

1 Q. **Reference: Finance**

2 For each of Finance Schedules I, II, III, and IV please extend to include 2014 forecast
3 to 2017 forecast. Please indicate all material assumptions.

4

5

6 A. Please refer to NP-NLH-020 Attachment 1, Pages 1 to 6 for the 2014 to 2017
7 forecast Income Statement, Balance Sheet, Capital Structure, Rate of Return on
8 Rate Base, Rate Stabilization Plan and Revenue Requirement. Please refer to IN-
9 NLH-108 for estimated rate impacts.

10

11 The information for 2014 and 2015 is based on Hydro's Amended Application. The
12 financial forecast information for 2016-2017 was prepared using Hydro's long-term
13 financial planning model. The long-term financial planning model used to prepare
14 these forecasts provides a directional, high-level view over the period 2016-2017
15 and does not provide the level of detail necessary to complete all the GRA Finance
16 Schedules I, II, III and IV, nor have detailed cost of service studies been prepared for
17 this period. However, Hydro believes the attached schedules provide the key
18 forecast information for the 2014-2017 period.

19

20 The following are the material assumptions used in this forecast:

21 **Rates**

- 22 • Rates proposed in the 2013 Amended General Rate Application are effective
23 until December 31, 2017;
- 24 • [];
- NF Power Return on Equity of 8.8% starting in 2014; ROE on rural assets
commencing in 2014;

Fuel and Load

- Forecast of Holyrood No. 6 fuel and hydro-thermal production splits are based on average hydraulic generation assumptions and were updated as of October, 2014;
- Load forecasts were updated as of November 2014;

Operating & Maintenance

- []
- 2016-2017 costs were escalated at a rate of 2.5% [];

Rate Stabilization Plan

- Newfoundland Power refund of \$132.7 million paid in January 2016;
- Industrial rate phase-in from 2013 to 2016;

Capital Expenditures

- Capital expenditures for 2014 and 2015 reflect the five-year capital plan filed with the Public Utilities Board in August, 2014. Capital expenditures for 2016 and 2017 have been updated to exclude the Labrador West Transmission line and to include expenditures related to Twin Falls;

Other

- Dividend policy – Dividends suspended until target debt ratio of 75% debt and 25% equity are achieved. Once achieved, dividends are paid up to 100% of net income;
- []
- Interest rates are based on the Conference Board of Canada projections for 2015 and beyond;
- Twin Falls assets transferred to Hydro at carrying value at January 1, 2016; and
- Exploits Generation - purchased at 4 ¢/kWh during projection period;
- [].

Newfoundland and Labrador Hydro
Financial Results and Forecasts
Statement of Income and Retained Earnings
(\$millions)

NP-NLH-020, Attachment 1 (Rev 1, Dec 19-14)
Page 1 of 6, NLH GRA 2013

	<u>Proposed</u> <u>2014</u>	<u>Proposed</u> <u>2015</u>	<u>Proposed</u> <u>2016</u>	<u>Proposed</u> <u>2017</u>
1 Revenue				
2 Energy sales	514.6	660.0	675.7	685.8
3 Revenue Deficiency	45.9			
4 Other revenue	2.3	2.5	2.5	2.5
5 Total revenue	<u>562.9</u>	<u>662.5</u>	<u>678.2</u>	<u>688.3</u>
6				
7 Expenses				
8 Operating expenses	126.1	138.2	140.8	144.0
9 Loss on disposal of property, plant, and equipment	2.1	4.1	4.1	4.1
10 Fuels	201.7	267.8	280.9	291.9
11 Fuel supply deferral	(10.0)	2.0	2.0	2.0
12 Power purchases	66.7	63.3	63.1	63.4
13 Amortization	55.2	63.8	67.3	72.4
14 Accretion of asset retirement obligation	0.9	0.9	0.9	0.9
15 Interest	89.7	89.3	84.5	75.9
16 Total expenses	<u>532.4</u>	<u>629.2</u>	<u>643.6</u>	<u>654.6</u>
17				
18 Net income	<u>30.5</u>	<u>33.2</u>	<u>34.6</u> A	<u>33.7</u> A
19				
20 Retained Earnings				
21 Balance at beginning of year	231.4	261.9	292.7 A	327.3 A
22 Opening adjustment - retained earnings	-	-	-	-
23 Dividends	-	-	-	-
24 Balance at end of year	<u>261.9</u>	<u>295.1</u>	<u>327.3</u> A	<u>361.0</u> A

A 2014 and 2015 Test Years are consistent with the proposed Amended General Rate Application. Forecast 2016 and 2017 have been updated primarily for the exclusion of the Labrador West Transmission Line.

Newfoundland and Labrador Hydro
Financial Results and Forecasts
Balance Sheet
(\$millions)

NP-NLH-020, Attachment 1 (Rev 1, Dec 19-14)
Page 2 of 6, NLH GRA 2013

	Proposed 2014	Proposed 2015	Proposed 2016	Proposed 2017
1 Assets				
2 Current assets				
3 Cash and cash equivalents	-	12.1	-	-
4 Short-term investments	-	-	-	-
5 Accounts receivable	74.2	72.6	88.5	89.4
6 Current portion of regulatory assets	5.2	5.8	5.8	5.8
7 Inventory	116.2	109.0	103.6	112.6
8 Prepaid expenses	3.3	3.4	1.9	1.9
9	198.9	202.9	199.8	209.7
10				
11 Property, plant, and equipment	1,673.2	1,889.5	1,811.5	1,971.8
12 Sinking funds	220.5	238.9	251.9	183.2
13 Regulatory assets	72.9	71.1	67.9	64.1
14				
15 Total assets	2,165.6	2,402.4	2,331.1	2,428.8
16				
17 Liabilities and shareholder equity				
18 Current liabilities				
19 Promissory notes	145.6	-	211.5	75.0
20 Accounts payable and accrued liabilities	66.9	27.7	66.7	68.2
21 Accrued interest	27.5	23.9	27.1	24.3
22 Current portion of long-term debt	8.2	8.2	6.7	6.7
23 Current portion of regulatory liabilities	185.4	175.5	21.4	59.9
24 Deferred capital contribution	-	-	0.2	0.2
25 Due to related parties	0.4	0.7	0.7	0.7
26 Promissory notes - non-regulated	(8.2)	(8.2)	(8.2)	(8.2)
27	425.8	227.8	326.1	226.8
28				
29 Long-term debt	1,243.9	1,641.4	1,414.5	1,579.5
30 Regulatory liabilities	11.9	9.0	33.4	31.0
31 Asset retirement obligations	24.8	25.5	26.3	27.0
32 Employee future benefits	66.2	72.5	78.2	84.0
33 Contributed capital	100.0	100.0	100.0	100.0
34 Shareholder's equity / retained earnings	261.9	295.1	327.3	361.0
35 Accumulated other comprehensive income	31.1	31.1	25.3	19.5
36				
37 Total liabilities and shareholder's equity	2,165.6	2,402.4	2,331.1	2,428.8

A 2014 and 2015 Test Years are consistent with the proposed Amended General Rate Application. Forecast 2016 and 2017 have been updated primarily for the exclusion of the Labrador West Transmission Line.

Newfoundland and Labrador Hydro
Financial Results and Forecasts
Capital Structure
(\$millions)

NP-NLH-020, Attachment 1 (Rev 1, Dec 19-14)
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	Proposed 2014	Proposed 2015	Proposed 2016	Proposed 2017
1 Regulated capital structure				
2 Long-term debt	1,252.0	1,649.5	1,421.2	1,586.2
3 Promissory notes	145.6	-	211.5	75.0
4 Promissory notes - related party	-	-	-	-
5 less: sinking funds	(220.5)	(238.9)	(251.9)	(183.2)
6 add: mark to market of sinking funds	31.1	31.1	25.3	19.5
7	1,208.2	1,441.8	1,406.1	1,497.5
8 Cost of service exclusions	-	-	-	-
9 Non-regulated debt pool	(8.2)	(8.2)	(8.2)	(8.2)
10 Net regulated debt	1,200.0	1,433.6	1,397.9	1,489.3
11 Asset retirement obligation	24.8	25.5	26.3	27.0
12 less: unfunded asset retirement obligation	(14.4)	(12.2)	(9.9)	(7.6)
13 Employee future benefits	66.2	72.5	78.2	84.0
14 Contributed capital	100.0	100.0	100.0	100.0
15 Retained earnings cost of service exclusions	1.0	1.3	1.6	1.9
16 Retained earnings	261.9	295.1	327.3	361.0
17 Total	1,639.5	1,915.8	1,919.8	2,053.7
18				
19 Regulated capital structure (%)				
20 Debt	73.2%	74.8%	72.8%	72.5%
21 Asset retirement obligation	0.6%	0.7%	0.8%	0.9%
22 Employee future benefits	4.0%	3.8%	4.1%	4.1%
23 Equity	22.1%	20.7%	22.3%	22.5%
24 Total	100.0%	100.0%	100.0%	100.0%
25				
26 Regulated average capital structure (%)				
27 Debt	71.4%	74.0%	73.0%	72.7%
28 Asset retirement obligation	0.6%	0.7%	0.7%	0.8%
29 Employee future benefits	4.4%	3.9%	4.1%	4.1%
30 Equity	23.6%	21.4%	22.2%	22.4%
31 Total	100.0%	100.0%	100.0%	100.0%
32				
33 Weighted average cost of capital (WACC)				
34 Embedded cost of debt	7.3%	6.7%	6.6%	6.3%
35 Asset retirement obligation	0.0%	0.0%	0.0%	0.0%
36 Employee future benefits	0.0%	0.0%	0.0%	0.0%
37 Equity	8.8%	8.8%	8.8%	8.8%
38 WACC	7.3%	6.8%	6.7%	6.5%

A 2014 and 2015 Test Years are consistent with the proposed Amended General Rate Application. Forecast 2016 and 2017 have been updated primarily for the exclusion of the Labrador West Transmission Line.

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Newfoundland and Labrador Hydro
Financial Results and Forecasts
Rate of Return on Rate Base
(\$millions)

	Proposed 2014	Proposed 2015	Proposed 2016	Proposed 2017
1 Property, plant, and equipment	1,673.2	1,889.5	1,811.5	1,971.8
2 add: accumulated depreciation	193.5	203.8	321.1	397.1
3 add: contributions in aid of construction	16.6	17.9	127.8	129.5
5 less: work in progress	(43.0)	(241.0)	(112.7)	(235.7)
6 Capital assets in service	1,840.3	1,870.2	2,147.7	2,262.7
7 less: asset retirement obligation	(14.4)	(12.2)	(9.9)	(7.6)
8 less: contributions in aid of construction	(16.6)	(17.9)	(127.8)	(129.5)
9 less: accumulated depreciation	(193.5)	(203.8)	(321.1)	(397.1)
10 Capital assets - current year	1,615.8	1,636.3	1,688.9	1,728.5
11 Capital assets - previous year	1,432.5	1,615.8	1,636.3	1,688.9
12 Unadjusted capital assets - average	1,524.2	1,626.1	1,662.6	1,707.7
13 less: Average net assets not in use	(2.9)	(2.6)	(2.3)	(1.9)
14 Capital assets - average	1,521.3	1,623.5	1,660.3	1,705.8
15				
16 Cash working capital allowance	9.2	7.0	7.2	7.4
17 Fuel	65.1	66.6	77.5	78.3
18 Materials and supplies	25.8	27.4	28.7	29.8
19 Deferred charges	71.2	77.5	75.8	71.8
20				
21 Average rate base	1,692.6	1,802.0	1,849.5	1,893.1
22				
23 Unadjusted return on regulated equity	30.5	33.2	34.6	33.7
24 add: Cost of service exclusions	0.3	0.3	0.3	0.3
25 Net interest	89.7	89.3	84.5	75.9
26 Return on rate base	120.6	122.8	119.4	109.9
27				
28 Rate of return on rate base	7.1%	6.8%	6.46%	5.81%

A 2014 and 2015 Test Years are consistent with the proposed Amended General Rate Application. Forecast 2016 and 2017 have been updated primarily for the exclusion of the Labrador West Transmission Line.

Newfoundland and Labrador Hydro
Financial Results and Forecasts
Rate Stabilization Plan
(\$millions)

NP-NLH-020, Attachment 1 (Rev 1, Dec 19-14)
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	Proposed 2014	Proposed 2015	Proposed 2016	Proposed 2017
1 Historical rate stabilization plan balances				
2 Utility	-	-	-	-
3 Industrial	-	-	-	-
4 Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
5				
6 Current rate stabilization plan				
7 Hydraulic	(11.5)	(8.6)	(21.4)	(59.9)
8 Utility	(25.7)	(4.6)	(10.2)	(36.0)
9 Industrial	8.3	8.6	(3.0)	(3.0)
10 Utility surplus	(124.0)	(132.5)	-	-
11 Industrial surplus	(11.0)	(11.8)	-	-
12 Segregated Load	(33.1)	(35.3)	(20.2)	8.0
13 Total	<u>(197.0)</u>	<u>(184.2)</u>	<u>(54.8)</u>	<u>(90.9)</u>
14				
15 Combined rate stabilization plan balances	<u>(197.0)</u>	<u>(184.2)</u>	<u>(54.8)</u>	<u>(90.9)</u>
16				
17 Average fuel cost per barrel	<u>\$ 109.59</u>	<u>\$ 93.32</u>	<u>\$ 90.20</u>	<u>\$ 89.60</u>

Newfoundland and Labrador Hydro
Financial Results and Forecasts
Revenue Requirement Analysis
(\$000s)

NP-NLH-020, Attachment 1 (Rev 1, Dec 19-14)
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	Proposed 2014	Proposed 2015	Proposed 2016	Proposed 2017
1 Revenue requirement				
2 Energy sales	514.6	660.0	675.7	685.8
3 Revenue deficiency	45.9	-		
4 Other revenue	2.3	2.5	2.5	2.5
5 Total revenue requirement	562.9	662.5	678.2	688.3
6				
7 Expenses				
8 Operating expenses	126.1	138.2	140.8	144.0
9 Fuels	191.8	269.8	280.9	291.9
10 Power purchases	66.7	63.3	63.1	63.4
11 Amortization	55.2	63.8	67.3	72.4
12 Accretion of asset retirement obligation	0.9	0.9	0.9	0.9
13 Loss on disposal	2.1	4.1	4.1	4.1
14 Expenses before cost of service exclusions	442.8	540.0	557.1	576.7
15 less: cost of service exclusions	(0.3)	(0.3)	(0.3)	(0.3)
16	442.5	539.7	556.8	576.4
17				
18 Return on rate base	120.4	122.8	121.4	111.9
19				
20 Average rate base	1,692.6	1,802.0	1,849.5	1,893.1
21				
22 Rate of return on rate base	7.1%	6.8%	6.6%	5.9%

A 2014 and 2015 Test Years are consistent with the proposed Amended General Rate Application. Forecast 2016 and 2017 have been updated primarily for the exclusion of the Labrador West Transmission Line.