

Board of Commissioners of Public Utilities
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St. John's, NL A1A 5B2

Attention: Ms. Cheryl Blunden:

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September 29, 2022

Dear Ms. Blunden,

**Re: Newfoundland and Labrador Hydro
2021 Average Rate Base**

We have completed our review as requested in your letter dated July 21, 2022 relating to Newfoundland and Labrador Hydro's ("the Company's") ("Hydro") 2023 Capital Budget Application (Volume 1, Schedule 5) as it pertains to the computation of the 2021 average rate base for which the Company requests Board of Commissioners of Public Utilities ("Board") approval.

The procedures undertaken in the course of our financial analysis do not constitute an audit of the Company's financial information and consequently, we do not express an opinion on the financial information.

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 2021; 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.

2021 Average Rate Base Calculation

We noted that the 2021 average rate base of \$2,321,756,000 presented in the 2023 Capital Budget Application agrees to the 2021 Annual Return.

The table below presents the average rate base for 2021 consistent with Schedule 5 as filed by Hydro on July 13, 2022:

Table 1: Hydro's Average Rate Base

(000's)	<u>2021</u>
Capital Assets - Return 4	\$2,816,362
Work in Process	9,164
	<u>2,825,526</u>
Deduct	
Accumulated Depreciation - Return 6	598,649
Contribution in Aid of Construction - Return 7	<u>51,605</u>
Total Capital Assets	2,175,272
Deduct Items Excluded from Rate Base:	
Work in Progress	(9,164)
Asset Retirement Obligations (net of amortizations)	<u>(352)</u>
Net Capital Assets	2,165,756
Net Capital Assets, Previous Year	<u>2,132,758</u>
Unadjusted Average Capital Assets	2,149,257
<u>Deduct</u>	
Average Net Capital Assets Excluded from Rate Base	<u>(8,154)</u>
Average Capital Assets	2,141,103
Cash Working Capital Allowance	122
Fuel Inventory	55,803
Supplies Inventory	38,326
Average Deferred Charges	<u>86,402</u>
Average Rate Base at Year-End	<u><u>\$2,321,756</u></u>

We reviewed Hydro's average rate base as summarised in Table 1. We conclude, based on our procedures, that the 2021 average rate base reflected in Volume 1, Schedule 5 is in accordance with established practice and relevant Board Orders.

Allowance for Unforeseen Items Account

For the Board's consideration, we did want to highlight the use of the Allowance for Unforeseen Items Account in 2021 and the associated expenditures that are reflected in the 2021 average rate base for approval by the Board.

The 2021 average rate base includes expenditures in 2021 associated with the work completed under the Allowance for Unforeseen Items Account of \$108,000 (\$54,000 included in average rate base) relating to the Port Hope Simpson Engine Replacement project and \$2,249,814 (\$1,124,907 included in average rate base) relating to the Holyrood Unit 3 Boiler Tube Failure project.

In Order No. P.U. 17 (2021) the Board approved the addition of a supplementary amount of \$108,000 to the 2021 Allowance for Unforeseen Items Account in connection with the Port Hope Simpson Engine Replacement project.

In Order No. P.U. 34 (2021) the Board informed Hydro it would address the appropriateness of the use of the Allowance for Unforeseen Items Account for expenditures relating to the Holyrood Unit 3 Boiler Tube Failure project and the Holyrood Unit 2 Transformer Replacement project following the final reports related to each event, and that the inclusion of expenditures in rate base should be addressed in the 2021 Rate Base Application. According to the Company the Holyrood Thermal Generating Station Unit 3 was returned to service on November 21, 2021. The Company filed its final report in relation to the Unit 3 boiler tube failures on December 21, 2021. The Holyrood Thermal Generating Station Unit 2 transformer replacement project incurred expenditures during 2021 however they are excluded from the Company's 2021 rate base as it did not go into service until 2022.

In Order No. P.U. 34 (2021) the Board approved a supplementary amount of \$1.0 million for the remainder of 2021. According to the Company this balance was not utilized as there were no additional unforeseen projects in 2021.

I trust this is the information you requested. If you have any questions, please contact us.

Yours sincerely,
Grant Thornton LLP



Barry Griffiths, CPA, CA
Principal