	187	720	-	907	(232)	(20%)
Total Transmission and Rural	108,157	233,492	145,706	487,354	82,094	281,973	120,732	484,798	(2,556)	(1%)
General Properties										
Information Systems	1,411	1,340	513	3,264	1,012	1,687	525	3,224	(40)	(1%)
Telecontrol	1,607	3,810	1,232	6,649	1,618	3,523	1,196	6,337	(312)	(5%)
Transportation	1,826	2,708	399	4,933	1,503	2,227	1,124	4,854	(79)	(2%)
Administrative	35	1,435	-	1,470	31	945	20	996	(474)	(32%)
Total General Properties	4,878	9,293	2,144	16,316	4,165	8,382	2,864	15,411	(905)	(6%)
Overhauls and Inspections	1,346	5,336	-	6,682	545	5,177	-	5,722	(960)	(14%)
Allowance for Unforeseen Events	-	2,040	-	2,040	-	5,646	-	5,646	3,606	177%
Supplemental Projects	338,056	29,431	327	367,815	18,886	22,500	2,407	43,793	(324,021)	(88%)
New Projects Approved under \$50,000	49	508	44	601	28	502	45	574	(27)	(4%)
Total	\$459,438	\$302,245	\$168,087	\$ 929,769	\$110,355	\$340,742	\$154,238	\$ 605,335	\$(324,435)	(35%)

The largest variances relate to the following asset classes: thermal plants (\$1,191,000 over budget), generation (\$1,829,000 under budget), Allowance for Unforeseen Events (\$3,606,000 over budget), and supplemental projects (\$324,023,000 under budget).

The variance related to supplemental projects is primarily as a result of the Labrador West Transmission Project and the Penstock 2 Refurbishment – Bay d’Espoir project. The Labrador West Transmission Project was under budget by \$316,697,500 in 2017, and according to Hydro, this project variance is primarily due to the 2014 suspension of the project until the completion of the Alderon’s financing plan. The Penstock 2 Refurbishment – Bay d’Espoir project, was under budget by \$5,447,400 in 2017, and according to Hydro, this project variance is primarily attributed to lower than estimated quantity of weld refurbishment, which could only be determined during the detailed inspection work that was completed as a part of the project. The budget allowed for 920 meters of weld repair, a similar magnitude that was required for the refurbishment of Penstock #1, however only required 440 meters.

As discussed earlier in this report, the Company has provided detailed explanations on budget to actual variances in its ‘Capital Expenditures and Carryover Report’. For a complete review of the budget variance we refer the reader to the Company’s ‘Capital Expenditures and Carryover Report’.

Allowance for Unforeseen Events

Guideline 1900.6 sets out the requirements that Hydro must follow regarding these expenditures. These include the following:

- 1 • “Before proceeding with work using the Allowance for Unforeseen Items account, or as soon
2 as practical thereafter, the utility must notify the Board in writing that it intends to proceed
3 with an expenditure greater than \$50,000 without the approval of the Board using the
4 Allowance for Unforeseen Items account. This notice must set out the detailed circumstances,
5 including the justification for the expenditure and the reason for the use of the Allowance for
6 Unforeseen Items account, providing to the extent available at the time, a scope and costing
7 for the expenditure.”
- 8 • “Within 30 days after the completion of the work the utility shall file a detailed report setting
9 out:
- 10 i. the circumstances of the expenditure;
11 ii. any reliability or safety issues;
12 iii. why the work was not anticipated in the annual capital budget;
13 iv. the alternatives considered;
14 v. the financial effects of each alternative and the reasons for the chosen alternative;
15 vi. a timeline setting out all relevant dates;
16 vii. the nature and scope of the work;
17 viii. the detailed costs incurred; and
18 ix. any other implications for other aspects of the utility business/systems.
19

20 This asset category has an allowance amount of \$2,040,000. The Board approved supplementary
21 amounts of \$500,000 in Order No. P.U. 15 (2017), \$540,000 in Order No. P.U. 27 (2017), and the
22 contingency funds of \$1,000,000 for the ‘Allowance for Unforeseen Events’. Actual costs incurred by
23 Hydro were \$5,645,800. From our review, we noted the following uses of the ‘Allowance for
24 Unforeseen Events’:
25

- 26 • Structure Replacement for TL 212 and TL 201 – On March 11, 2017, an intense low pressure
27 system tracked over the province bringing snow and intense winds, with gusts being recorded
28 by Environment Canada at 180 km/hr. These winds caused the failure of three structures on
29 two of Hydro’s transmission lines that supply power to the Burin and Avalon Peninsulas. Two
30 of these structures were on TL 212, a 138 kV transmission line, and the other on TL 201, a 230
31 kV transmission line. According to Hydro, replacement of the three structures was of an
32 urgent and unforeseen nature and was required to restore and maintain reliable service to
33 customers during the winter. Capital costs of \$506,200 were incurred in 2017 and these costs
34 are currently included in rate base, pending approval from the Board.
35
- 36 • Holyrood Unit 2 Fire Damage Restoration – On May 1, 2017, a fire occurred on the Northeast
37 corner of the Unit 2 boiler in the Holyrood Thermal Generating Plant causing a unit trip,
38 resulting in the loss of 165 MW of generation on the Island Interconnected System. According
39 to Hydro, this significant reduction in generation capacity at that time could not be sustained;
40 as a result, sectional replacement of electrical, controls, instrumentation cables and conduits,
41 and the replacement of the motor control center starter were required to restore and maintain
42 reliable service to customers. Due to the presence of asbestos, a detailed assessment was not
43 immediately possible, and as a result, the asbestos abatement process was expedited. According
44 to Hydro, the extensive asbestos cleaning and replacement of cabling and equipment was of
45 urgent nature and was required to enable Hydro to restore and maintain reliable service to
46 customers. Capital costs of \$540,800 were incurred in 2017 and these costs are currently
47 included in rate base, pending approval from the Board.
48
- 49 • Bay d’Espoir Penstock 1 – On November 4, 2017 a leak was observed in Penstock 1. The leak
50 occurred at the same location as the cracks that developed on May 21, 2016 and September 14,

1 2016, making this the third leak in 18 months. Results from the 2016 failure investigation
2 identified that the area where the leaks have occurred was the highest stress point on the
3 penstock, and as a result, additional backfill support was already scheduled to be completed in
4 2018. Upon discovery of the leak, Penstock 1 was removed from service to minimize further
5 damage, resulting in the Bay d'Espoir Unit 1 and 2 being unavailable. According to Hydro, due
6 to the necessity of returning Bay d'Espoir Unit 1 and 2 back to service prior to the winter
7 season, and the requirement to ensure reliability through the winter, an emergency repair and
8 upgrade project was executed. Given the risk of failure of a repair-only option, the
9 advancement of a portion of the 2018 Backfill Refurbishment Project was deemed necessary
10 by Hydro. According to Hydro, the placement of structural soil cover on Bay d'Espoir
11 Penstock 1 and the reinforcement of the Penstock in this area are of urgent and unforeseen
12 nature, and are required to enable Hydro to provide reliable service to customers. Capital costs
13 of \$4,598,800 were incurred in 2017 and these costs are currently included in rate base, pending
14 approval from the Board.
15

16 Board Order P.U. 13 (2017)
17

18 In Order No. P.U. 13 (2017), the Board approved \$11,425,200 for expenditures at the Bay d'Espoir
19 Hydroelectric Generating Facility; \$9,063,700 to inspect and refurbish Bay d'Espoir Penstock 2 and
20 \$2,361,500 to complete a major overhaul on the Bay d'Espoir Unit 3 Turbine. With regards to the
21 \$9,063,700 approved to inspect and refurbish the Penstock 2, the Board ordered Hydro to file an
22 analysis by a qualified engineer (or other expert), containing findings on the weld condition and
23 indicating whether or not the work must proceed; this report was filed with the Board on May 15, 2017.
24 Hydro was also ordered to file copies of any subsequent inspection and assessment reports in
25 connection with the refurbishment; a subsequent report was filed with the Board on August 9, 2017.
26

27 **Based upon our analysis, Hydro failed to file a report on the use of the Allowance for**
28 **Unforeseen Events within 30 days of the completion of the work on the following occasion:**

- 29 • **Emergency Repairs Penstock 1 – Bay d'Espoir. This project was completed on**
30 **December 15, 2017, however the report was not filed with the Board until January 19,**
31 **2018.**

32
33 **Capital Expenditure Reports**

34 Confirmation was received from the Board that the Company filed quarterly Capital Expenditure
35 reports for the 2017 calendar year.