

*Financial Performance: 2015 to 2020E*

**Newfoundland Power Inc.**

**Financial Performance**  
**2015 to 2020E**  
**Statements of Income**  
**(\$000s)**

	<u>Actual</u>			<u>Forecast</u>		
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019E</u>	<u>2020E</u>
1 Revenue from rates	639,631	661,381	661,884	658,466	672,286	673,937
2 Excess earnings	-	68	-	-	-	-
3 Transfers from (to) the RSA	7,414	4,856	3,797	(1,663)	(6,032)	(6,448)
4	<u>647,045</u>	<u>666,305</u>	<u>665,681</u>	<u>656,803</u>	<u>666,254</u>	<u>667,489</u>
5						
6 Purchased power expense	424,430	443,311	435,306	432,443	447,307	447,324
7 DMI account adjustments	-	-	(2,128)	-	-	-
8 Amortization of Weather Normalization Balance	(2,335)	-	-	-	-	-
9 Wholesale Rate Change Flow-Through	-	-	7,071	-	-	-
10	<u>422,095</u>	<u>443,311</u>	<u>440,249</u>	<u>432,443</u>	<u>447,307</u>	<u>447,324</u>
11						
12 Contribution	<u>224,950</u>	<u>222,994</u>	<u>225,432</u>	<u>224,360</u>	<u>218,947</u>	<u>220,165</u>
13						
14 Other revenue	<u>5,206</u>	<u>5,234</u>	<u>6,283</u>	<u>6,380</u>	<u>5,584</u>	<u>5,375</u>
15						
16 Other expenses:						
17 Operating expenses <sup>1</sup>	55,157	56,851	59,915	61,620	64,682	66,571
18 Employee future benefit costs	26,355	18,441	17,039	14,029	9,080	7,566
19 Deferred cost recoveries and amortizations	3,990	2,064	(1,032)	(1,032)	-	-
20 Depreciation	51,851	55,190	57,487	59,801	62,314	64,797
21 Finance charges	<u>35,161</u>	<u>34,643</u>	<u>34,894</u>	<u>35,768</u>	<u>35,944</u>	<u>37,055</u>
22	<u>172,514</u>	<u>167,189</u>	<u>168,303</u>	<u>170,186</u>	<u>172,020</u>	<u>175,989</u>
23						
24 Income Before Income Taxes	57,642	61,039	63,412	60,554	52,511	49,551
25 Income taxes <sup>1</sup>	<u>16,529</u>	<u>18,152</u>	<u>19,424</u>	<u>18,137</u>	<u>15,835</u>	<u>15,005</u>
26						
27 Net Income	41,113	42,887	43,988	42,417	36,676	34,546
28 Preferred Dividends	<u>556</u>	<u>555</u>	<u>555</u>	<u>552</u>	<u>552</u>	<u>552</u>
29						
30 Earnings applicable to Common Shares <sup>1</sup>	<u>40,557</u>	<u>42,332</u>	<u>43,433</u>	<u>41,865</u>	<u>36,124</u>	<u>33,994</u>
31 <b>Rate of Return and Credit Metrics</b>						
32 Rate of Return on Rate Base (%)	7.48	7.31	7.22	7.00	6.35	6.09
33 Regulated Return on Book Equity (%)	8.98	8.90	8.93	8.47	7.05	6.45
34 Interest Coverage (times)	2.3	2.4	2.5	2.4	2.2	2.0
35 CFO Pre-W/C + Interest / Interest (times)	3.8	4.0	4.0	4.0	3.7	3.7
36 CFO Pre-W/C / Debt (percentage) (%)	17.5	18.0	17.8	17.3	15.8	15.4

<sup>1</sup> Shown after adjustment for non-regulated expenses.

**Revision note:** Existing forecast for 2019 and 2020 updated to reflect the July 1, 2018 rate change.

**Newfoundland Power Inc.**

**Financial Performance  
2015 to 2020E  
Statements of Retained Earnings  
(\$000s)**

	<u>Actual</u>			<u>Forecast</u>		
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019E</u>	<u>2020E</u>
1 Balance - Beginning	366,426	395,934	414,954	417,517	430,876	453,022
2 Net income for the period	39,314	40,508	41,526	40,132	34,537	32,324
3 Allocation of Part VI.1 tax	245	533	11	1,025	752	752
4	<u>405,985</u>	<u>436,975</u>	<u>456,491</u>	<u>458,674</u>	<u>466,165</u>	<u>486,098</u>
5						
6 Dividends						
7 Preference shares	556	555	555	552	552	552
8 Common shares	9,495	21,466	38,419	27,246	12,591	24,562
9	<u>10,051</u>	<u>22,021</u>	<u>38,974</u>	<u>27,798</u>	<u>13,143</u>	<u>25,114</u>
10 Balance - End of Period	<u>395,934</u>	<u>414,954</u>	<u>417,517</u>	<u>430,876</u>	<u>453,022</u>	<u>460,984</u>

**Revision note:** Existing forecast for 2019 and 2020 updated to reflect the July 1, 2018 rate change.

**Newfoundland Power Inc.**

**Financial Performance  
2015 to 2020E  
Balance Sheets  
(\$000s)**

	Actual			Forecast		
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019E</u>	<u>2020E</u>
<b>Assets</b>						
<b>Current assets</b>						
Accounts receivable	80,600	75,639	79,696	87,642	89,755	92,271
Income taxes receivable	9,105	-	68	-	-	-
Materials and supplies	1,435	1,419	1,465	1,499	1,527	1,556
Prepaid expenses	1,304	1,842	2,022	2,069	2,108	2,148
Regulatory assets	14,545	12,783	14,027	10,860	1,090	1,532
	<u>106,989</u>	<u>91,683</u>	<u>97,278</u>	<u>102,070</u>	<u>94,480</u>	<u>97,507</u>
<b>Property, plant and equipment</b>	1,038,108	1,082,095	1,118,644	1,154,017	1,190,603	1,227,804
<b>Intangible assets</b>	18,264	21,168	22,501	24,669	26,800	27,955
<b>Regulatory assets</b>	227,850	334,725	337,764	316,561	315,022	307,654
<b>Defined benefit pension plans</b>	102,964	9,164	11,206	19,338	26,153	33,640
<b>Other assets</b>	1,301	1,488	1,631	1,622	1,613	1,614
	<u>1,495,476</u>	<u>1,540,323</u>	<u>1,589,024</u>	<u>1,618,277</u>	<u>1,654,671</u>	<u>1,696,174</u>
<b>Liabilities and Shareholders' Equity</b>						
<b>Current Liabilities</b>						
Short-term borrowings	2,404	2,349	3,575	-	-	-
Accounts payable and accrued charges	80,719	78,535	83,775	79,045	79,117	78,505
Interest payable	7,246	6,623	6,785	6,646	6,536	6,606
Income taxes payable	-	495	-	-	-	-
Defined benefit pension plans	239	233	1,055	252	225	218
Other post employment benefits	2,971	3,388	3,640	3,703	3,709	4,165
Regulatory liabilities	-	1,032	1,032	-	-	-
Current installments of long-term debt	53,750	66,350	18,600	52,899	63,567	80,314
	<u>147,329</u>	<u>159,005</u>	<u>118,462</u>	<u>142,545</u>	<u>153,154</u>	<u>169,808</u>
<b>Regulatory liabilities</b>	139,768	144,451	156,229	160,471	168,499	177,436
<b>Defined benefit pension plans</b>	6,643	5,859	5,263	-	-	-
<b>Other post employment benefits</b>	83,565	88,570	78,151	79,411	80,805	81,892
<b>Other liabilities</b>	1,286	786	1,066	1,066	1,066	1,066
<b>Deferred income taxes</b>	128,322	139,750	157,935	155,920	156,550	155,922
<b>Long-term debt</b>	513,369	507,697	575,163	568,750	562,337	569,828
<b>Shareholders' Equity</b>						
<b>Common shares</b>	70,321	70,321	70,321	70,321	70,321	70,321
<b>Preference shares</b>	8,939	8,930	8,917	8,917	8,917	8,917
<b>Retained earnings</b>	395,934	414,954	417,517	430,876	453,022	460,984
	<u>475,194</u>	<u>494,205</u>	<u>496,755</u>	<u>510,114</u>	<u>532,260</u>	<u>540,222</u>
	<u>1,495,476</u>	<u>1,540,323</u>	<u>1,589,024</u>	<u>1,618,277</u>	<u>1,654,671</u>	<u>1,696,174</u>

Revision note: Existing forecast for 2019 and 2020 updated to reflect the July 1, 2018 rate change.

**Newfoundland Power Inc.**

**Financial Performance**  
**2015 to 2020E**  
**Statements of Cash Flows**  
**(\$000s)**

	Actual			Forecast		
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019E</u>	<u>2020E</u>
<b>1 Cash From (Used In) Operating Activities</b>						
2 Net Earnings	39,314	40,508	41,526	40,132	34,537	32,324
3						
<b>4 Items not affecting cash:</b>						
5 Amortization of property, plant and equipment	54,172	57,673	59,885	62,212	64,614	67,011
6 Amortization of intangible assets and other	2,790	3,021	3,320	3,476	3,806	4,128
7 Change in long-term regulatory assets and liabilities	(1,649)	2,334	525	8,165	4,464	8,600
8 Deferred income taxes	(698)	(353)	2,291	(2,013)	630	(628)
9 Employee future benefits	4,832	4,170	3,025	(1,654)	(6,374)	(8,194)
10 Other	(318)	(59)	(460)	581	293	284
11	<u>98,443</u>	<u>107,294</u>	<u>110,112</u>	<u>110,899</u>	<u>101,970</u>	<u>103,525</u>
12						
13 Change in non-cash working capital	4,617	11,824	(144)	(12,744)	5,172	(2,555)
14	<u>103,060</u>	<u>119,118</u>	<u>109,968</u>	<u>98,155</u>	<u>107,142</u>	<u>100,970</u>
15						
<b>16 Investing Activities</b>						
17 Capital expenditures	(111,236)	(101,257)	(91,774)	(92,534)	(95,825)	(98,308)
18 Intangible asset expenditures	(4,748)	(5,703)	(4,422)	(5,457)	(5,750)	(5,092)
19 Contributions from customers and security deposits	2,508	3,908	4,367	3,500	3,500	3,500
20 Other	551	(630)	125	9	9	(1)
21	<u>(112,925)</u>	<u>(103,682)</u>	<u>(91,704)</u>	<u>(94,482)</u>	<u>(98,066)</u>	<u>(99,901)</u>
22						
<b>23 Financing Activities</b>						
24 Change in short-term borrowings	(1,439)	(55)	1,226	(3,574)	-	-
25 Net proceeds (repayment) of committed credit facility	(47,000)	43,000	(48,500)	34,299	10,667	(13,605)
26 Proceeds from long-term debt	75,000	-	75,000	-	-	75,000
27 Repayment of long-term debt	(6,250)	(36,250)	(6,600)	(6,600)	(6,600)	(36,950)
28 Proceeds from related party loan	35,500	-	-	-	-	-
29 Repayment of related party loan	(35,500)	-	-	-	-	-
30 Payment of debt financing costs	(386)	(101)	(403)	-	-	(400)
31 Redemption of preference shares	(9)	(9)	(13)	-	-	-
32 Dividends						
33 Preference Shares	(556)	(555)	(555)	(552)	(552)	(552)
34 Common Shares	(9,495)	(21,466)	(38,419)	(27,246)	(12,591)	(24,562)
35	<u>9,865</u>	<u>(15,436)</u>	<u>(18,264)</u>	<u>(3,673)</u>	<u>(9,076)</u>	<u>(1,069)</u>
36						
<b>37 Change in Cash</b>	-	-	-	-	-	-
<b>38 Cash (Bank Indebtedness), Beginning of Year</b>	-	-	-	-	-	-
<b>39 Cash (Bank Indebtedness), End of Year</b>	-	-	-	-	-	-

**Revision note:** Existing forecast for 2019 and 2020 updated to reflect the July 1, 2018 rate change.

**Newfoundland Power Inc.**

**Financial Performance**  
**2015 to 2020E**  
**Average Rate Base<sup>1</sup>**  
**(\$000s)**

	Actual			Forecast		
	2015	2016	2017	2018	2019E	2020E
1 Plant Investment	937,986	986,570	1,025,659	1,057,788	1,091,011	1,123,671
2						
3 Additions to Rate Base						
4 Defined Benefit Pension Costs	101,384	96,802	93,396	90,829	91,210	95,350
5 Deferred Credit Facility Costs	64	75	102	96	68	39
6 Cost Recovery Deferral - Seasonal Rates	59	25	-	-	-	-
7 Cost Recovery Deferral - Hearing Costs	161	341	512	171	-	-
8 Cost Recovery Deferral - Reg. Amortizations	554	-	-	-	-	-
9 Cost Recovery Deferral - 2012 Cost of Capital	294	-	-	-	-	-
10 Cost Recovery Deferral - 2013 Revenue Shortfall	563	-	-	-	-	-
11 Cost Recovery Deferral - Conservation	6,200	9,384	12,710	15,164	16,993	17,219
12 Weather Normalization Reserve	1,386	3,066	3,246	2,250	(136)	-
13 Demand Management Incentive Account	(223)	-	745	745	-	-
14 Customer Finance Programs	1,174	1,276	1,419	1,513	1,545	1,575
15	111,616	110,969	112,130	110,768	109,680	114,183
16						
17 Deductions from Rate Base						
18 Other Post Employee Benefits	35,822	42,646	49,334	54,341	57,846	61,415
19 Customer Security Deposits	974	1,036	926	1,066	1,066	1,066
20 Accrued Pension Obligation	4,795	5,120	5,430	5,304	5,174	5,469
21 Accumulated Deferred Income Taxes	1,899	1,727	3,051	4,761	6,977	9,808
22 Excess Earnings Account	49	25	-	-	-	-
23 2016 Cost Recovery Deferrral	-	723	1,084	362	-	-
24	43,539	51,277	59,825	65,834	71,063	77,758
25						
26 Average Rate Base Before Allowances	1,006,063	1,046,262	1,077,964	1,102,722	1,129,628	1,160,096
27						
28 Cash Working Capital Allowance	6,739	8,318	8,153	8,251	8,438	8,395
29						
30 Materials and Supplies Allowance	6,280	6,464	6,137	5,821	5,925	6,037
31						
32 Average Rate Base At Year End	1,019,082	1,061,044	1,092,254	1,116,794	1,143,991	1,174,528

<sup>1</sup> All amounts shown are averages.

**Revision note:** Existing forecast for 2019 and 2020 updated to reflect the July 1, 2018 rate change.

**Newfoundland Power Inc.**  
**Financial Performance**  
**2015 to 2020E**  
**Weighted Average Cost of Capital**  
**(\$000s)**

	Actual			Forecast		
	2015	2016	2017	2018	2019E	2020E
<b>Average Capitalization</b>						
Debt	559,350	572,841	586,726	609,381	623,704	637,984
Preference Shares	8,944	8,935	8,924	8,917	8,917	8,917
Common Equity	451,501	475,765	486,557	494,517	512,270	527,323
	1,019,795	1,057,541	1,082,207	1,112,815	1,144,891	1,174,224
<b>Average Capital Structure (%)</b>						
Debt	54.85	54.17	54.22	54.76	54.48	54.33
Preference Shares	0.88	0.84	0.82	0.80	0.78	0.76
Common Equity	44.27	44.99	44.96	44.44	44.74	44.91
	100.00	100.00	100.00	100.00	100.00	100.00
<b>Cost of Capital (%)</b>						
Debt <sup>1</sup>	6.28	6.05	5.95	5.87	5.76	5.81
Preference Shares	6.22	6.21	6.22	6.19	6.19	6.19
Common Equity	8.98	8.90	8.93	8.47	7.05	6.45
<b>Weighted Average Cost of Capital (%)</b>						
Debt	3.44	3.28	3.22	3.21	3.14	3.15
Preference Shares	0.05	0.05	0.05	0.05	0.05	0.05
Common Equity	3.98	4.00	4.01	3.76	3.16	2.89
	7.47	7.33	7.28	7.02	6.35	6.09

Cost of debt is shown net of AFUDC. This is consistent with the cost of debt used in the calculation of return on rate base. For regulatory reporting purposes, the embedded cost of debt shown in Return 25 of the 2015 to 2017 Annual Report to the Board can be reconciled to the reported cost of debt above as follows:

	2015	2016	2017
Cost of Debt (Line 14) (%)	6.28	6.05	5.95
AFUDC (%)	0.22	0.22	0.17
Cost of Debt - Return 25 (%)	6.50	6.27	6.12

**Revision note:** Existing forecast for 2019 and 2020 updated to reflect the July 1, 2018 rate change.

**Newfoundland Power Inc.**

**Financial Performance  
2015 to 2020E  
Rate of Return on Rate Base  
(\$000s)**

	Actual			Forecast		
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019E</u>	<u>2020E</u>
1 Regulated Return on Equity	40,557	42,332	43,433	41,865	36,124	33,994
2 Return on Preferred Equity	556	555	555	552	552	552
3	<u>41,113</u>	<u>42,887</u>	<u>43,988</u>	<u>42,417</u>	<u>36,676</u>	<u>34,546</u>
4						
5 Finance Charges						
6 Interest on Long-term Debt	35,020	34,846	35,013	35,789	35,374	37,080
7 Other Interest	1,119	867	659	715	1,349	777
8 Amortization of Bond Issue Expenses	242	223	234	232	224	219
9 AFUDC	<u>(1,240)</u>	<u>(1,304)</u>	<u>(1,025)</u>	<u>(984)</u>	<u>(1,021)</u>	<u>(1,039)</u>
10	<u>35,141</u>	<u>34,632</u>	<u>34,881</u>	<u>35,752</u>	<u>35,926</u>	<u>37,037</u>
11						
12 Return on Rate Base	<u>76,254</u>	<u>77,519</u>	<u>78,869</u>	<u>78,169</u>	<u>72,602</u>	<u>71,583</u>
13						
14 Average Rate Base	<u>1,019,082</u>	<u>1,061,044</u>	<u>1,092,254</u>	<u>1,116,794</u>	<u>1,143,991</u>	<u>1,174,528</u>
15						
16 Rate of Return on Rate Base (%)	7.48	7.31	7.22	7.00	6.35	6.09

**Revision note:** Existing forecast for 2019 and 2020 updated to reflect the July 1, 2018 rate change.

Newfoundland Power Inc.

Financial Performance  
2015 to 2020E  
Inputs and Assumptions

1	<b>Energy Forecasts :</b>	Energy forecasts are based on economic indicators taken from the Conference Board of
2		Canada, Provincial Outlook, Long Term Economic Forecast, dated January 19, 2018.
3		
4	<b>Revenue Forecast :</b>	The revenue forecast is based on the Customer, Energy and Demand forecast dated April 6, 2018.
5		
6		Forecast revenues for 2015 through 2018 reflects, (i) recovery through the RSA of amounts associated
7		with the Energy Supply Cost Variance Adjustment Clause (ii) recovery through the RSA of amounts
8		associated with variances in employee future benefit costs, (iii) recovery through the RSA of amounts
9		associated with the July 1, 2017 Hydro supply cost rate increase, (iv) recovery through the RSA
10		of amounts associated with the Weather Normalization reserve; and (iv) recovery through the RSA of
11		certain costs related to the implementation of the CDM program portfolio; all of which were approved
12		by the Board in Order Nos. P.U. 32 (2007), P.U. 43 (2009), P.U. 31 (2010), P.U. 8 (2011),
13		P.U. 13 (2013), P.U. 18 (2015) and P.U. 23 (2017).
14		
15		Forecast revenues for 2019 and 2020 also reflect the July 1, 2018 rate change approved in Order No.
16		P.U. 20 (2018).
17	<b>Purchased Power Expense :</b>	Purchased power expense reflects Newfoundland & Labrador Hydro's rates approved by the Board
18		and the Customer, Energy and Demand Forecast dated April 6, 2018.
19		
20		Purchased Power expense reflects the operation of the Demand Management Incentive Account
21		approved by the Board in Order No. P.U. 32 (2007). This mechanism provides for recovery of demand
22		costs that are in excess of unit cost demand costs included in the most recent test year.
23		
24		Purchased power expense reflects the operation of the wholesale rate change flow-through account
25		resulting from the implementation of the Revised Utility Base Rate as approved in Order No.
26		P.U. 23 (2017).
27		
28		Forecast purchased power costs for 2019 and 2020 also reflect the July 1, 2018 rate change approved
29		in Order No. P.U. 20 (2018).
30		
31	<b>Employee Future Benefit</b>	Pension funding is based on the actuarial valuation dated as at December 31, 2017.
32	<b>Costs :</b>	
33		Pension expense and OPEBs expense discount rate is 3.60% for 2018 through 2020.
34		
35		Forecast return on pension assets is assumed to be 5.25% for 2018 through 2020.
36		
37	<b>Cost recovery deferrals:</b>	The 2018 to 2020 forecasts include the deferred recovery over a 7-year period
38		of certain conservation program costs as reflected in the Application.
39		
40		The 2018 forecast includes the deferred recovery over a 30-month period
41		of \$0.9 million in external costs related to the 2016/2017 General Rate Application.
42		
43		The forecast also includes the amortization, over a 30-month period, of a
44		\$2.6 revenue surplus related to a July 1, 2016 rate implementation date.
45		



**Newfoundland Power Inc.**

**Financial Performance  
2015 to 2020E  
Inputs and Assumptions**

1	<b>Depreciation Rates :</b>	Depreciation rates are based on the <i>2014 Depreciation Study</i> .
2		
3		Depreciation costs for 2016 through 2020 includes an approximately \$0.6 million
4		annual reserve variance adjustment resulting from the <i>2014 Depreciation Study</i> .
5		
6	<b>Operating Costs :</b>	The operating forecast for 2018 reflects the most recent management estimates. Operating
7		forecasts for 2019 and 2020 reflect projected increases of 1.75% and 2.00% per year for labour,
8		and non labour increases based upon the GDP deflator.
9		
10	<b>Capital Expenditure :</b>	Capital Expenditures for 2018 through 2020 are based on the <i>2018 Capital Budget Application</i>
11		adjusted for known carryovers in 2018.
12		
13	<b>Short-Term Interest Rates :</b>	Average short-term interest rates are assumed to be 2.60% for 2018, 3.27% for 2019 and 3.60%
14		for 2020.
15		
16	<b>Long-Term Debt :</b>	A \$75.0 million long-term debt issue is forecast to be completed in April 2020. The debt is forecast for
17		30 years at a coupon rate of 5.25%. Debt repayments will be in accordance with the normal sinking
18		fund provisions for existing outstanding debt.
19		
20	<b>Dividends :</b>	Common dividend payouts are forecast based on maintaining a target common equity
21		component near 45%.
22		
23	<b>Income Tax :</b>	Income tax expense reflects a statutory income tax rate of 30% for 2018 through 2020.

**Revision note:** Existing forecast for 2019 and 2020 updated to reflect the July 1, 2018 rate change.