NP 2022-2023 General Rate Application
Information Item - #2
Filed: 2021-10-08 Board Secretary: CB

Grant Thornton
An instinct for growth™

Board of Commissioners of Public Utilities

Financial Consultants Report
2020 Annual Financial Review of
Newfoundland Power Inc.

Table of Contents

Restrictions, Qualifications and Independence

Purpose

This report was prepared for the Board of Commissioners of Public Utilities ("the Board") in Newfoundland and Labrador. The purpose of our engagement was to present our observations, findings and recommendations with respect to our 2020 annual financial review of Newfoundland Power Inc. ("the Company") (Newfoundland Power").

Restrictions and Limitations

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

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

We acknowledge that the Board is bound by the Access to Information and Protection of Privacy Act 2015 and agree that the Board may use its sole discretion in any determination of whether and, if so, in what form, this Report may be required to be released under this Act.

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

Executive Summary

This report to the Board presents our observations, findings and recommendations with respect to our 2020 Annual Financial Review of Newfoundland Power. Below is a summary of the key observations and findings included in our report.

- The average rate base for 2020 was $1,181,897,000 which is an increase of $28,341,000 (2.5%) over the average rate base for 2019 of $1,153,556,000. The Company's calculation of the return on average rate base for 2020 was 7.04% (2019 – 6.97%) compared to an approved rate of return of 7.04%. The actual rate of return was within the range approved by the Board (6.86% to 7.22%). The calculations of average rate base and rate of return on average rate base are in accordance with established practice and Board orders.

- The Company's calculation of average common equity for 2020 was $516,759,000 (2019 - $510,388,000). The Company's actual return on average common equity for the year ended December 31, 2020 was 8.93% (2019 – 8.79%). In Order No. P.U. 32 (2007), the Board ordered that if in a given year the actual rate of return on equity ("ROE") is greater than 50 bps above the test year calculation of the cost of equity for the same year, the Company must file a report with its annual return explaining the facts and circumstances contributing to the difference. In 2019 the cost of common equity was 8.50% as per Order No. P.U. 2 (2019). The actual return on average common equity for 2020 was 8.93% as noted above. This return was within the 50-basis point limit and as such no report was required.

- Total actual capital expenditures (excluding capital projects carried forward from prior years) were 11.66% under budget in 2020. Total capital expenditures (including projects carried over from prior years) were over the approved budget on a net basis by $753,000 (0.63%). However, for each category of expenditure, the variances ranged from an over-budget of 9.63% to an under-budget of 100.00%.

- The Company experienced a 4.60% increase in revenue from rates in 2020 as compared to 2019. The increase is primarily due to higher wholesale electricity rates effective October 1, 2019. These factors were partially offset by the impact of lower electricity sales.

- Overall, net operating expenses increased by $7,634,000 from 2019 to 2020. Significant operating expense variances are discussed throughout our report. We conducted an examination of other costs including, depreciation, interest and income taxes and have noted that nothing has come to our attention to indicate that these costs for 2020 are unreasonable.

- During our review of non-regulated expenses, nothing came to our attention to indicate that the amounts reported are unreasonable or not in accordance with Board Orders.

- Our analysis of the Company's regulatory assets and liabilities indicated that all were in accordance with applicable Board Orders.

- The 2020 Pension Expense Variance Deferral Account ("PEVDA") operated in accordance with Order No. P.U. 43 (2009).

- The 2020 Other Post-Employment Benefits Cost Variance Deferral Account ("OPEBVDA") operated in accordance with Order No. P.U. 31 (2010).

- The Company continues to undertake initiatives aimed at improving reliability of service and efficiency of operations as is summarized in the Section entitled 'Productivity and Operating Improvements'. During 2020 the Company met six out of nine of its planned performance measures. The Company fell short of its targets in "Outage Hours/Customer(SAIDI)", "Outage/Customer (SAIFI)"and "Trouble Call Responded to Within 2 Hours", as discussed later in this report.

Introduction

This report to the Board presents our observations, findings and recommendations with respect to our 2020 Annual Financial Review of Newfoundland Power.

Scope and Limitations

Our analysis was carried out in accordance with the following Terms of Reference:

1. Examine the Company's system of accounts to ensure that it can provide information sufficient to meet the reporting requirements of the Board.

2. Review the Company's calculations of return on rate base, return on equity, embedded cost of debt, capital structure and interest coverage to ensure that they are in compliance with Board Orders.

3. Conduct an examination of operating and administrative expenses, purchased power, depreciation, interest and income taxes to review them in relation to sales of power and energy and their compliance with Board Orders.

   Our examination of the foregoing will include, but is not limited to, the following expense categories:

   - advertising;
   - amortization of regulatory costs;
   - bad debts (uncollectible bills);
   - company pension plan;
   - conservation and demand management;
   - costs associated with curtailable rates;
   - donations;
   - general expenses capitalized (GEC);
   - income taxes;
   - interest and finance charges;
   - membership fees;
   - miscellaneous;
   - non-regulated expenses;
   - purchased power;
   - salaries and benefits, and
   - travel.

4. Review intercompany charges and assess compliance with Board Orders including requirements for additional reports pursuant to Order No. P.U. 19 (2003), Order No. P.U. 32 (2007), Order No. P.U. 43 (2009), and Order No. P.U. 13 (2013).

5. Examine the Company's 2020 capital expenditures in comparison to budgets and prior years and follow up on any significant variances. Included in this review will be an analysis of amounts included in 'Allowance for Unforeseen Items'.

6. Review the Company's rates of depreciation and assess their compliance with the Gannett Fleming 2014 Depreciation Study and review the calculations of depreciation expense.

7. Review Minutes of Board of Directors' meetings.

8. Review the Company's initiatives with respect to productivity improvements, rationalization of operations and expenditure reductions. Inquire as to the Company's reporting on key performance indicators.

9. Conduct an examination of the changes to deferred charges and regulatory deferrals.

10. Conduct an examination of the pension expense variance deferral account to assess compliance with Order No. P.U. 43 (2009).

11. Conduct an examination of the OPEBs Cost Variance Deferral Account and the amortization of the Company's transitional balance to assess compliance with Order No. P.U. 31 (2010).

The nature and extent of the procedures which we performed in our financial review varied based on the nature of the items listed above. In general, our procedures were comprised of:

- inquiry and analytical procedures with respect to financial information as provided by the Company; and
- examination of, on a test basis where appropriate, documentation supporting amounts included in the Company's records.

The financial statements of the Company for the year ended December 31, 2020 have been audited by Deloitte LLP, Chartered Professional Accountants, who have expressed their unqualified opinion on the fairness of the statements in their report dated February 11, 2021. In the course of completing our procedures we have, in certain circumstances, referred to the audited financial statements and the historical financial information contained therein.

System of Accounts

Scope: ***Examine the Company's system of accounts to ensure that it can provide information sufficient to meet the reporting requirements of the Board.***

Section 58 of the *Public Utilities Act* permits the Board to prescribe the form of accounts to be maintained by the Company.

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

On March 31, 2021, the Company filed a revised system of accounts as part of its 2020 Annual Report. In submitting these changes, the Company noted that the revisions were mainly due to the addition of two new accounts and some minor wording changes to improve the clarity and accuracy of account descriptions.

Based upon our review of the Company's financial records we have found that they are in compliance with the system of accounts approved by the Board. The system of accounts is comprehensive and well-structured and provides adequate flexibility for reporting purposes.

Return on Rate Base and Equity, Capital Structure and Interest Coverage

Scope: ***Review the Company's calculations of return on rate base, return on equity, capital structure and interest coverage to ensure that they are in compliance with Board Orders.***

Calculation of Average Rate Base

The Company's calculation of its average rate base for the year ended December 31, 2020 which is included on Return 3 of the annual report to the Board was calculated using the Asset Rate Base Method ("ARBM"). The average rate base for 2020 was $1,181,897,000 which is an increase of $28,341,000 (2.5%) over the average rate base for 2019 of $1,153,556,000. The increase was primarily a result of an increase in plant investment.

Our procedures with respect to verifying the calculation of the average rate base were directed towards the verification of the data incorporated in the calculations and the methodology used by the Company. Specifically, the procedures which we performed included the following:

- agreed all carry-forward data to supporting documentation including audited financial statements and internal accounting records, where applicable;

- agreed component data (capital expenditures; depreciation; etc.) to supporting documentation;

- checked the clerical accuracy of the continuity of the rate base for 2020; and

- agreed the methodology used in the calculation of the average rate base to the Public Utilities Act to ensure it is in accordance with Board Orders and established policy and procedure.

1 The following table summarizes the components of the average rate base for 2019 and 2020 (all figures shown are
2 averages):
3

(000)'s	2020	2019
Net Plant Investment (average)		
Plant Investment	$ 1,987,608	$ 1,909,493
Accumulated Depreciation	(809,124)	(771,588)
CIAC's	(44,487)	(41,596)
	1,133,997	1,096,309
Additions to Rate Base (average)		
Deferred Charges *(a)*	90,916	90,842
Cost Recovery Deferral for Hearing Costs *(b)*	371	247
Cost Recovery Deferral – Conservation *(c)*	17,210	16,630
Customer Finance Programs *(d)*	2,296	2,477
Demand Management Incentive Account *(e)*	1,442	941
Weather Normalization Reserve *(f)*	960	3,586
	113,195	114,723
Deductions from Rate Base (average)		
Other Post-Employment Benefits *(g)*	64,265	59,452
Customer Security Deposits *(h)*	1,316	1,245
Accrued Pension Obligation *(i)*	5,182	5,060
Deferred Income Taxes *(j)*	11,386	7,488
Cost Recovery Deferral – 2019 Cost Recovery Deferral *(k)*	920	613
	83,069	73,858
Average Rate Base before Allowances	1,164,124	1,137,174
Rate Base Allowances		
Materials and Supplies	7,270	6,475
Cash Working Capital	10,503	9,907
	17,773	16,382
Average Rate Base	$ 1,181,897	$ 1,153,556

(a) The Company's rate base is determined using the ARBM which incorporates average deferred charges into the calculation of rate base. The total average deferred charges of $90,916,000 (2019 - $90,842,000) included in the 2020 rate base consists of average deferred pension costs of $90,862,000 (2019 - $90,751,000) and credit facility costs of $54,000 (2019 - $91,000). The Company has included a schedule of these costs in Return 8.

(b) In Order No. P.U. 2 (2019), the Board approved the 34-month amortization of $1,000,000 in estimated hearing costs related to the 2019/2020 General Rate Application, commencing March 1, 2019 through December 31, 2021. According to the Company, the actual hearing costs for the 2019/2020 General Rate Application were $329,728. The Company transferred $670,272 to the Rate Stabilization Account on March 31, 2019 representing the difference between actual of $329,728 and estimated costs of $1,000,000 as directed by the Board in Order No. P.U. 2 (2019) instead of a reduction in rate base in 2019. The 2020 average rate base includes an addition of $371,000 (average of $494,000 and $247,000 for 2019 and 2020 relating to these hearing costs).

(c) In Order No. P.U. 13 (2013), the Board approved Newfoundland Power's proposed change in definition of conservation program costs and the deferral and amortization of annual conservation program costs over seven years with recovery through the Rate Stabilization Account.

- In 2013 the actual costs incurred and deferred were $2,937,000 ($2,085,000 after tax) resulting in annual amortization of $298,000 in 2014.
- In 2014 the actual costs incurred and deferred were $4,436,000 ($3,150,000 after tax) resulting in additional annual amortization of $450,000 to commence in 2015.
- In 2015 the actual costs incurred and deferred were $4,611,000 ($3,274,000 after tax) resulting in additional annual amortization of $468,000 to commence in 2016.
- In 2016 the actual costs incurred and deferred were $7,200,000 ($5,040,000 after tax) resulting in additional annual amortization of $720,000 to commence in 2017.
- In 2017 the actual costs incurred and deferred were $6,759,000 ($4,731,000 after tax) resulting in additional annual amortization of $676,000 to commence in 2018.
- In 2018 the actual costs incurred and deferred were $6,239,000 ($4,367,000 after tax) resulting in additional annual amortization of $624,000 to commence in 2019.
- In 2019 the actual costs incurred and deferred were $6,864,000 ($4,805,000 after tax) resulting in additional annual amortization of $686,000 to commence in 2020.
- In 2020 the actual costs incurred and deferred were $5,119,000 ($3,583,000 after tax).
- Included in the calculation of the average rate base for 2020 is $17,210,000 (2019 - $16,630,000) related to this deferral.

(d) Customer Finance Programs are comprised of loans provided to customers related to customer conservation programs and contributions in aid of construction. The 2020 average rate base incorporates $2,296,000 (2019 - $2,477,000) related to these programs.

(e) In Order No P.U. 11 (2020), the Board approved the disposition of the 2019 balance of the Demand Incentive Account of $2,687,000 ($1,881,000 after tax) by means of a debit to the Rate Stabilization Account as of March 31, 2020. In Order No. P.U. 14 (2021), the Board approved the disposition of the 2020 balance of the Demand Incentive Account of $1,431,000 ($1,002,000 after tax) by means of a debit to the Rate Stabilization Account as of March 31, 2021. The 2020 average rate base incorporates $1,442,000 (2019 - $941,000) related to this account.

(f) During 2020, the Weather Normalization reserve was impacted by the following:

Transfer to RSA:

i. In Order No. P.U. 13 (2013) the Board approved annual balances in the Weather Normalization reserve be recovered from or credited to customers through the Rate Stabilization Account. This resulted in an increase to the reserve of $5,654,000 in 2020 (2019 – $1,517,000 increase).

Other transfers:

i. $3,856,000 increase to the reserve related to the after-tax impact of the Degree Day Normalization Reserve Transfer (2019 – $1,347,000 decrease).
ii. $122,000 decrease to the reserve related to the after tax impact of the Hydro Production Equalization Reserve transfer (2019 - $4,307,000 decrease).

The net impact was a net decrease to the reserve of $9,388,000 (2019 - $4,137,000 increase). The ending balance in this reserve account totaled $3,734,000 compared to a balance of ($5,654,000) at December 31, 2019 (an average of ($960,000) for 2020) (2019 – ($3,586,000)). This represents a balance owed to customers.

(g) Other Post-Employment Benefits is equal to the difference, at December 31, 2020, between the OPEBs liability of $94,457,000 and the OPEBs asset of $27,718,000. The calculation of the 2020 average rate base of $64,265,000 is equal to the average of the December 31, 2020 net liability of $66,739,000 and the December 31, 2019 net liability of $61,791,000.

(h) Customer Security Deposits are comprised of security deposits received from customers for electrical services as outlined with the Board-approved Schedule of Rates, Rules and Regulations. The calculation of the 2020 average rate base incorporates $1,316,000 (2019 - $1,245,000) related to customer security deposits.

(i) The 2020 average rate base calculation incorporates $5,182,000 (2018 - $5,060,000) of Accrued Pension Obligation. This obligation is a result of executive and senior management supplemental pension benefits comprised of a defined benefit plan and a defined contribution plan. The defined benefit plan was closed to new entrants in 1999.

(j) In Order No. P.U. 32 (2007), the Board approved the Company's adoption of the accrual method of accounting for income tax related to pension costs. In Order No. P.U. 31 (2010) the Board approved the Company's adoption of the accrual method of accounting for other post-employment benefits (OPEBs) costs and income tax related to OPEBs. The balance of deferred income taxes related to pension costs and OPEBs included in the 2020 average rate base is ($2,956,000) and ($16,767,000) respectively. The remaining balance of the deferred income tax liability in the amount of $31,109,000 relates to capital assets. This results in an average balance for deferred income tax liability of $11,386,000 (2019 - $7,488,000).

(k) In Order No. P.U. 2 (2019), the Board approved the deferral over a 34-month period of a $2,482,000 (before tax) revenue surplus from March 1, 2019 rate implementation of rates. The 2020 average rate base includes a deduction of $920,000 (2019 - $613,000).

The net change in the Company's average rate base from 2019 to 2020 can be summarized as follows:

(000's)	**2020**	2019
Average rate base - opening balance	**$ 1,153,556**	$ 1,117,341
Change in average deferred charges and deferred regulatory costs	**471**	1,332
Average change in:		
Plant in service	**78,115**	75,078
Accumulated depreciation	**(37,536)**	(32,558)
Contributions in aid of construction	**(2,891)**	(3,122)
Weather normalization reserve	**(2,626)**	442
Other post-employment benefits	**(4,814)**	(4,604)
Future income taxes	**(3,898)**	(3,087)
Rate base allowances	**1,391**	1,982
Customer Finance Programs	**(181)**	499
Demand Management Incentive Acct	**501**	196
Other rate base components (net)	**(191)**	57
Average rate base - ending balance	**$ 1,181,897**	$ 1,153,556

Based upon the results of the above procedures we did not note any discrepancies in the calculation of the 2020 average rate base, and therefore conclude that the 2020 average rate base included in the Company's annual report to the Board is in accordance with established practice and Board Orders.

Return on Average Rate Base

The Company's calculation of the return on average rate base is included on Return 13 of the annual report to the Board. The return on average rate base for 2020 was 7.04% (2019 – 6.97%). Our procedures with respect to verifying the reported return on average rate base included agreeing the data in the calculation to supporting documentation and recalculating the rate of return to ensure it is in accordance with established practice and Board Orders. The return on average rate base is calculated in accordance with the methodology approved in Order No. P.U. 32 (2007).

The actual return on average rate base in comparison to the range of allowed return for each of the years from 2018 to 2020 is set out in the table below.

	2020	2019	2018
Actual Return on Average Rate Base	7.04%	6.97%	7.13%
Upper End of Range set by the Board	7.22%	7.19%	7.22%
Lower End of Range set by the Board	6.86%	6.83%	6.86%

The Board approved the Company's rate of return on average rate base of 7.04% in a range of 6.86% to 7.22% for 2020 in Order No. P.U. 2 (2019). As noted above, the Company's actual return on average rate base for 2020 was 7.04% which was inside the range set by the Board.

As a result of completing these procedures, we can advise that no discrepancies were noted and therefore conclude that the calculation of rate of return on average rate base included in the Company's annual report to the Board is in accordance with established practice.

Capital Structure

In Order No. P.U. 2 (2019), the Board reconfirmed its previous position as per Order No. P.U. 13 (2013) regarding the capital structure for Newfoundland Power and the Board has deemed that the proportion of common equity in the capital structure shall not exceed 45%.

The Company's capital structure for 2020 as reported in Return 24 is as follows:

	2020 Average			2019	2018
		(000's)	**Percent**	Percent	Percent
Debt	**$**	**629,385**	**54.70%**	54.28%	54.53%
Preferred equity[1]		**4,425**	**0.39%**	0.78%	0.80%
Common equity		**516,759**	**44.91%**	44.94%	44.67%
	$	**1,150,569**	**100%**	100%	100%

(1) The Company's preferred shares were redeemed in 2020.

Pursuant to Order No. P.U. 32 (2007), the Company did submit a schedule (Return 25) calculating the cost of embedded debt for the current year. It also indicated the variances in interest expense and average debt over the 2020 test year in Return 26. The embedded cost of debt for 2020 was 5.98% which represents a 2 bps decrease from the 2019 embedded cost of debt of 6.00%.

Based on the information indicated above, we conclude that the capital structure included in the Company's annual report to the Board is in accordance with Order No. P.U. 2 (2019).

Calculation of Average Common Equity and Return on Average Common Equity

The Company's calculation of average common equity and return on average common equity for the year ended December 31, 2020 is included on Return 27 of the annual report to the Board. The average common equity for 2020 was $516,759,000 (2019 - $510,388,000). The Company's actual return on average common equity for 2020 was 8.93% (2019 – 8.79%).

Our procedures focused on verification of the data incorporated in the calculations and on the methodology used by the Company. Specifically, the procedures which we performed included the following:

- agreed all carry-forward data to supporting documentation, including audited financial statements and internal accounting records where applicable;
- agreed component data (earnings applicable to common shares; dividends; regulated earnings; etc.) to supporting documentation;
- checked the clerical accuracy of the continuity of common equity per Order No. P.U. 40 (2005), including the deemed capital structure per Order No. P.U. 19 (2003), Order No. P.U. 32 (2007), Order No. P.U. 43(2009), Order No. P.U. 13 (2013), Order No. P.U. 18 (2016), and Order No. P.U. 2 (2019); and,
- recalculated the rate of return on common equity for 2019 and ensured it was in accordance with established practice, Order No. P.U. 32 (2007) and Order No. P.U. 2 (2019).

In Order No. P.U. 32 (2007), the Board ordered that where in a given year the actual rate of ROE is greater than 50 bps above the test year calculation of the cost of equity for the same year, the Company must file a report with its annual return explaining the facts and circumstances contributing to the difference. Per Order No. P.U. 2 (2019) the approved cost of common equity for 2020 was 8.50%. The actual return on average common equity for 2020 was 8.93%. Therefore, the actual return on average common equity was within the 50-basis point limit and no additional reporting was required.

Based on completion of the above procedures we did not note any discrepancies in the calculations of regulated average common equity or return on regulated average common equity.

Interest Coverage

The level of interest coverage experienced by the Company over the last three years is as follows:

(000's)	2020	2019	2018	2017
Net Income	**$ 43,577**	$ 42,892	$ 41,744	$ 41,526
Income Taxes	**11,893**	11,298	12,280	12,882
Interest on long term debt	**36,811**	35,375	35,788	35,013
Interest during construction	**(949)**	(1,933)	(951)	(1,025)
Other interest and amortization of discount costs	**842**	1,590	931	893
Total	**$ 92,174**	$ 89,222	$ 89,792	$ 89,289
Interest on long term debt	**$ 36,811**	$ 35,375	$ 35,788	$ 35,013
Other interest and amortization of discount costs	**842**	1,590	931	893
Total	**$ 37,653**	$ 36,965	$ 36,719	$ 35,906
Interest Coverage (times)	**2.4**	2.4	2.4	2.5

The above table shows that the interest coverage had not changed from 2018 to 2020.

In Order No. P.U. 43 (2009), the Board was satisfied with the Company's interest coverage ratio of 2.5 times given the Company's capital structure and return on regulated equity. The level of interest coverage realized for 2020 is 2.4 times.

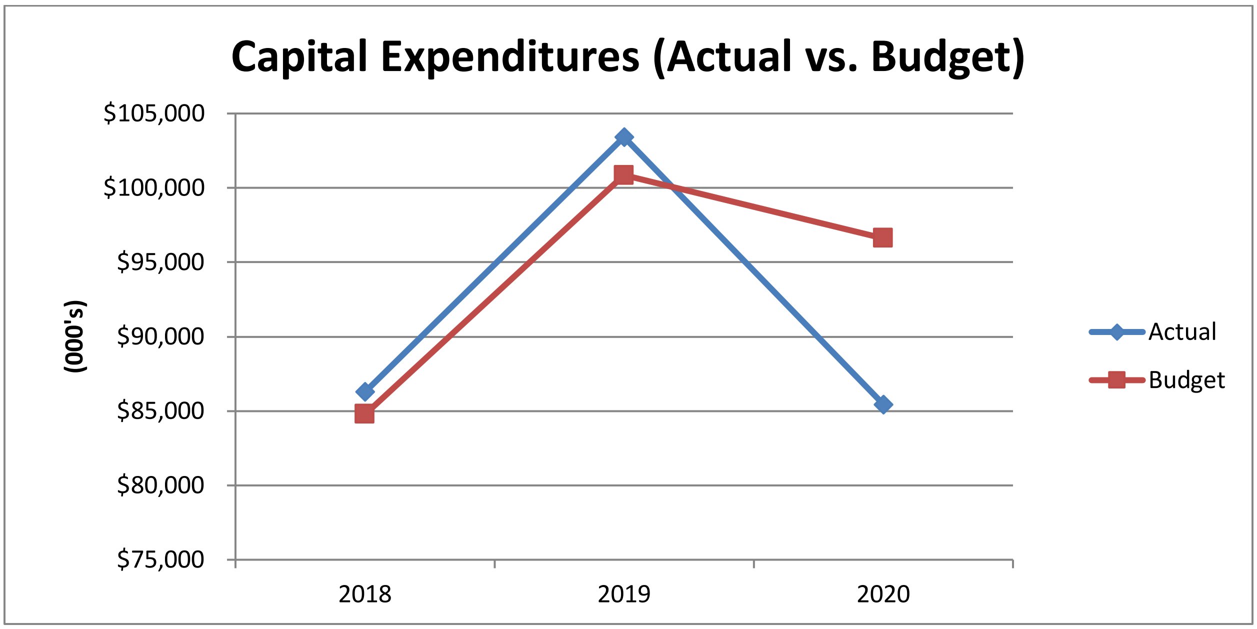
Capital Expenditures

Scope: ***Review the Company's 2020 capital expenditures in comparison to budgets and follow up on any significant variances.***

The following table details the actual versus budgeted capital expenditures (excluding capital projects carried forward from prior years) for the past three years from 2018 to 2020:

($000's)	2018	2019	2020	Notes
Actual	$ 86,285	$ 103,417	$ 85,447	1
Budget	$ 84,776	$ 100,856	$ 96,614	
Over (under) budget	1.78%	2.54%	(11.66%)	

Note 1: Total expenditures per the 2020 Capital Expenditure report includes the carryover amount of $11,539,000 for a total of $96,986,000. The carryover amount is made up of seven projects included in the following categories; $4,638,000 to Generation; $215,000 to Substation; $1,946,000 to Transmission; $2,492,000 to Distribution; $90,000 to General Property; $1,615,000 to Transportation; and $543,000 to Information Systems. According to the Company, these expenditures will occur in 2021.



The following table provides a summary of the capital expenditure activity in 2020 as reported in the Company's *"2020 Capital Expenditure Report"*:

($000's)	Capital Budget			Actual Expenditures		
	Prior Years	2020	Total	Prior Years	2020	Total
2020 Capital Projects *(1)*	$ -	$ 96,614	$96,614	$ -	$85,447	$85,447
2019 Projects Carried to 2020 & Multi Year Projects:						
Relocate 114L	310	-	310	-	385	385
Cybersecurity Upgrades	398	-	398	271	146	417
Company Building Renovations *(2)*	1,374	-	1,374	1,182	543	1,725
Purchase Vehicles and Aerial Devices	3,990	-	3,990	2,648	1,575	4,223
Purchase Mobile Generation	13,915	-	13,915	13,179	78	13,257
System Upgrades	1,013	-	1,013	838	116	954
Human Resource Management System *(3)*	1,637	-	1,637	1,725	232	1,957
	22,637	-	22,637	19,843	3,075	22,918
Grand Total	**$ 22,637**	**$ 96,614**	**$ 119,251**	**$ 19,843**	**$88,522**	**$108,365**

Note 1 - Approved by Order No. P.U. 5 (2020).

Note 2 - The Company has noted that the unfavorable variance of the Company Building Renovations project is due to higher than expected tender pricing received for both the Salt Pond and Glovertown building renovations.

Note 3 - The variance in the Human Resource Management System was due to increased costs relating to COVID-19 safety protocols such as engaging with contractors remotely.

A breakdown of the total capital expenditures and budget with variances by asset category is as follows:

($000's)	2020 Budget *(1)*	2020 Actuals *(2)*	Variance	Carryover *(3)*	Variance Including Carryover	%
Generation - Hydro	$ 6,849	$ 2,124	($ 4,725)	$ 4,638	($ 87)	(1.27%)
Generation - Thermal	14,264	13,590	(674)	100	(574)	(4.02%)
Substation	15,204	14,517	(687)	215	(472)	(3.10%)
Transmission	9,933	8,387	(1,546)	1,946	400	4.03%
Distribution	44,623	42,405	(2,218)	2,492	274	0.61%
General property	3,841	4,108	267	90	357	9.29%
Transportation	7,859	6,477	(1,382)	1,615	233	2.96%
Telecommunications	108	112	4	-	4	3.70%
Information systems	9,820	10,067	247	543	790	8.04%
Unforeseen	750	-	(750)	-	(750)	(100.00%)
General expenses capitalized	6,000	6,578	578	-	578	9.63%
Total	**$ 119,251**	**$ 108,365**	**($ 10,886)**	**$ 11,639**	**$ 753**	**0.63%**

Note 1 - Includes prior years projects and current year budgeted amounts as there were projects incomplete at the previous year ends.
Note 2 - 2020 actuals include the total expense for projects carried forward from 2019.
Note 3 - Represents $11,639,000 in capital projects carried forward to 2021.

As indicated in the table, actual capital expenditures were less than the approved budget by $10,886,000 and when carryover amounts are considered, they were $753,000 (0.63%) higher. However, for each category of expenditure, the variances ranged from an over-budget of 9.63% for the general expenses capitalized category to an under-budget of 100.00% for the unforeseen category. As the variances within the table are for category totals it should be noted that individual project variances will differ from those listed. A breakdown by project of the carryover amounts from the table above is as follows:

Project	Carryover (000's)
Facility Rehabilitation	$ 60
Petty Harbour Plant	3,325
Rattling Brook Plant Refurbishment	1,083
Substation Feeder Termination	215
Rebuild Transmission Lines	1,946
Trunk Feeders	2,050
Feeder Additions for Growth	442
Company Building Renovations	90
Purchase Vehicles and Aerial Devices	1,615
Application Enhancements	135
System Upgrades	408
Topsail Hydro Plant Refurbishment	170
Purchase Mobile Generation *(1)*	100
Total Carryover	**$ 11,639**

Note 1 – Carryover related to the Purchase Mobile Generation project from prior years.

The Company has provided detailed explanations on budget to actual variances in Appendix A of its “2020 Capital Expenditure Report”.

Adherence to Capital Budget Application Guidelines

Based on our review, the Company’s 2020 capital expenditures are in accordance with the Capital Budget Application Guidelines Policy #1900.6 Sections A and C as noted below:

- Under Section A, as required, the Company filed its annual capital budget application by July 15th and followed appropriate guidelines for the format of the application submitted.

- Under Section C, as required, the Company filed its annual capital expenditures report by the deadline of March 1st and included within its explanations of variances greater than both $100,000 and 10% off the approved budget.

- Section C of the guidelines also notes that “should the overall variance in any two years exceed 10% of the budgeted total the report should address whether there should be changes to the forecasting or capital budgeting process which should be considered”. This is interpreted to refer to the variance exceeding 10% in two consecutive years. The variance was 1.78% in 2018, 2.54% in 2019 and (11.56%) in 2020 resulting in no additional reporting requirements.

The allowance for unforeseen items account was not utilized in 2020.

<u>Capital Expenditure Reports</u>

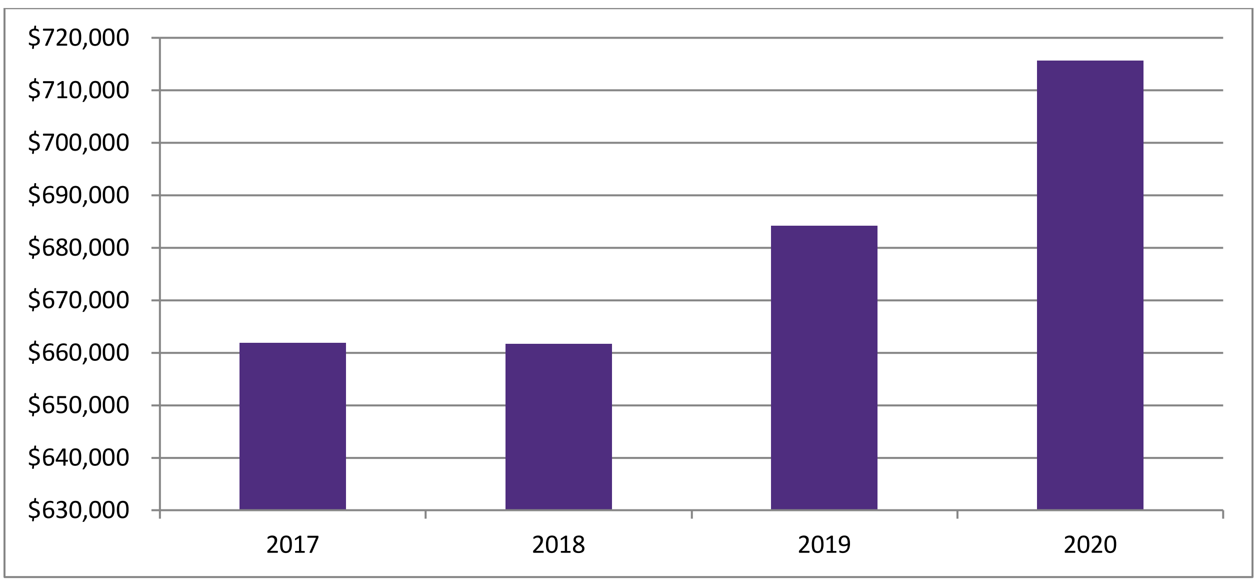
Confirmation was received from the Board that the Company filed quarterly Capital Expenditure reports for the 2020 calendar year.

Revenue from rates

Scope: ***Review the Company's 2020 revenue from rates in comparison to prior years and follow up on any significant variances.***

We have compared the actual revenues from rates for 2017 to 2020 to assess any significant trends. The results of this analysis of revenue by rate class are as follows:

($000's)	2017	2018	2019	2020
Residential	$ 422,237	$ 419,389	$ 432,272	$ 458,433
General Service				
0-100 kW	88,507	90,364	93,038	93,282
110-1000 kVA	95,565	97,338	101,397	105,418
Over 1000 kVA	37,099	35,725	37,916	38,643
Streetlighting	16,149	16,255	16,664	16,983
Discounts forfeited	2,327	2,643	2,892	2,868
Revenue from rates	$ 661,884	$ 661,714	$ 684,179	$ 715,627
Year over year percentage change	0.08%	-0.03%	3.39%	4.60%



The above graph demonstrates that the Company has seen a 4.60% increase in revenue from rates in 2020 as compared to 2019. The increase is primarily due to higher wholesale electricity rates effective October 1, 2019. These factors were partially offset by the impact of lower electricity sales.

The comparison by rate class of 2020 actual revenues to 2020 budget is as follows:

($000's)	2019	2020	2020 Plan	Actual - Plan Variance	Variance %
Residential	$ 432,272	$ 458,433	$ 423,434	$ 34,999	8.27%
General Service					
0-100 kW	93,038	93,282	92,409	873	0.94%
110-1000 kVA	101,397	105,418	100,840	4,578	4.54%
Over 1000 kVA	37,916	38,643	38,725	(82)	(0.21%)
Streetlighting	16,664	16,983	16,483	500	3.03%
Discounts forfeited	2,892	2,868	2,698	170	6.30%
Total revenue from rates	$ 684,179	$ 715,627	$ 674,589	$ 41,038	6.08%

We have also compared the 2020 budget energy sales in GWh to the actual sold in 2020:

(GWh)	2019	2020	2020 Plan	Actual - Plan Variance	Variance %
Residential	3,559.8	3,547.0	3,567.8	(20.8)	(0.58%)
General Service					
0-100 kW	797.6	749.4	808.2	(58.8)	(7.28%)
110-1000 kVA	1,024.2	990.2	1,045.5	(55.3)	(5.29%)
Over 1000 kVA	432.0	410.1	456.9	(46.8)	(10.24%)
Streetlighting	33.0	32.3	32.4	(0.1)	(0.31%)
Total	5,846.6	5,729.0	5,910.8	(181.8)	(3.08%)

Actual 2020 revenue from rates was higher than 2020 Plan with an overall increase in actual sales of $41,038,000 (6.08%) from the 2020 Plan due to increased rates as of October 1, 2019, partially offset by lower electricity sales. There was a 3.08% decrease in GWh sold in 2020 compared to 2020 Plan was primarily due to the lower average consumption by commercial customers as a result of the pandemic. The largest variance in revenue can be seen in the Residential, 110-1000 kVA, and the 0 – 100 kW class where revenues increased by $34,999,000 (8.27%), $4,578,000 (4.54%), and $873,000 (0.94%), respectively.

Operating and General Expenses

Scope: ***Conduct an examination of operating and general expenses to assess their reasonableness and prudence in relation to sales of power and energy and their compliance with Board Orders.***

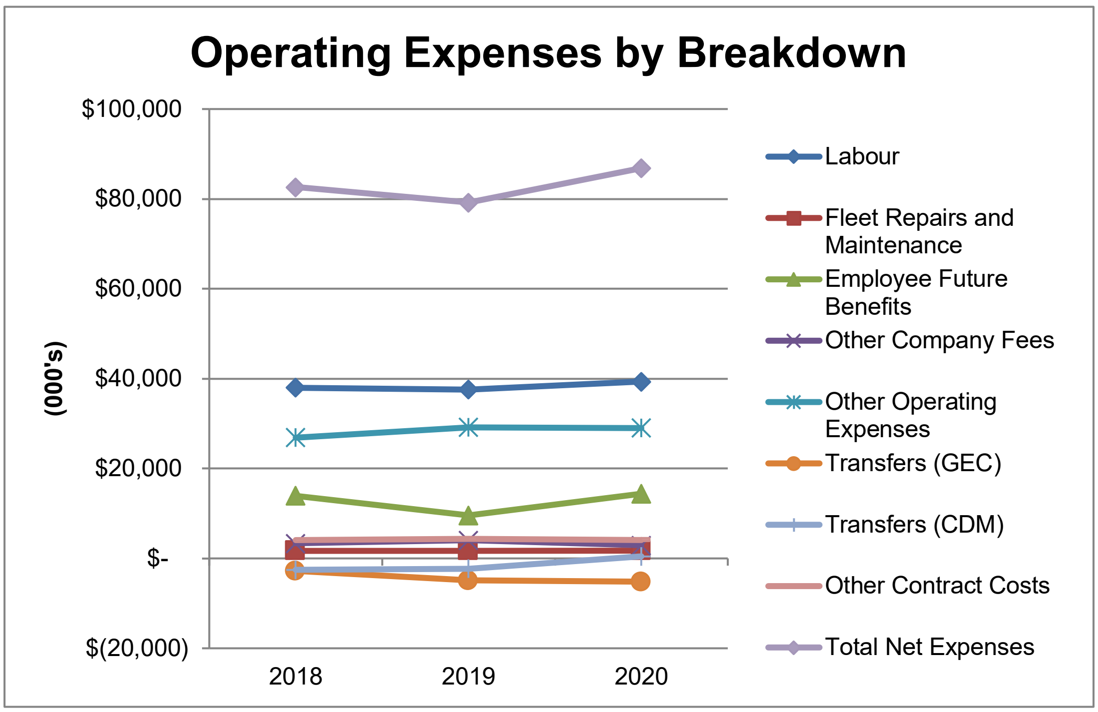
The below table provides details of operating and general expenses (including non-regulated expenses) by "breakdown" for 2018, 2019, and 2020.

(000's)	Actual 2020	Actual 2019	Actual 2018	Variance 2020-2019
Labour	$ 40,652	$ 38,603	$ 39,095	$ 2,049
Reclass OPEB labour cost	(1,290)	(1,041)	(1,125)	(249)
Total labour	39,362	37,562	37,970	1,800
Vehicle expense	1,725	1,681	1,682	44
Operating materials	1,301	1,361	1,511	(60)
Inter-company charges	2,277	2,058	1,847	219
Plants, Subs, System Oper & Bldgs	3,484	3,267	2,812	217
Travel	638	1,142	1,127	(504)
Tools and clothing allowance	1,156	1,289	1,254	(133)
Miscellaneous	1,999	2,005	1,619	(6)
Conservation	2,172	2,813	2,732	(641)
Taxes and assessments	1,116	1,156	1,286	(40)
Uncollectible bills	2,290	1,980	1,490	310
Insurance	1,698	1,397	1,306	301
Severance & other employee costs	126	132	68	(6)
Education, training, employee fees	275	444	403	(169)
Trustee and directors' fees	673	518	481	155
Other company fees	2,944	4,058	3,379	(1,114)
Stationary & copying	246	257	224	(11)
Equipment rental/maintenance	656	790	784	(134)
Communications	2,786	2,803	2,822	(17)
Advertising	1,264	1,581	1,443	(317)
Vegetation management	2,306	2,042	1,692	264
Computing equipment & software	2,199	1,830	1,628	369
Total Other	33,331	34,604	31,590	(1,273)
Pension & early retirement program	7,864	3,335	7,726	4,529
OPEB's	6,528	6,241	6,194	287
Total employee future benefits	14,392	9,576	13,920	4,816
Total gross expenses	87,085	81,742	83,480	5,343
Transfers (GEC)	(5,175)	(4,913)	(2,781)	(262)
CDM amortization	5,578	4,597	3,706	981
Other contract expenses	4,120	4,353	4,081	(233)
Deferred CDM program costs	(5,118)	(6,864)	(6,239)	1,746
Deferred regulatory costs	353	294	341	59
Total net expenses	**$ 86,843**	**$ 79,209**	**$ 82,588**	**$ 7,634**

Overall, net operating expenses increased by $7,634,000 from 2019 to 2020. Significant operating expense variances are discussed in our report. We conducted an examination of other costs including purchased power, depreciation, interest, and income taxes and have noted that nothing has come to our attention to indicate that these costs for 2020 are unreasonable.

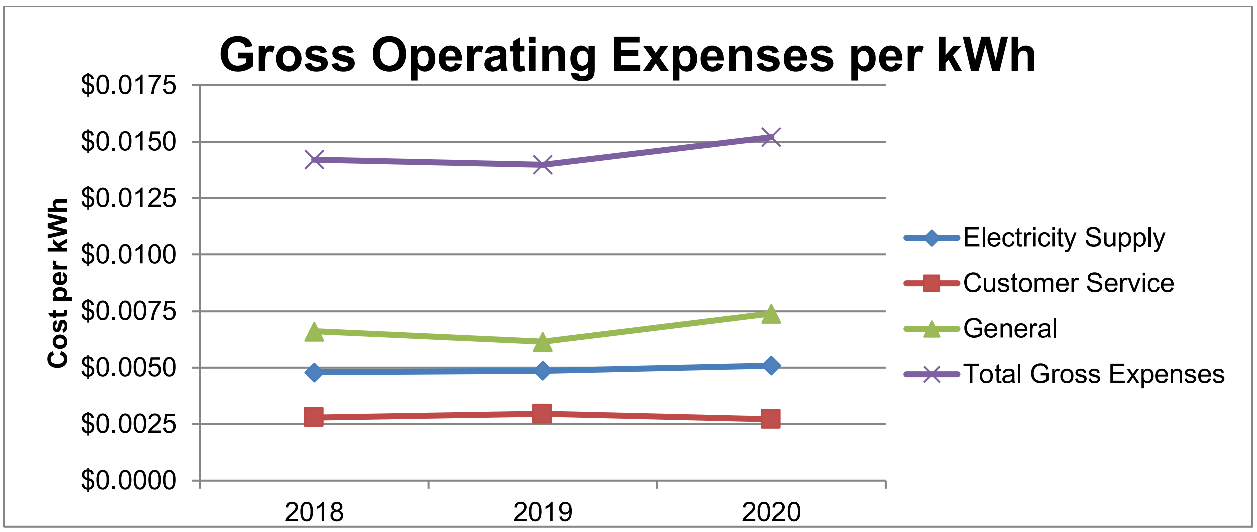
Our detailed review of operating expenses was conducted using the breakdown as documented in the above table. It should also be noted that our review is based upon gross expenses before allocation to GEC and CDM. The following table and graph show the trend in net operating expenses by breakdown for the period 2018 to 2020.

	Actual		
(000's)	**2020**	**2019**	**2018**
Labour	$ 39,362	$ 37,562	$ 37,970
Fleet Repairs and Maintenance	1,725	1,681	1,682
Employee Future Benefits	14,392	9,576	13,920
Other Company Fees	2,944	4,058	3,379
Other Operating Expenses	29,016	29,159	26,870
Transfers (GEC)	(5,175)	(4,913)	(2,781)
Transfers (CDM)	460	(2,267)	(2,533)
Other Contract Costs	4,119	4,353	4,081
Total Net Expenses	**$ 86,843**	**$ 79,209**	**$ 82,588**



The relationship of operating expenses to the sale of energy (expressed in kWh) from 2018 to 2020 is presented in the table below:

		Electricity Supply		Customer Service		General		Total Gross Expenses	
Year	kWh sold (000's)	Cost (000's)	Cost per kWh	Cost (000's)	Cost per kWh	Cost (000's)	Cost per kWh	Cost (000's)	Cost per kWh
2018	5,876,100	$28,185	$0.0048	$16,429	$0.0028	$38,866	$0.0066	$83,480	$0.0142
2019	5,846,600	$28,473	$0.0049	$17,298	$0.0030	$35,971	$0.0062	$81,742	$0.0140
2020	5,729,000	$29,144	$0.0051	$15,555	$0.0027	$42,386	$0.0074	$87,085	$0.0152



The table and graph show that total gross expenses per kWh have increased by approximately 8.7% compared to 2019.

There was an increase in General Costs of $6.4 million, with a decrease in Customer Service Costs of $1.7 million and an increase in Electricity Supply Costs of $0.7 million. The results of our review of the individual significant expense categories variances are noted on the next page.

Salaries and Benefits (including executive salaries)

A detailed comparison of the number of full-time equivalent (FTE) employees by category for 2018 to 2020 (including 2020 plan) is as follows:

	Actual 2020	**Plan 2020**	Actual 2019	Actual 2018	**Actual - Plan**	**Actual 2020-2019**
Executive Group	**6.0**	**6.0**	6.2	5.7	0.0	(0.2)
Corporate Office	**21.6**	**21.7**	20.8	19.8	(0.1)	0.8
Finance and IT	**96.6**	**99.6**	93.5	91.6	(3.0)	3.1
Engineering and Operations	**382.7**	**389.1**	383.2	372.9	(6.4)	(0.5)
Customer Relations	**70.6**	**73.9**	72.8	78.8	(3.3)	(2.2)
	577.5	**590.3**	576.5	568.8	(12.8)	1.0
Temporary employees	**34.0**	**42.3**	39.7	50.4	(8.3)	(5.7)
Total	**611.5**	**632.6**	616.2	619.2	(21.1)	(4.7)

The overall number of FTE's in 2020 compared to 2019 decreased by 4.7. The budgeted number of FTEs in the 2020 Plan was 632.6 versus actual of 611.5. The variances between 2020, 2020 Plan, and 2019 are the result of the following:

- Finance and Information Technology is lower than plan due to delayed hires as a result of COVID-19. Additionally, the increase from 2019 is due to the impact of hires in late 2019 and additional positions in Regulatory.
- Engineering and operations is lower than plan due to delayed hires as a result of COVID-19. However, 2020 is fairly consistent with 2019.
- Customer relations is lower than plan and 2019 due to delayed hires as a result of COVID-19 partially offset by a shift from temporary to regular employees.
- Temporary employees are lower than plan and 2019 primarily due to a shift from temporary to regular employees and delayed hires in 2020 as a result of COVID-19.

An analysis of salaries and wages by type of labour and by function from 2018 to 2020 is as follows:

(000's)	**Actual 2020**	Actual 2019	Actual 2018	**Variance 2020-2019**
Type				
Internal labour *(1)*	**$ 69,028**	$ 66,023	$ 65,090	$ 3,005
Overtime *(2)*	**5,886**	6,568	6,568	(682)
	74,914	72,591	71,658	2,323
Contractors *(3)*	**12,510**	17,523	15,409	(5,013)
	$ 87,424	$ 90,114	$ 87,067	$ (2,690)
Function				
Operating *(4)*	**$ 40,652**	$ 38,603	$ 39,095	$ 2,049
Capital and miscellaneous *(5)*	**46,772**	51,511	47,972	(4,739)
Total	**$ 87,424**	$ 90,114	$ 87,067	$ (2,690)
Year over year percentage change	**-2.99%**	3.50%	3.54%	

Our review of salaries and benefits included an analysis of the year to year variances, consideration of trends in labour costs, and discussion of the significant variances with Company officials. As indicated in the above table, total labour costs for 2020 were $2,690,000 (2.99%) lower than 2019.

Note 1 - Internal labour costs in 2020 were higher than 2019 due to higher corporate costs and inflationary increases. This increase was partially offset by delayed hires as a result of COVID-19.

Note 2 - Overtime labour for 2020 was lower than 2019 due to lower overtime associated with capital distribution work, capital generation work, and capital substation work. This decrease was partially offset by overtime associated with restoration efforts required following storms.

Note 3 - Contract labour for 2020 was lower than 2019 due to lower labour for transmission rebuilds and deficiencies, third party work for telecommunication companies, and capital distribution work.

Note 4 - Operating labour for 2020 was higher than 2019 due to increased operating labour reflects, higher corporate costs, restoration efforts required following storms, and inflationary increases and additional positions in Regulatory.

Note 5 - Capital and miscellaneous labour for 2020 was lower than 2019 due to lower contract labour for transmission rebuilds & deficiencies, third party work for telecommunication companies, and capital distribution work.

Grant Thornton
An instinct for growth™

As part of our review we completed an analysis of the average salary per FTE, including and excluding executive compensation (base salary and short-term incentive). The results of our analysis for 2018 to 2020 are included in the table below:

	Salary Cost Per FTE			
	Actual 2020	Actual 2019	Actual 2018	**Variance 2020-2019**
Total reported internal labour costs	**$ 69,028**	$ 66,023	$ 65,090	$ 3,005
Benefit costs (net)	**(9,563)**	(8,926)	(8,939)	(637)
Other adjustments	**(1,693)**	(1,126)	(725)	(567)
Base salary costs	**57,772**	55,971	55,426	1,801
Less: executive compensation	**(1,936)**	(1,938)	(1,693)	36
Base salary costs (excluding executive)	**$ 55,836**	$ 54,033	$ 53,733	$ 1,837
FTE's (including executive members)	**611.5**	616.2	619.2	
FTE's (excluding executive members)	**607.5**	612.2	615.5	
Average salary per FTE	**94,476**	90,833	89,512	
% increase	**4.01%**	1.48%	0.81%	
Average salary per FTE (excluding executive members)	**91,912**	88,261	87,300	
% increase	**4.14%**	1.10%	1.40%	

The above analysis indicates that the rate of increase in average salary per FTE excluding executive members for 2020 has increased from 2019, and 2019 decreased from 2018.

Negotiated wage increases in the Company's collective agreement included a 2% increase effective January 1, 2020. According to the Company, the average salary increase of 4.2% is a result of multiple factors as follow:

- The COVID-19 pandemic caused delays in the hiring of temporary positions which impacted Temporary FTE's. This reduction in Temporary FTEs had an overall impact of increasing the average salary per FTE.

- Corporate Costs increased in 2020 compared to 2019. Corporate costs consist of OPEBs, Payroll Taxes, the Employer Portion of CPP & EI, and Employee Benefits. For example, in 2020, increased corporate costs accounted for an increase in the average salary per FTE metric of approximately 1.8%.

Therefore, a combination of increased benefit-related costs and lower temporary employees resulted in an increase in the overall average salary per FTE in 2020 versus 2019.

Short Term Incentive (STI) Program

The following table outlines the actual results for 2018 to 2020 and the targets set for 2020:

Measure	Target 2020	Actual 2020	Actual 2019	Actual 2018
Controllable Operating Costs/Customer	**$ 238.00**	$ 237.70	$ 231.00	$ 225.10
Earnings	**$ 42.1M**	$ 43.2M	$ 42.3M	$ 41.2M
Cash Flow from Operating Activities	**$ 108.7M**	$ 136.8M	$ 111.2M	$ -
Reliability - Duration of Outages (SAIDI)	**2.37**	2.98	2.34	2.65
Customer Satisfaction - % Satisfied	**85.8%**	87.6%	85.8%	85.6%
Injury Frequency Rate	**0.74**	0.74	0.37	-
Regulatory Performance	**-**	-	-	150%

According to the Company, reliability targets and results exclude interruptions which are Hydro related and those which meet the Institute of Electrical and Electronics Engineers (IEEE) definition of significant events. 2019 STI results were adjusted to remove the impact of the severe weather conditions in February, September and November. In 2019 the 'regulatory performance' measure was replaced by the 'cash flow from operating activities' measure.

The Company's STI program also includes an individual performance measure for Executives and Directors. This measure is used to reinforce the accountability and achievement of individual performance targets.

The weight between corporate performance and individual performance differs between the managerial classifications, as outlined in the following table.

Classification	Corporate Performance	Individual Performance
President and CEO	70%	30%
Executives	70%	30%
Directors	50%	50%

The individual measures of performance for Directors are developed in consultation with the individuals and their respective executive member. Performance measures for the executive members, President and CEO are approved by the Board of Directors. Each measure is reflective of key projects or goals and focuses on departmental or divisional priorities.

The program operates to provide 100% payout of established STI pay if the Company meets, on average, 100% of its performance targets. The STI pay for 2020 is established as a percentage of base pay for the three employee groups. For 2020, all measures were met besides "Reliability- Duration of Outages (SAIDI)" which was above target.

The following table illustrates the target as a percentage of base pay together with the actual STI payouts for 2018 to 2020:

	Target 2020	Actual 2020	Target 2019	Actual 2019	Target 2018	Actual 2018
President	50%	64.44%	50%	70.00%	50%	60.30%
Executive	35% - 40%	46.86%	35% - 40%	50.42%	35%-40%	47.04%
Directors	15%	19.73%	15%	17.94%	15%	18.28%

STI actual payout rates for 'President' and 'Executive' employee groups are lower than the prior year with the 'Director' group being higher and each payout rate exceeding targets consistent with 2019 and 2018.

In dollar terms, the STI payouts for 2018 to 2020 are as follows:

	Actual 2020	Actual 2019	Actual 2018	Variance 2020-2019
President	**$ 265,000**	$ 287,000	$ 230,000	$ (22,000)
Executive	**402,000**	416,000	346,000	(14,000)
Directors	**357,800**	311,000	296,200	46,800
Total	**$ 1,024,800**	$ 1,014,000	$ 872,200	$ 10,800
Year over Year % change	**1.07%**	16.26%	-19.24%	

In accordance with Order No. P.U. 19 (2003), the Company has classified STI payouts in excess of 100% of target as a non-regulated expense. In accordance with Order No. P.U. 18 (2016) the Company has also classified STI payouts relating to half of the earnings and regulatory performance metrics as a non-regulated expense. In 2020, the non-regulated portion (before tax adjustment) was $299,085 (2019 - $344,832).

Executive Compensation

The following table provides a summary and comparison of executive compensation for 2018 to 2020:

	Base Salary	Short Term Incentive	Other	Total
2020				
Total executive group	$ 1,269,105	$ 667,000	$ 1,339,435	$ 3,275,540
Average per executive (4)	**$ 317,276**	**$ 166,750**	**$ 334,859**	**$ 818,885**
2019				
Total executive group	$ 1,235,000	$ 703,000	$ 421,412	$ 2,359,412
Average per executive (4)	**$ 308,750**	**$ 175,750**	**$ 105,353**	**$ 589,853**
2018				
Total executive group	$ 1,116,648	$ 576,000	$ 630,311	$ 2,322,959
Average per executive (3.74)	**$ 298,569**	**$ 154,011**	**$ 168,532**	**$ 621,112**
% Average change 2020 vs 2019	2.76%	(5.12%)	217.84%	38.83%
Per executive % average change 2020 vs 2019	2.69%	(5.40%)	68.54%	27.97%

Base salary for the executive group in 2020 increased by 2.76% from 2019. In 2020, while there was changeover within the executive positions throughout the year, four executives held positions for the entire year, resulting in 4 FTE. Therefore, this is comparable to 2019 even with the changes in executive positions (i.e. retirements and the promotion of current employees into different executive positions).

Other compensation for the executive group in 2020 increased from 2019, primarily due to a retention incentive pay to the retiring CEO as well as a significant increase in Performance and Restricted Share Unit Payouts. STI payouts and performance share unit payouts were agreed to the Board of Directors' minutes.

Company Pension Plan

For 2020, we reviewed the accounts supporting the gross charge of $7,864,000 of pension expense for the Company. A detailed comparison of the components of pension expense for 2018 to 2020 is below:

	Actual 2020	**Actual 2019**	**Actual 2018**	**Variance 2020-2019**
Pension expense per actuary	**$ 4,757,000**	$ 639,000	$ 5,163,000	$ 4,118,000
Pension uniformity plan (PUP)/supplemental employee retirement program (SERP)	**402,000**	347,000	501,000	55,000
Group RRSP @ 2%	**340,000**	315,000	289,000	25,000
Individual RRSP's	**2,371,000**	2,055,000	1,790,000	316,000
Less: Refunds (net of other expenses)	**(6,000)**	(21,000)	(17,000)	15,000
Total	**$ 7,864,000**	$ 3,335,000	$ 7,726,000	$ 4,529,000
Year over year percentage change	**135.80%**	(56.83%)	(10.94%)	

Overall, pension expense for 2020 is higher than 2019 primarily due to higher current service costs and higher amortization of net actuarial losses as a result of a decrease in the discount rate.

The Company's pension uniformity plan is meant to eliminate the inequity in the regular pension plan related to the limitation on the maximum level of contributions permitted by income tax legislation. In effect, the pension uniformity plan tops up the benefits for senior management so that they receive benefits equivalent to the benefit formula of the registered pension plan. The Board ordered in Order No. P.U. 7 (1996-97) that the pension uniformity plan is allowed as reasonable, prudent and properly chargeable to the operating account of the Company. The PUP and SERP expenses increased by 15.9% in 2020.

The employer's portion of the contributions to the Group RRSP is calculated as 2.0% (increased to 2% as of May 2019) of the base salary paid to the plan participants. Individual RRSP contributions increased as a result of a plan amendment which increased the contribution rate from 5.75% to 6.25% as of May 2019. New hires are added to the Individual RRSP Plan whereas the majority of retirements are out of the Group RRSP Plan. The increase in Group RRSP contributions made by the employer was primarily the result of a plan amendment which increased the contribution rate from 1.5% to 2.0% as of May 2019, which was partially offset by retirements.

Other Post-Employment Benefits ("OPEBs")

In its 2010 General Rate Application, the Company proposed the implementation of the accrual method of accounting for OPEBs expenses. The proposal included a deferral mechanism to capture annual variances arising from changes in the discount rate and other assumptions, and recommendations related to the recovery of the transitional balance associated with the adoption of accrual accounting for OPEBs costs. In Order No. P.U. 31 (2010) the Board decided the Company should use the accrual method of accounting for OPEBs costs and income tax related to OPEBs as of January 1, 2011.

The Board also required that the transitional balance for OPEBs expense be amortized using the straight-line method over a period of 15 years. The Board also approved the creation of the OPEBs Cost Variance Deferral Account to limit the variability of the OPEBs costs due to changing assumptions such as discount rates.

The components of OPEBs expense for 2018 to 2020 are as follows:

(000's)	Actual 2020	Actual 2019	Actual 2018	Variance 2020-2019
Accrued OPEBs	**$ 4,191**	$ 3,657	$ 3,648	$ 534
Amortization of transitional balance	**3,504**	3,504	3,504	-
Amount capitalized	**(1,167)**	(920)	(958)	(247)
Total	**$ 6,528**	$ 6,241	$ 6,194	$ 287

The increase in OPEB's expense from 2019 to 2020 is primarily due to an increase in service costs.

Intercompany Charges

Our review of intercompany charges included the following specific procedures:

- assessed the Company's compliance with Order Nos. P.U. 19 (2003), P.U. 32 (2007), P.U. 43 (2009), and P.U. 13 (2013);
- compared intercompany charges for the years 2019 to 2020 and investigated any unusual fluctuations;
- reviewed detailed listings of charges for 2020 and investigated any unusual items;
- vouched a sample of transactions for 2020 to supporting documentation;
- assessed the appropriateness of the amounts being charged; and
- reviewed the methodology developed by Fortis Inc. ("Fortis") in 2008 to allocate recoverable expenses to its subsidiaries.

The following table summarizes intercompany transactions from 2018 to 2020 for charges to and from Newfoundland Power:

	Actual 2020	Actual 2019	Actual 2018	Variance 2019-2018
Charges from related companies				
Regulated	**$ 220,017**	$ 339,937	$ 1,121,634	$ (119,920)
Non-Regulated	**2,587,867**	2,360,484	2,101,634	227,383
Total	**$ 2,807,884**	$ 2,700,421	$ 3,223,268	$ 107,463
Charges to related companies	**$ 459,166**	$ 1,214,048	$ 643,394	$ (754,882)

Fortis bills its recoverable expenses on estimates rather than actual for the first three quarters of each year. For the fourth quarter, a true-up calculation is completed to reflect actual recoverable expenses incurred during the year. Recoverable expenses are allocated among the subsidiaries based on actual assets. The majority of the recoverable expenses from Fortis relate to non-regulated expenses.

We reviewed Fortis's methodology to estimate its recoverable expenses and noted during our review that Fortis Inc. continues to allocate its recoverable costs based on its subsidiaries' assets. There were no significant changes to the methodology in 2020. Fortis estimated its net pool of operating expenses for 2020 based on the 2021-2025 business plan and is billed quarterly.

Actual recoverable expenses were determined to be $2,277,000 and are summarized as follows:

2020 Recoverable Expenses from Fortis Inc.

	Amount	
Staffing and Staffing Related	$1,602,000	Non-regulated
Director Fees and Travel	170,000	Non-regulated
Consulting and Legal fees	119,000	Non-regulated
Trustee Agent Fees	20,000	Regulated
Annual Meeting Expenses	41,000	Non-regulated
Insurance (D&O)	43,000	Non-regulated
Other Costs	282,000	Non-regulated
	2,277,000	
Less amounts previously billed:		
Q1 2020	855,000	
Q2 2020	475,000	
Q3 2020	463,000	
Q4 2020 balance owing	$ 484,000	

As detailed above, trustee agent fees for $20,000 were the only expenses allocated to regulated operations by the Company relating to recoverable expenses. According to the Company, regulated charges from Fortis Inc. to Newfoundland Power are generally not based on specific allocation percentages, rather charges are invoiced based on actual costs or based on Newfoundland Power's usage of a specific service. There were additional invoices of $467,723 received directly from Fortis during 2020 for total Fortis charges of $2,744,723 ($2,277,000+$467,723), of which $156,856 were regulated and $2,587,867 were non-regulated. These are detailed in the analysis below of regulated and non-regulated operations.

Grant Thornton
An instinct for growth™

The analysis below is a review of the intercompany variances related to charges to and from Fortis, as well as other related parties. The following table summarizes the various components of the regulated intercompany transactions for 2018 to 2020 with Fortis:

(Regulated)	Actual 2020	Actual 2019	Actual 2018	Variance 2020-2019
Charges from Fortis Inc.				
Trustee fees and share plan costs	**$ 20,000**	$ 27,000	$ 25,000	$ (7,000)
Miscellaneous	**136,856**	208,765	941,488	(71,909)
Staff Charges	**-**	40,884	92,711	(40,884)
	$ 156,856	$ 276,649	$ 1,059,199	$ (119,793)
Year over year percentage change	**(43.30%)**	(73.88%)	564.65%	
Charges to Fortis Inc.				
Postage and couriers	**$ 1,640**	$ 2,181	$ 3,165	$ (541)
Staff charges	**23,546**	51,573	27,471	(28,027)
Miscellaneous	**58,704**	31,561	97,880	27,143
	$ 83,890	$ 85,315	$ 128,516	$ (1,425)
Year over year percentage change	**(1.67%)**	(33.62%)	24.67%	

The most significant fluctuations from our analysis of regulated charges from Fortis are a decrease in the staff charges account of $40,884 and a decrease in the miscellaneous account of $71,909. According to the Company, these fluctuations are due to a Fortis employee on secondment returning to Fortis in March 2019 and a 2018 Short-Term Incentive Payment to a former CEO in Quarter 1 of 2019, respectively.

The most significant fluctuations from our analysis of regulated charges to Fortis are a decrease in staff charges of $28,027 and an increase in miscellaneous charges of $27,143. These fluctuations are due to the 2019 labour expenses associated with three Newfoundland Power employees working on a Business Development Project for Fortis Inc. and a 2019 Short-Term Incentive Payment paid in 2020 to three employees that left Fortis to join Newfoundland Power, respectively.

The following table provides a summary and comparison of the non-regulated intercompany transactions for 2018 to 2020:

(Non-Regulated)	Actual 2020	Actual 2019	Actual 2018	Variance 2020-2019
Charges from Fortis Inc.				
Director's fees and travel	**$ 170,000**	$ 178,000	$ 139,000	$ (8,000)
Staff charges	**1,602,000**	1,294,000	1,054,000	308,000
Miscellaneous	**815,867**	888,484	908,634	(72,617)
	$ 2,587,867	$ 2,360,484	$ 2,101,634	$ 227,383

Staff charges have increased from 2019 by $308,000 primarily due to new executive positions added at Fortis Inc. in 2020, including stock-based compensation.

Miscellaneous charges decreased by $72,617. According to the Company this is because there was an approximate $50,000 decrease in travel expenses due to the COVID-19 pandemic as well as approximately $20,000 less in communications costs.

Grant Thornton
An instinct for growth™

The following table provides a summary and comparison of the other intercompany transactions for 2018 to 2020:

Intercompany Transactions (Other)	Actual 2020	Actual 2019	Actual 2018	Variances 2020-2019
Charges to Fortis Ontario Inc.				
Staff charges	**$ 105,907**	$ 390,837	$ 371,640	$ (284,930)
Miscellaneous	**219,076**	326,592	35,193	(107,516)
	$ 324,983	$ 717,429	$ 406,833	$ (392,446)
Charges from Fortis Ontario Inc.				
Miscellaneous	**$ -**	$ 4,875	$ -	$ (4,875)
Charges to Maritime Electric				
Staff charges	**$ 997**	$ 276,106	$ -	$ (275,109)
Miscellaneous	**36,305**	78,496	550	(42,191)
	$ 37,302	$ 354,602	$ 550	$ (317,300)
Charges from Maritime Electric				
Miscellaneous	**$ 11,406**	$ 6,193	$ 15,258	$ 5,213
Charges to Central Hudson Gas & Electric				
Staff charges	**$ -**	$ 6,321	$ -	$ (6,321)
Charges from Central Hudson Gas & Electric				
Miscellaneous	**$ 4,068**	$ 10,190	$ 5,705	$ (6,122)

Intercompany Transactions (Other) Cont'd.	Actual 2020	Actual 2019	Actual 2018	Variances 2020-2019
Charges to Belize Electric Company Ltd.				
Staff charges	**$ 12,991**	$ 35,226	$ 91,553	$ (22,235)
Miscellaneous	**-**	475	-	(475)
	$ 12,991	$ 35,701	$ 91,553	$ (22,710)
Charges to FortisAlberta Inc.				
Miscellaneous	**$ -**	$ 5,000	$ 4,980	$ (5,000)
Charges from FortisAlberta Inc.				
Miscellaneous	**$ 37,612**	$ 37,612	$ 38,073	$ -
Charges to FortisBC Inc./ FortisBC Holdings				
Miscellaneous	**$ -**	$ 9,680	$ 9,370	$ (9,680)
Charges from FortisBC Inc./ Fortis BC Holdings				
Miscellaneous	**$ 10,075**	$ 4,418	$ 3,399	$ 5,657
Charges to Fortis Turks and Caicos				
Miscellaneous	**$ -**	$ -	$ 1,592	$ -

The most significant fluctuations from our analysis of other intercompany charges for 2020 compared to 2019 are as follows:

- Staff charges to Fortis Ontario Inc. decreased by $284,930 in 2020. A large portion ($249,000) of this reduction was due to a senior staff member accepting a position with Fortis Ontario Inc. and leaving the Company in April 2020. In addition, due to the COVID-19 pandemic, there were no travel expenses for the President or other employees who serve on the Fortis Ontario and Wataynikaneyap Power Board of Directors;
- Miscellaneous charges to Fortis Ontario Inc. decreased by $107,516 due to a 2019 Special Payment of $163,200 to a senior staff member. This was offset by a $11,200 loan and a $31,377 Pension Expense for the same employee in 2020;
- Staff charges to Maritime Electric were $275,109 lower and miscellaneous charges were $42,191 lower in 2020 than in 2019. These decreases were due to the Hurricane Dorian Response for Maritime Electric that occurred in 2019;
- Staff Charges to Central Hudson Gas & Electric decreased by $6,321 in 2020. This is because the Company's Director of Technology assisted with an IT Project at Central Hudson Gas & Electric in 2019 but not in 2020.
- Miscellaneous charges from Central Hudson Gas & Electric decreased by $6,122 in 2020. This is because the COVID-19 pandemic resulted in less travel expenses incurred by Board of Director members from Central Hudson;
- Staff charges to Belize Electric Company Ltd. decreased by $22,235 primarily because the COVID-19 pandemic resulted in no travel expenses incurred by Newfoundand Power employees in relation to work with Belize Electric Company Ltd;
- Miscellaneous charges to FortisAlberta Inc. decreased by $5,000 in 2020 because the Conference Board of Canada charges for FortisAlberta Inc. were not processed until the first quarter of 2021;
- Miscellaneous charges to FortisBC Inc./Fortis BC Holdings decreased by $9,680 in 2020 because the Conference Board of Canada charges for FortisBC Inc./Fortis BC Holdings were not processed until the first quarter of 2021; and
- Miscellaneous charges from FortisBC Inc/ Fortis BC Holdings increased by $5,657 in 2020 because of $10,000 in SERP expenses pertaining to a former employee, offset by $4,400 in Canadian Hydropower Association dues in 2019.

The Company entered into the following short-term loan agreements with related parties during the year:

Loans to Newfoundland Power

Lender	Maximum Amount Borrowed	Date Borrowed	Date Repaid	Amount Repaid[2]	Interest Rate	Total Interest Cost
Fortis Inc.	$ 60,000,000	December 20, 2019	January 29, 2020[1]	$ 60,000,000	2.478750%	$ 139,408
Fortis Inc.	$ 60,000,000	January 20, 2020	March 5, 2020	$ 60,000,000	2.468750%	$ 107,761
Fortis Inc.	$ 68,000,000	February 20, 2020	March 20, 2020	$ 48,000,000	2.397500%	$ 95,112
Fortis Inc.	$ 20,000,000	March 20, 2020[3]	April 22, 2020	$ 20,000,000	2.080000%	$ 36,460
						$ 378,741

1. On December 31, 2019, Newfoundland Power re-paid $9,500,000 plus $44,821.23 interest based on 2.396250%.
2. Excludes interest paid on loan.
3. On March 20, 2020, Newfoundland Power re-financed $20,000,000 outstanding from previous $68,000,000 loan at a lower interest rate. Interest Rate 2.08% from March 20 to April 20, 2020 and 1.03% for April 21 and April 22, 2020.

The interest rates charged on each of the loans above were lower than what would have been charged under the Company's debt facilities. Fortis Inc. provides Newfoundland Power with an interest discount of 36bps which is equal to the standby fee of 16bps and a direct Fortis discount of 20bps. The interest rate is based on the Bank of Canada rate plus an 80bps stamping fee which is same as the credit facility, minus 16 bps for a standby fee charge which is the unused portion of the credit facility, and a discount of 20 bps.

The Company entered into the following short-term borrowing agreements with related parties during the year:

Loans from Newfoundland Power

Lendee	Maximum Amount Borrowed	Date Borrowed	Date Repaid	Interest Rate [1]
Fortis Inc.	$ 8,000,000	December 8, 2020	On Demand	1.22875%

1. Interest rate will be reset on January 20, 2021.

According to the Company, the interest rate is based on the Bank of Canada rate plus an 120 bps stamping fee which is the same as the credit facility, minus 24 bps for a standby fee charge which is the unused portion of the credit facility, and a discount of 20 bps.

In Order No. P.U. 19 (2003), the Board provided instructions to the Company with respect to the recording and reporting of intercompany transactions. Some of these instructions required reports to be filed with the Board at various times in 2020. Confirmation was received from the Board that quarterly reports relating to intercompany transactions have been filed for 2020.

As a result of completing our procedures in this area, nothing came to our attention that would lead us to believe that intercompany charges are unreasonable.

Other Company Fees and Deferred Regulatory Costs

The procedures performed for this category included a review of the transactions for 2020 and vouching of a sample of individual transactions to supporting documentation.

(000's)	Actual 2020	Actual 2019	Actual 2018	Variance 2020-2019
Other company fees				
Other company fees	**$ 2,760**	$ 3,746	$ 2,855	$ (986)
Regulatory hearing costs	**184**	312	524	(128)
	$ 2,944	$ 4,058	$ 3,379	$ (1,114)
Year over year percentage change	**(27.5%)**	20.1%	47.2%	(47.60%)
Deferred regulatory costs				
Total deferred regulatory costs	**$ 353**	$ 294	$ 341	$ 59
Year over year percentage change	**20.1%**	(13.8%)	0%	

Other Company Fee costs for 2020 were lower than 2019. According to the Company, this is primarily due to lower consultant costs for customer energy conservation programs.

As noted in prior annual reviews, this category of costs often experiences significant fluctuations from year to year. In addition, the costs in this category generally relate to projects which are often non-recurring by nature. Consequently, we continue to recommend that this category be monitored closely on an annual basis.

Miscellaneous

The breakdown of items included in the miscellaneous expense category for 2018 to 2020 is as follows:

(000's)	Actual 2020	Actual 2019	Actual 2018	Variance 2020-2019
Miscellaneous	**$ 1,459**	$ 1,231	$ 994	$ 228
Cafeteria and lunchroom Supplies	**48**	75	77	(27)
Promotional items	**88**	169	137	(81)
Computer Software	**5**	3	10	2
Damage claims	**206**	278	174	(72)
Community relations activities	**1**	1	2	-
Donations and charitable advertising	**132**	195	183	(63)
Books, magazines and subscriptions	**24**	18	7	6
Miscellaneous lease payments	**36**	35	35	1
Total miscellaneous expenses	**$ 1,999**	$ 2,005	$ 1,619	$ (6)
Year over year percentage change	**(0.30%)**	23.84%	(13.84%)	

Miscellaneous expenses by their very nature can fluctuate from year to year. From 2019 to 2020 these expenses have decreased by 0.30% overall but were consistent with the prior year.

Our procedures in this expense category for 2020 included vouching a sample of transactions within the "miscellaneous category" to supporting documentation. Based upon the results of our procedures nothing has come to our attention to indicate that the 2020 expenses are unreasonable.

Conservation and Demand Management (CDM)

In compliance with Order No. P.U. 7 (1996-97), the Company filed the 2020 Conservation and Demand Management Report with the Board. This report provided a summary of 2020 CDM activities and costs as well as the outlook for 2021.

In 2015, Newfoundland and Labrador Hydro and Newfoundland Power ("the Utilities") also finalized the joint Five-Year Conservation Plan: 2016-2020 (the "2016 Plan"), which builds on the Utilities' experience and continues to reflect the principles underlying two previous joint multi-year conservation plans. It reflects refinement of the opportunities identified in the Conservation Potential Study through in-depth local market research and program cost benefit analysis.

In 2020, the Utilities continued to implement the 2016 Plan while adjusting to COVID-19 related restrictions. These activities include: continuing delivery of the Instant Rebates Program; continuing delivery of the Home Energy Report Program; expanding product rebate categories for the Business Efficiency Program ("BEP"); and establishing new resources to make energy efficiency education more accessible.

CDM costs in 2020 totaled $6,274,000 compared to $7,772,000 in 2019, a $1,498,000 decrease. Conservation costs are lower than in 2019 due to decreased planning costs, Small Technologies Rebate Program costs, and BEP costs.

In 2020, $5,119,000 ($3,583,000 after tax) in CDM costs were deferred to be amortized over 7 years as per Order No. P.U. 13 (2013).

Based upon the results of our procedures we concluded that CDM is in compliance with Board Orders.

General Expense Capitalized (GEC)

($000's)	Actual 2020	Actual 2019	Actual 2018	Variance 2020-2019
Transfers (GEC)	**(5,175)**	(4,913)	(2,781)	(262)

The capitalization of pension costs has been reflected through the Company's General Expenses Capitalized ("GEC") account based on the GEC methodology approved by the Board in Order No. P.U. 3 (1995-96). In that Order, it was noted that Newfoundland Power was the only utility that included pension costs in a GEC allocation. In the Company's report to the Board, dated August 14, 2020, titled "Review of Capitalization Policies and Guidelines" it was noted by the Company that its practice of capitalizing pension in GEC or capitalized overhead is not common among Canadian utilities. It was also noted in the report that ten of the eleven respondents to a survey capitalize pension costs by means of a labour loader.

In Order No. P.U. 2 (2019), the Board approved the Company's proposal to increase the allocation of pension costs to GEC from 11% to 46%, to comply with Accounting Standards Update 2017-07 – *Improving the Presentation of Net Periodic Pension Costs and Net Periodic Post-Retirement Benefit Cost*, issued in March 2017 by the Financial Accounting Standards Board (the "Update"). This Update provided guidance that the amount of current service pension cost capitalized should reflect the proportion of labour costs that are related to capital work. Utilities that capitalize pension costs using a labour loader would already follow the proportion of labour costs that are related to capital work and therefore would not have been impacted by this Update.

Transfers to GEC for 2020 and 2019 were higher than 2018 due to the increase in the capitalization percentage of current service pension costs as noted above.

Note - The GEC methodology and calculation is currently under review as part of the 2022/2023 General Rate Application filed on May 27, 2021.

Other Operating Expense Categories

In addition to the various categories of expenses commented on above, the other categories of operating and general expenses by breakdown were also analyzed for any unusual variances between 2020 and 2019.

($000's)	Actual 2020	Actual 2019	Actual 2018	Variance 2020-2019
Vehicle expense	**1,725**	1,681	1,682	44
Operating materials	**1,301**	1,361	1,511	(60)
Inter-company charges	**2,277**	2,058	1,847	219
Plants, Subs, System Oper & Bldgs	**3,484**	3,267	2,812	217
Travel	**638**	1,142	1,127	(504)
Tools and clothing allowance	**1,156**	1,289	1,254	(133)
Conservation	**2,172**	2,813	2,732	(641)
Taxes and assessments	**1,116**	1,156	1,286	(40)
Uncollectible bills	**2,290**	1,980	1,490	310
Insurance	**1,698**	1,397	1,306	301
Severance & other employee costs	**126**	132	68	(6)
Education, training, employee fees	**275**	444	403	(169)
Trustee and directors' fees	**673**	518	481	155
Stationary & copying	**246**	257	224	(11)
Equipment rental/maintenance	**656**	790	784	(134)
Communications	**2,786**	2,803	2,822	(17)
Advertising	**1,264**	1,581	1,443	(317)
Vegetation management	**2,306**	2,042	1,692	264
Computing equipment & software	**2,199**	1,830	1,628	369
Transfers (GEC)	**(5,175)**	(4,913)	(2,781)	(262)
CDM amortization	**5,578**	4,597	3,706	981

From this analysis and explanations provided by the Company, the following observations were made with respect to the more significant fluctuations:

1. Inter-company charges were higher in 2020 than in 2019 due to higher recoveries charged by Fortis;
2. Plants, substations, system operations and buildings costs for 2020 were higher than 2019 due to increased cleaning costs due to COVID-19, increased snow-clearing costs, and higher generation taxes;
3. Travel costs were lower in 2020 than in 2019 due to companywide restrictions on travel as a result of COVID-19 as well as lower employee relocation costs;
4. Conservation costs were lower in 2020 than in 2019 due to variability in the uptake of customer rebate programs;
5. Uncollectible bills for 2020 were higher than 2019 reflecting a decline in general economic conditions and suspension of service disconnections during the pandemic;
6. Insurance costs for 2020 were higher than in 2019 due to higher premium rates for property insurance;
7. Advertising costs for 2020 were lower than 2019 due to the development of new safety advertising being delayed as a result of COVID-19;
8. Vegetation management costs for 2020 were higher than 2019 due to additional transmission and increased distribution vegetation management activity;
9. Computing Equipment and Software costs were higher in 2020 than in 2019 due to increases in third party software licensing costs; and
10. Amortization of Deferred CDM costs commenced in 2014 and is higher in 2020 due to the inclusion of the seventh year of deferred customer energy conservation programming costs.

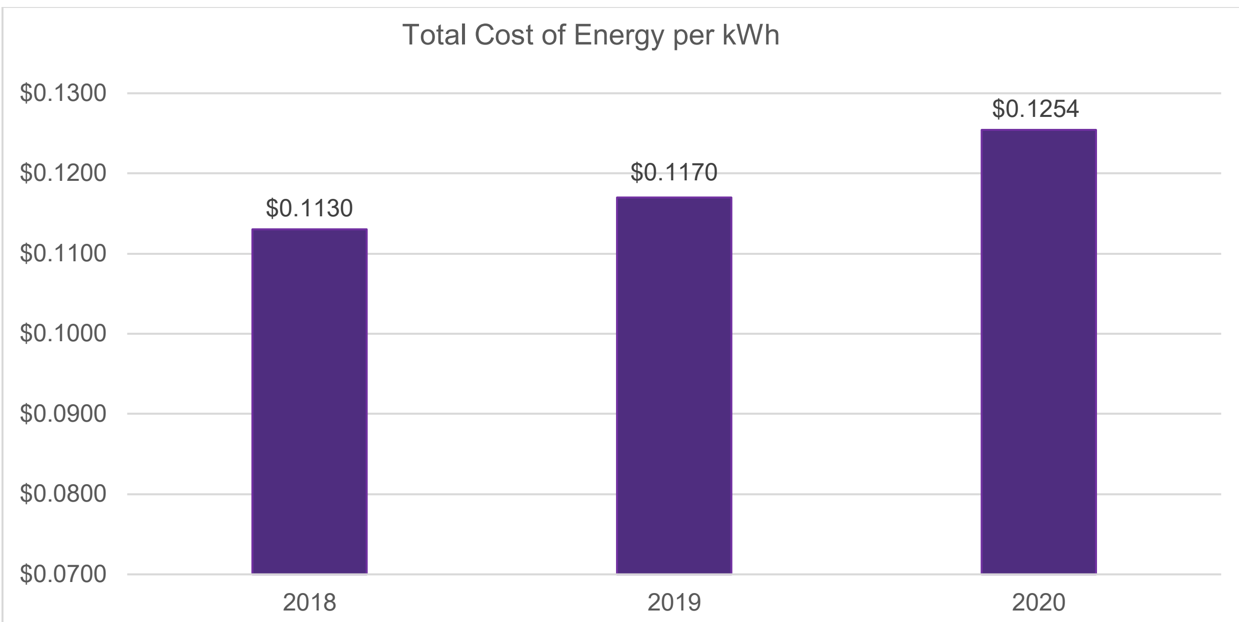
Other Costs

Scope: ***Conduct an examination of purchased power, depreciation, interest and income taxes to assess their reasonableness and prudence in relation to sales of power and energy and their compliance with Board Orders.***

The following table and graph provide the total cost of energy (expressed in kWh) from 2018 to 2020:

000's

Year	kWh sold (000's)	Operating Expenses	Purchased Power	Deferred Cost Recoveries & Amortization	Depreciation	Finance Charges	Income Taxes	Net Earnings	Total Cost of Energy	Cost per kWh
2018	5,876,100	$ 82,588	$ 427,219	$ (1,032)	$ 65,170	$ 36,212	$ 12,280	$ 41,744	$664,181	$ 0.1130
2019	5,846,600	$ 79,209	$ 444,861	$ 1,752	$ 68,019	$ 35,931	$ 11,299	$ 42,891	$683,962	$ 0.1170
2020	5,729,000	$ 86,843	$ 468,844	$ (876)	$ 71,187	$ 37,146	$ 11,893	$ 43,577	$718,614	$ 0.1254



Purchased Power

We have reviewed the Company's purchased power expense for 2020 and have investigated fluctuations and changes. We performed a recalculation of the purchased power to ensure that the cost per kilowatt-hour charged by Newfoundland and Labrador Hydro is consistent with the established rates provided and found no errors.

Purchased power expense increased by $23.9 million, from $444.9 million in 2019 to $468.8 million in 2020. According to the Company, the costs were higher in 2020 primarily due to an increase in wholesale electricity rates effective October 1, 2019, partially offset by lower energy purchases.

Depreciation

We have reviewed the Company's rates of depreciation and assessed its compliance with the Gannett Fleming Depreciation Study based on plant in service as of December 31, 2014 and assessed the reasonableness of depreciation expense.

In Order No. P.U. 13 (2013), the Board ordered the Company to file a new depreciation study related to plant in service as of December 31, 2014. The study for plant in service as of December 31, 2014 was completed in 2015. The study was included in the 2016-2017 General Rate Application by the Company and was approved in Order No. P.U. 18 (2016), including the approval of the accumulated depreciation reserve variance to be amortized over the average remaining service life of the related assets. The depreciation rates from the 2014 depreciation study, including the amortization of the accumulated depreciation reserve, were implemented effective January 1, 2016. Gannett Fleming has recommended the continued use of the straight line equal life group ("ELG") method in its 2014 depreciation study.

The objective of our procedures in this section was to ensure that the 2020 depreciation amounts and rates are in compliance with Board Orders, and in agreement with the recommendations of the 2014 Depreciation Study undertaken by Gannett Fleming Inc.

The specific procedures which we performed on the Company's depreciation expense included the following:

- agreed all depreciation rates to those recommended in the depreciation study;
- recalculated the Company's depreciation expense for 2020; and,
- assessed the overall reasonableness of the depreciation for 2020.

Amortization expense for 2020 is $71,187,000 as compared to $68,019,000 for 2019, representing a 4.7% increase. The 2020 and 2019 depreciation expense exclude the impact of the income tax deduction resulting from the cost of the removal of property, plant and equipment. The following table reconciles the depreciation as reported in the financial statements and the depreciation of fixed assets:

(000's)	**2020**	**2019**	**Variance 2020-2019**	**%**
Depreciation and amortization as reported	**$71,187**	$68,019	$3,168	4.7%
Less: Tax on Cost of Removal *(1)*	**(6,205)**	(5,953)	(252)	4.2%
Depreciation of Fixed Assets	**$64,982**	$62,066	$2,916	4.7%

Note 1: Recognized as a reduction in income tax for financial reporting purposes.

Depreciation of fixed assets for 2020 is $64,982,000 as compared to $62,066,000 for 2019, representing a 4.7% increase. The change is attributable to an increase of depreciable assets by approximately $65,861,000. The following table provides a comparison of the depreciation of fixed assets for 2020, 2019, and 2018:

(000's)	2020	2019	2018	Variance 2020-2019	Variance 2019-2018
Depreciation of Fixed Assets	**$64,982**	$62,066	$59,466	$2,916	$2,600

Note – A new depreciation study, based on the Company's electric plant as of December 31, 2019, is currently under review as part of the 2022/2023 General Rate Application filed on May 27, 2021.

Based on our review of depreciation expense, we conclude that the Company is in compliance with Order No. P.U. 19 (2003), Order No. P.U. 39 (2006), Order No. P.U. 32 (2007), Order No. P.U. 13 (2013), Order No. P.U. 18 (2016), and Order No. P.U. 2 (2019). The recommendations and results of the Gannett Fleming Depreciation Study reported on the plant in service as of December 31, 2014 have been incorporated into the Company's depreciation calculations for 2020.

Finance Charges

Our procedures with respect to interest on long term debt and other interest included a recalculation of interest charges and assessment of reasonableness based on debt outstanding. The results of our procedures have been outlined below.

The following table summarizes the various components of finance charges expense for the years 2018 to 2020:

(000's)	Actual 2020	Actual 2019	Actual 2018	Variance 2020-2019
Interest				
Long-term debt	**$ 36,811**	$ 35,375	$ 35,788	$ 1,436
Other	**624**	1,384	712	(760)
Amortization				
Debt discount	**233**	235	235	(2)
Interest charged to construction	**(522)**	(1,063)	(523)	541
Total Finance charges	**$ 37,146**	$ 35,931	$ 36,212	$ 1,215
Year over year percentage change	**3.38%**	(0.78%)	2.40%	

The following observations were made with respect to the more significant fluctuations in finance charges:

- The increase in long-term debt interest was due to the bond issuance of Series AQ for $100 million in Q2 of 2020.
- Other interest was lower due to less short-term borrowings primarily to the Series AQ bond issuance of $100 million in Q2 of 2020.
- Interest charged to construction was higher in 2019 due to two larger capital projects completed in that year, namely the purchase of a new gas turbine and the Human Resources Information System (HRIS).

Based upon our analysis, nothing has come to our attention to indicate that the finance charges for 2020 are unreasonable.

Income Tax Expense

We have reviewed the Company's income tax expense for 2020 and have noted that the effective income tax rate increased from 20.9% in 2019 to 21.4% in 2020. Actual income tax expense in 2020 and 2019 results in the following effective rates:

	2020	2019	2018	2020-2019
Income tax expense	**$ 11,893**	$ 11,299	$ 12,280	$ 594
Earnings before income tax	**$ 55,470**	$ 54,190	$ 54,024	$ 1,280
Effective income tax rate	**21.4%**	20.9%	22.7%	0.5%

Income tax expense increased by $594,000 compared to 2019. The statutory tax rate was 30.0% for both 2020 and 2019.

Based upon our review of the Company's calculations, and considering the impact of timing differences, nothing has come to our attention to indicate that income tax expense for 2020 is unreasonable.

Costs Associated with Curtailable Rates

In Order No. P.U. 7 (1996-97), the Board ordered that beginning January 1, 1997 all costs associated with curtailable rates shall be charged to regulated expenses, and not to the Rate Stabilization Account. The Board ordered that the demand credit for curtailment continue at $29/kVA until April 30, 1998. In Order No. P.U. 30 (1998-99), the Board ordered that this rate be extended until a review of the curtailment service option is presented at a public hearing. In Order No. P.U. 19 (2003) the Board accepted the recommendations of the parties, as set out in the Mediation Report, that the use of the Curtailable Service Option Credit of $29/kVA be retained as is until a change in Hydro's wholesale rates causes the matter to be reconsidered.

The total curtailment credits of $384,831 for the current period compare to a total of $365,056 for the same period during the previous year. According to the Company, the credit total for the 2019-2020 winter season is higher than the previous season total primarily due to higher customer participation and a lower number of customer curtailment failures. There were 24 option participants in 2019-2020, compared to 23 participants in the previous year. According to the Company, changes to the curtailment credits year over year is due to variation in demand and consumption, and the mix of option participants achieving full or partial credit.

Nothing has come to our attention to indicate that the Company is not in compliance with Order No. P.U. 7 (1996-97) and Order No. P.U. 30 (1998-99).

Non-Regulated Expenses

Our review of non-regulated expenses included the following specific procedures:

- assessed the Company's compliance with Board Orders;
- compared non-regulated expenses for 2020 to prior years and investigated any significant fluctuations;
- reviewed detailed listings of expenses for 2020 and investigated any significant items; and
- assessed the reasonableness and appropriateness of the amounts being charged.

In the calculation of rates of return the following items are classified as non-regulated:

	Actual 2020	Actual 2019	Actual 2018	Variance 2020-2019
Charged from Fortis Companies	**$ 2,251,000**	$ 2,115,024	$ 1,904,428	$ 135,976
Performance and restricted share units	**1,083,018**	665,058	346,789	417,960
Donations and charitable advertising	**210,426**	336,662	295,769	(126,236)
Executive short-term incentive	**576,510**	419,479	514,004	157,031
Miscellaneous	**10,934**	40,265	61,088	(29,331)
	4,131,888	3,576,488	3,122,078	555,400
Less: Income Taxes	**1,239,566**	1,072,946	936,623	166,620
Total non-regulated (net of tax)	**$ 2,892,322**	$ 2,503,542	$ 2,185,455	$ 388,780

The Company has classified STI payouts in excess of 100% of target payouts and 50% portion of the earnings and regulatory performance metrics as non-regulated expenses in compliance with Order No. P.U. 19 (2003) and Order No. P.U. 18 (2016), respectively measure. For 2020, this represents an addition to non-regulated expenses (before tax adjustment) of $576,510 (2019 - $419,479). However, it should be noted that these Orders were issued prior to the replacement of the regulatory performance measure with the cash flow performance measure in 2019; the cash flow measure is included in regulated expense at 100% of target. Details on the short-term incentive payouts are included in this report under the heading Short Term Incentive (STI) Program.

The income tax rate used by the Company for calculating total non-regulated expenses net of tax is 30.0% which agrees with the Company's statutory rate as identified in the 2020 annual report.

Based upon our review and analysis, nothing has come to our attention to indicate that the amounts reported as non-regulated expenses, as summarized above, are unreasonable or not in accordance with Board Orders.

Regulatory Assets and Liabilities

Scope: ***Conduct an examination of the changes to regulatory assets and liabilities***

Regulatory Assets and Liabilities

The following table summarizes Regulatory Assets and Regulatory Liabilities for 2019 and 2020:

(000's)	**2020 Actual**	**2019 Actual**	**Variance 2020-2019**
Regulatory Assets			
OPEBs asset (ii)	$ 17,520	$ 21,024	$ (3,504)
Deferred GRA costs (iii)	353	706	(353)
Conservation and demand management deferral (iv)	24,356	24,815	(459)
Demand management incentive (v)	1,431	2,687	(1,256)
Employee future benefits (vi)	74,752	86,366	(11,614)
Weather normalization account (vii)	-	8,078	(8,078)
Deferred income taxes (viii)	227,450	220,232	7,218
	$ 345,862	$ 363,908	$ (18,046)
Regulatory Liabilities			
Rate stabilization account (i)	$ 22,035	$ 16,107	$ 5,928
Cost recovery deferral (ix)	876	1,752	(876)
Weather normalization account (vii)	5,333	-	5,333
Future removal and site restoration provision (x)	178,469	168,740	9,729
	$ 206,713	$ 186,599	$ 20,114

(i) Rate Stabilization Account

The Rate Stabilization Account ("RSA") primarily relates to changes in the cost and quantity of fuel used by Hydro to produce electricity sold to the Company. On July 1st of each year, customer rates are recalculated in order to amortize the balance in the RSA as of March 31st over the subsequent 12-month period. On June 17, 2020, Order P.U. 16 (2020), the PUB approved a wholesale bill credit of approximately $50.6 million. In Order No. P.U. 17 (2020), the Board approved the one-time bill credit of approximately $47.7 million to eligible customers. This resulted in no change to customer electricity rates effective July 1, 2020. In Order No. P.U. 17 (2020) the Board also approved the balance owed to customers with respect to the operation of the Company's RSA for 2020 for $2,753,500.

As of December 31, 2020, there was a refund to customers transferred to the RSA of $21,440,309 related to the Energy Supply Cost Variance Reserve in accordance with Order No. P.U. 32 (2007) and Order No. P.U. 43 (2009) and a transfer of $321,225 to the RSA for undistributed credits to customers related to the July 2020 one time customer bill credit approved by the Board in Order No. P.U. 17 (2020).

Pursuant to Order No. P.U. 31 (2010), the Board approved the Company's proposal to create the OPEBVDA as of January 1, 2011. This account consists of the difference between the actual other post-employment benefit expense for any year from that approved for the establishment of revenue requirement from rates. The balance in this account will be transferred to the RSA on March 31st in the year in which the difference arises. As of March 31, 2020, the credit balance of $261,740 in the OPEBVDA account was transferred to the RSA, as approved in Order No. P.U. 16 (2013).

Pursuant to Order No. P.U. 43 (2009), the Board approved the Company's proposal to create a PEVDA as of January 1, 2010. This account consists of the difference between the actual pension expense in accordance with accounting standards and the annual pension expense approved for rate setting purposes. The Company will charge or credit any amount in this account to the RSA as of March 31 in the year in which the difference relates. As of March 31, 2020, the balance of $6,556,521 in the PEVDA account was credited to the RSA.

Pursuant to Order No. P.U. 13 (2013), the Board approved the Company's proposal to transfer the annual balance accrued in the Weather Normalization Reserve account in the previous year to the RSA account on March 31 of the subsequent year and approved the deferral and amortization of annual conservation program costs over seven years with recovery through the RSA. As of March 31, 2020, $8,077,818 and $5,577,693 were credited to the RSA for the Weather Normalization Reserve account and for the amortization of deferred customer energy conservation program costs respectively, in accordance with Order No. P.U. 13 (2013).

The RSA is also adjusted for the Demand Management Incentive Account for $2,686,951 as approved in Order No. P.U. 11 (2020).

Pursuant to Order No. P.U. 2 (2019), the Board approve the Company's proposed disposition of the 2020 Revenue Requirement Shortfall. As of March 31, 2020, the balance of $258,000 in the Revenue Requirement Shortfall account was credited to the RSA.

(ii) Other Post-Employment Benefits

The OPEB asset represents the cumulative difference between the OPEB expense recognized by the Company based on the cash basis and the OPEB expense based on accrual accounting required under accounting standards. In Order No. P.U. 43 (2009) the Board ordered that the Company file a comprehensive proposal for the adoption of the accrual method of accounting for OPEB costs as of January 1, 2011. The report was filed by Newfoundland Power on June 30, 2010. In summary, the Board ordered the approval, for regulatory purposes, of the accrual method of accounting for OPEBs costs and income tax related to OPEBs; recovery of the transitional balance, or regulatory asset, of $52.6 million as at January 1, 2011, over a 15-year period; and adoption of the OPEB Cost Variance Deferral Account. These recommendations were approved by the Board in Order No. P.U. 31(2010).

(iii) Deferred general rate application costs

In Order No. P.U. 2 (2019), the Board approved the deferral of cost related to 2019/2020 GRA as well as amortization of this deferral over a 34-month period commencing on March 1, 2019 and ending December 31, 2021. Actual costs incurred and deferred were approximately $1,000,000 with amortization of $353,000 incurred in 2020.

(iv) Conservation and Demand Management Deferral

The Conservation and Demand Management deferral account arose as a result of the Company's implementation of conservation and demand management programs. These costs totaled $1,357,000 (before tax) and the Board ordered pursuant to Order No. P.U. 13 (2009) that these costs be deferred until a further Order of the Board. In Order No. P.U. 43 (2009), the Board approved the Company's proposal to recover the 2009 conservation programming costs over the remaining four years of the five-year Energy Conservation Plan through the Conversation Cost Deferral Account. Amortization of this account commenced in 2010.

Pursuant to Order No. P.U. 13 (2013), the Board approved the Company's proposed change in definition of conservation program costs and the deferral and amortization of annual conservation program costs over seven years with recovery through the RSA. The actual costs incurred and deferred at December 31, 2020 were $24,356,000 with amortization of $5,577,693 in 2020.

(v) Demand Management Incentive

In Order No. P.U. 32 (2007), the Board approved the Company's proposal to create the Demand Management Incentive Account to replace the Purchased Power Unit Cost Variance Reserve. This account aims to isolate the demand costs and is equal to plus or minus 1% of test year wholesale demand charges. The Demand Management Incentive as at December 31, 2020 was $1,431,000 ($1,002,000 after tax).

(vi) Employee future benefits

On November 10, 2011, the Company submitted an application to the Board requesting approval for the January 1, 2012 adoption of US GAAP for regulatory purposes. On December 15, 2011 pursuant to Order No. P.U. 27 (2011), the Board approved the Company's adoption of US GAAP for general regulatory purposes.

Upon transition from Canadian GAAP to U.S. GAAP, there were several one-time adjustments with respect to the accounting for employee future benefits, as follows:

- The unamortized balances for transitional obligations associated with defined benefit pension plans, and the majority of the unamortized transitional obligation for OPEBs were required to be recorded as a reduction to retained earnings. The Board ordered that these balances be recorded as a regulatory asset to be amortized through 2017 as an increase to employee future benefits expense.
- The unamortized balances related to past service costs, actuarial gains or losses, and a portion of the unamortized transitional obligation for OPEBs were required to be recorded as a reduction to equity and classified as accumulated other comprehensive loss on the balance sheet. The Board ordered that these balances be reclassified as a regulatory asset. The amortization of these balances will continue to be included in the calculation of employee future benefit expense.
- The period over which pension expense is recognized differed between Canadian GAAP and U.S. GAAP. Therefore, the cumulative difference was recorded as a regulatory asset to be recovered from customers in future rates. The disposition of balances in this account will be determined by a further order of the Board.

In Order No. P.U. 27 (2011), the Board ordered that Newfoundland Power *" apply to the Board for approval of changes to existing regulatory assets and liabilities and the creation of any new regulatory assets and liabilities, along with appropriate definitions of the accounts related to these regulatory assets and liabilities, that will be required to effect the adoption of US GAAP".*

On April 9, 2012, the Company submitted an application to the Board requesting specific approval of the following:

- Opening balances for regulatory assets and liabilities of $131,249,000 (comprising the Defined Benefit Pension Plan regulatory asset of $109,197,000, OPEBs Plan regulatory asset of $21,116,000 and the PUP regulatory asset of $936,000) associated with employee future benefits which arise upon Newfoundland Power's adoption of US GAAP effective January 1, 2012; and,
- a definition of the account related to those regulatory assets and liabilities.

In Order No. P.U. 11 (2012) the Board approved the creation of a regulatory asset of $131.2 million, rather than a reduction in the Company's equity, to reflect the accumulated difference to January 1, 2012 in defined benefit pension expense calculated under U.S. GAAP and Canadian Generally Accepted Accounting Principles.

The period over which pension expense had been recognized differed between that used for regulatory purposes and U.S. GAAP. In Order No. P.U. 13 (2013), the Board approved that pension expense for regulatory purposes be recognized in accordance with U.S. GAAP effective January 1, 2013 and that the accumulated difference in pension expense to December 31, 2012 of $12,400,000 be amortized evenly over 15 years to pension expense.

As of December 31, 2020, the regulated asset for employee future benefits was $74,752,000.

<u>(vii) Weather Normalization Account</u>

The Weather Normalization reserve reduces earnings volatility by adjusting purchased power expense and electricity sales revenue to eliminate variances in purchases and sales caused by the difference between normal and actual weather conditions.

Commencing in 2013, Order No. P.U. 13 (2013) approved the disposition of the balance accrued in the Weather Normalization Account in the previous year to the RSA at March 31st of the following year. In Order No. P.U. 13 (2021), the Board approved the December 31, 2020 net regulatory liability balance in the Weather Normalization Account of $5,333,000 ($3,734,000 net of deferred income tax).

<u>(viii) Deferred income taxes</u>

Deferred income tax assets and liabilities associated with certain temporary timing differences between the tax basis of assets and the liabilities carrying amount are not included in customer rates. These amounts are expected to be recovered from (refunded to) customers through rates when the income taxes actually become payable (recoverable). The Company has recognized this deferred income tax liability with an offsetting increase in regulatory assets. Net regulatory asset for deferred income taxes at December 31, 2020 was $227,450,000.

<u>(ix) Cost Recovery Deferral</u>

In 2019, there was an over-recovery of revenue due to a March 1, 2019 rate implementation date. In Order No. P.U. 2 (2019), the Board approved amortization over a 34-month period from March 1, 2019 to December 31, 2021 to provide recovery in customer rates of any 2019 revenue shortfall/over-recovery associated with the March 1, 2019 rate implementation. The over-recovery of revenue was approximately $2,482,000 with accumulated amortization of

$1,606,000. The net regulating liability for deferred costs – 2019 Cost Recovery Deferral at December 31, 2020 was approximately $876,000.

<u>(x) Future Removal and Site Restoration Provision</u>

The Future Removal and Site Restoration Provision account represents amounts collected in customer electricity rates over the life of certain property, plant, and equipment which are attributable to removal and site restoration costs that are expected to be incurred in the future. The balance is calculated using current depreciation rates. For 2020, the balance in this account was $178,469,000 (2019 - $168,740,000).

Based upon our analysis, nothing has come to our attention to indicate that changes in regulatory deferrals for 2020 are unreasonable.

Pension Expense Variance Deferral Account

Scope: ***Review of calculation of the Pension Expense Variance Deferral Account and assess compliance with Order No. P.U. 43 (2009)***

In Order No. P.U. 43 (2009), the Board approved the creation of the Pension Expense Variance Deferral Account. PEVDA was created to capture the difference between the annual pension expense approved for the test year revenue requirement and the actual pension expense computed in accordance with accounting standards for any subsequent year. The purpose of the PEVDA is to adjust the variability related to factors outside of the Company's control, primarily due to changes in discount rates. The balance in the PEVDA is a charge or credit to the RSA as of the 31st day of March in the year in which the difference arises.

The 2020 PEVDA was calculated at $6,556,521. This balance was transferred to the RSA as a charge on March 31, 2020 in accordance with Order No. P.U. 43 (2009).

We confirm that the 2020 PEVDA is calculated in accordance with Order No. P.U. 43 (2009).

Other Post-Employment Benefits Cost Variance Deferral Account

Scope: ***Review the calculation of the Other Post-Employment Benefits Cost Variance Deferral Account and assess compliance with Order No. P.U. 31(2010)***

In Order No. P.U. 31 (2010), the Board approved the creation of the Other Post-Employment Benefits Cost Variance Deferral Account. OPEBVDA was created to capture the difference between the annual OPEBs expense approved for the test year revenue requirement and the actual OPEBs expense computed in accordance with accounting standards for any subsequent year. The purpose of the OPEBVDA is to adjust the variability related to factors outside the Company's control, primarily due to changes in discount rates. The OPEBs expense for the year is the total of (i) the OPEBs expense for regulatory purposes for the year, and (ii) the amortization of OPEBs regulatory asset for the year. The balance in the OPEBVDA is a charge or credit to the RSA as of the 31st day of March in the year in which the difference arises.

The 2020 OPEBVDA was calculated at $261,740. This balance was transferred to the RSA as a charge on March 31, 2020 in accordance with Order No. P.U. 31 (2010).

We confirm that the 2020 OPEBVDA is calculated in accordance with Order No. P.U. 31 (2010).

Productivity and Operating Improvements

Scope: ***Review the Company's initiatives and efforts with respect to productivity improvements, rationalization of operations and expenditure reductions. Inquire as to the Company's reporting on Key Performance Indicators.***

On an ongoing basis, Newfoundland Power undertakes initiatives aimed at improving reliability of service and efficiency of operations. According to the information provided by Newfoundland Power, the productivity and operational improvements undertaken in 2020 are as follows:

1. Made capital investments of $89 million of which over 62% were targeted directly to replacing or refurbishing deteriorated and defective equipment.

2. Continued Feeder Upgrades under the "Rebuild Distribution Lines Program".

3. Continued work under the Transmission Line Strategy.

4. Continued the Substation Modernization and Refurbishment program.

5. Continued to install down line reclosers to provide for improved control of the distribution system along with improving the ability to locate and isolate system trouble.

6. The Company revised and improved how it monitors and manages safety. The monthly safety management performance report was replaced with online dashboards from the new safety management software, Intelex. Safety performance is now managed in real time.

7. Newfoundland Power made adjustments to its operations to protect the safety of its employees and customers due to the COVID-19 pandemic. Newfoundland Power continued delivering safe, reliable electricity while remaining focused on the health and safety of employees, customers, and communities. The Company responded swiftly, providing customers with bill assistance by suspending collections and disconnections, offering flexible payment arrangements, and encouraging customers to avail of our online convenience options such as myAccount, ebills, and equal payment plans. Safe work procedures were developed to ensure work is completed safely when physical distancing cannot be maintained.

8. Deployed additional laptop computers and software to allow staff to effectively and efficiently work from home during the pandemic.

9. TakeCHARGE launched electric vehicle ("EV") educational resources at TakeChargeNL.ca/EVs with the help of $50,000 in funding from Natural Resources Canada. The enhancements provide customers with information and tools to help them determine if an EV is right for their lifestyle. The website also contains a carbon reduction calculator so customers can see the positive environmental impact of switching from an internal combustion engine vehicle to an EV. The website is a major milestone in the Company's electrification efforts, providing the foundation for future growth of electric vehicles in the province.

10. Newfoundland Power started its climate adaptation planning by collaborating and sharing resource information with FortisAlberta and FortisBC who are also in a similar stage of planning. The initial focus is on how our geographic information system ("GIS") can be leveraged to track climate risk for the organization. A gap analysis was completed to verify its alignment with the national criteria established through the Canadian Electricity Association's Sustainable Electricity Brand.

11. As a step toward adoption of the CEA Sustainable Electricity Company designation, Newfoundland Power contracted CanSustain to support a review of the ISO 26000 core subjects and issues, to determine which are most significant to Newfoundland Power's operations. This sustainability standard addresses a broad range of environmental, social and governance indicators.

12. In response to the pandemic the government provided up to $2.5 million to waive interest on eligible overdue electricity bills. Approximately 38,000 eligible residential accounts were enrolled automatically, and 118 general service customers were enrolled upon request.

13. TakeCHARGE received two ENERGY STAR® awards. Newfoundland Power was recognized with "Promotional Campaign of the Year" and "Utility Program of the Year" for the promotion of ENERGY STAR certified products in the marketplace, including the delivery of the Instant Rebates program.

14. The Company launched its new Human Resource Management System (“V.I.P.”). This new system replaces a 20-year old software application that was no longer supported by the vendor. V.I.P. brings support, stability, and new functionality. Previously two separate systems were needed for human resource and payroll functions. V.I.P. now houses both.

15. The Company launched its commitment to inclusion and diversity (I & D) to ensure employees are working in a supportive, inclusive and diverse workplace. Following a call for volunteers, 12 employees were selected for the inaugural Champions Network - a working group to support and influence I & D initiatives and foster an inclusive culture through events, training, best practices, policies, and workplace culture documents.

16. The Company completed a reassessment of its Cybersecurity Risk Management Program (“CRMP”) in both Information Technology (“IT”) and Operations Technology (“OT”) environments. The re-assessment showed reduction in risk for the IT and OT environments, mostly due to improved documentation of existing controls.

17. A number of cybersecurity improvements were completed. These included implementation of a Privileged Access Management (“PAM”) system, enabling better control and efficiency in managing administrative accounts and security privileges and a core network upgrade including new internal network firewalls, providing increased visibility on network traffic and better monitoring of cyber threats.

18. A new Electrification, Conservation and Demand Management Plan (2021-2025) was filed with the Board. This plan includes longstanding customer CDM programs and supporting initiatives and also introduces customer electrification programs for the first time. These programs will lower overall costs for participating customers and provide rate mitigating benefits over the long term. The Electrification, Conservation and Demand Management Plan remains under review with the Board.

19. Self-service functions were added to the Company’s website to help customers with the Equal Payment Plan. New features allow customers to view personal energy consumption and account balances and make quarterly changes to payment amounts.

20. Customers now have the ability to sign-up for Automatic Payment Plan electronically and securely, replacing the paper form previously required. Customers can avail of this option through their myAccount portal on Newfoundland Power’s website. A video training platform was introduced providing benefit to the regional operations and engineering groups.

21. An existing technology deployed at Newfoundland Power, called Workplace, was expanded to provide a platform to store, maintain and view refresher training and instructional or informational videos developed by employees.

Performance Measures

Newfoundland Power notes its performance targets focus on the Company's ability to reasonably control costs, while continuing to improve service reliability, maintain good customer service satisfaction results and a strong safety and environmental record.

The performance targets are established based on historical data, adjusted for anomalies where necessary, and reflect either stable performance or continued improvement over time. Actual results are tracked using various internal systems and processes. They are reported and re-forecasted internally on a monthly basis.

The following table lists the principal performance measures used by the Company:

Category	Measure	Actual 2018	Actual 2019	Actual 2020	Plan 2020	Measure Achieved
Reliability	Outage Hours/Customer (SAIDI) – excluding Hydro loss of supply[1]	2.65	2.34	2.98	2.37	No
	Outage/Customer (SAIFI) – excluding Hydro loss of supply[1]	1.67	1.62	2.35	1.64	No
	Plant Availability (%)[2]	96.3	95.7	96.8	95.0	Yes
Customer Satisfaction	% of Satisfied Customers as measured by Customer Satisfaction Survey	85.6	85.8	87.6	85.8	Yes
	Call Centre Service Level (% per second)[3]	81/60	77/60	81/60	80/60	Yes
	Trouble Call Responded to Within 2 Hours (%)	85.0	81.0	80.0	85.0	No
Safety	All Injury/Illness Frequency Rate	0.9	0.4	0.7	0.7	Yes
Financial	Earnings (millions)[4]	$41.2	$42.3	$43.2	$42.1	Yes
	Gross Operating Cost/Customer[5]	$225	$229	$235	$238	Yes

[1] 2018 statistics exclude the impact of wind storms in April & November and a Power Transformer failure in November. 2019 statistics exclude the impact of a wind storm in February, Hurricane Dorian in September and a snow storm in November. 2020 statistics excludes the impact for the snow storm in January.
[2] Excludes the hours of generation unit is out of service due to system disruptions and major plant refurbishment.
[3] Service level is based on calls answered in 60 seconds.
[4] Earnings applicable to common shares.
[5] Excluding conservation program costs, pension, OPEBs and early retirement program costs.

The following table compares whether the Company measures were achieved during the 2018, 2019, and 2020 years:

Category	Measure	Measure Achieved 2018	Measure Achieved 2019	Measure Achieved 2020
Reliability	Outage Hours/Customer (SAIDI) – excluding Hydro loss of supply	No	Yes	No
	Outage/Customer (SAIFI) – excluding Hydro loss of supply	Yes	Yes	No
	Plant Availability (%)	Yes	Yes	Yes
Customer Satisfaction	% of Satisfied Customers as measured by Customer Satisfaction Survey	No	Yes	Yes
	Call Centre Service Level (% per second)	Yes	No	Yes
	Trouble Call Responded to Within 2 Hours (%)	Yes	No	No
Safety	All Injury/Illness Frequency Rate	No	Yes	Yes
Financial	Earnings (millions)	Yes	Yes	Yes
	Gross Operating Cost/Customer	No	Yes	Yes

Audit | Tax | Advisory

About Grant Thornton in Canada

Grant Thornton LLP is a leading Canadian accounting and advisory firm providing audit, tax and advisory services to private and public organizations. We help dynamic organizations unlock their potential for growth by providing meaningful, actionable advice through a broad range of services. Grant Thornton LLP is a Canadian member of Grant Thornton International Ltd, whose member and correspondent firms operate in over 100 countries worldwide. A listing of Grant Thornton offices and contact information can be found at: www.GrantThornton.ca

Grant Thornton

grantthornton.ca