

1 Q. On page 128 of Grant Thornton's report, Grant Thornton indicates that it did not
2 receive information on the impact the transition to IFRS would have on the 2014
3 and 2015 test years. Please provide a table, with written explanation, indicating the
4 impact on the 2014 and 2015 test years.

5

6

7 A. The differences between IFRS and Canadian GAAP (CGAAP) are illustrated in the
8 letter to the Board dated October 23, 2014 (PUB-NLH-488 Attachment 1) and the
9 attached schedule comparing 2014 Actual information under IFRS and Canadian
10 GAAP (PUB-NLH-488 Attachment 2). While there are changes to certain numbers on
11 the financial statements, there, is no impact on net income, cash position, revenue
12 requirement or average rate base.

13

14 Asset retirement obligations are treated differently under CGAAP and IFRS,
15 however at the time that the 2014 and 2015 Test Years were determined, there was
16 no material change to the revaluation of the ARO (please refer to PUB-NLH-488
17 Attachment 1 for further discussion on the ARO treatment difference between
18 CGAAP and IFRS). Accordingly, there are no differences in the 2014 or 2015 average
19 rate base, revenue requirement or return on rate base as a result of IFRS.



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October 23, 2014

The Board of Commissioners of Public Utilities
Prince Charles Building
120 Torbay Road, P.O. Box 21040
St. John's, Newfoundland & Labrador
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Attention: Ms. Cheryl Blundon
Director Corporate Services & Board Secretary

Dear Ms. Blundon:

Re: International Financial Reporting Standards

The purpose of this letter is to inform the Public Utilities Board (the Board) on how recent changes to International Financial Reporting Standards (IFRS) will impact ratepayers, Newfoundland and Labrador Hydro's (Hydro) external reporting, regulatory reporting, and continued compliance with Board Order No. P.U. 13(2012).

Background

In 2010, the Canadian Accounting Standards Board (AcSB) confirmed that rate-regulated publicly accountable enterprises in Canada will be required to apply IFRS, in full and without modification, beginning January 1, 2012.

In Order No. P.U. 13(2012), the Board approved the use of IFRS for Hydro's financial reporting purposes with the following exceptions:

- a) Hydro shall continue to adhere to existing accounting guidelines with respect to reporting of Rate Stabilization Plan balances and activity;
- b) Hydro shall continue to adhere to existing accounting guidelines with respect to reporting of deferred costs;
- c) Hydro shall ensure that 2011 transitional differences associated with the adoption of International Financial Reporting Standards are adjusted in Hydro's 2012 opening retained earnings;
- d) Hydro shall include unamortized deferred revenue as a reduction from rate base; and
- e) Hydro shall record net insurance proceeds associated with capital projects of \$50,000 or more as an offset against the cost of capital assets and as a reduction of the rate base value of those assets.

On January 30, 2014 the International Accounting Standards Board (IASB) issued IFRS 14 – Regulatory Deferral Accounts which are applicable to rate-regulated entities who had not yet converted to IFRS. The purpose of the interim standard is to enhance the comparability of financial reporting by entities that are engaged in rate-regulated activities. The interim standard was effective for first-time adopters of IFRS for a period beginning on or after January 1, 2016 with early adoption permitted.

In order for Hydro to maintain compliance with P.U. 13(2012) and IFRS it must adopt this new standard provided it does not contravene any of the Board's original adoption exceptions. Adoption of this new standard will require changes to both external and regulatory reporting.

Changes to External Reporting

Subsequent to Board Order No. P.U. 13 (2012), the AcSB amended the introduction to Part 1 of the Canadian Institute of Chartered Professional Accountants (CICA) Handbook – Accounting to allow qualifying entities with rate-regulated activities to defer adoption of IFRS to January 1, 2015. As a result, Hydro deferred adoption of IFRS for the years ended December 31, 2012 and 2013 for external reporting purposes. For external reporting purposes, Hydro and its parent company, Nalcor, adopted IFRS as of January 1, 2014, with a date of transition effective January 1, 2013.

The primary changes resulting from IFRS 14 – Regulatory Deferral Accounts for external reporting purposes are:

- Regulatory deferral account balances to be presented as separate line items on the Statement of Financial Position;
- The total of all regulatory deferral debit balances must be separated from the total of all regulatory deferral credit balances;
- The net movements in these account balances must be presented, as a separate line item on the statement of profit or loss; and
- The net movements in regulatory deferral account balances that relate directly to other comprehensive income are presented separately.

These changes are for financial statement presentation purposes only, and there are no impact on ratepayers.

Changes to Regulatory Reporting

For Regulatory reporting purposes, Hydro has adopted IFRS in accordance with Board Order No. P.U. 13 (2012). As a result of IFRS 14 – Regulatory Deferral Accounts, the following changes are required:

Capital Assets - Deemed Cost: As outlined in Hydro's application and approved in Board Order No. P.U. 13(2012), asset costs will be restated to net book value as at January 1, 2013 with the accumulated depreciation reset to nil. Actual cost data will be maintained for use in the cost of service operating and maintenance expense allocation. This is a change in presentation only and will have no impact on ratepayers.

Capital Assets - Contributions in Aid of Construction (CIAC): As outlined in Hydro's application and approved in Board Order No. P.U. 13(2012), under IFRS, CIAC are recorded as deferred liabilities and amortized to income over the life of the asset to which they relate. This differs from Canadian GAAP where CIAC are recorded as a reduction in capital asset costs, with the net amount amortized to depreciation. Hydro has continued to report CIAC as a reduction against capital assets during this period. In order to comply with IFRS, Hydro is now proposing to report using the presentation originally approved in P.U. 13(2012). This is a change in presentation only and will have no impact on ratepayers.

Employee Future Benefits: As outlined in Hydro's application and approved in Board Order No. P.U. 13(2012), under IFRS, actuarial gains and losses on the fair value of the plan must be charged to other comprehensive income. This change to record the fair value of the liability resulted in a revision in Q2 of \$26.2 million increase in the employee future benefit liability, and a \$26.2 million decrease in accumulated other comprehensive income. This is a change in presentation only and will have no impact on ratepayers.

In the Amended GRA filing, Hydro will propose a change to this treatment previously approved in Board Order No. P.U. 13(2012).

Asset Retirement Obligations (AROs): As outlined in Hydro's application and approved in Board Order No. P.U. 13(2012), the primary change from Canadian GAAP to IFRS relates to changes in the revaluation basis. Under Canadian GAAP, the obligation is revalued whenever there is an upward increase in the obligation whereas under IFRS the full amount of the obligation is revalued. This resulted in an increase in the obligation of \$0.1M from \$24.5 million to \$24.6 million under IFRS at the end of the second quarter 2014. Also, accretion of the ARO is recorded in the depreciation line of the income statement under Canadian GAAP in comparison to the interest line of the income statement under IFRS. While this change will result in an impact to ratepayers, it is not anticipated to be significant.

Please refer to Appendix A which provides Regulated Hydro's Second Quarter income statement and balance sheet which provides both the revised regulatory presentation in comparison to the Second Quarter Board filing and the IFRS presentation for external reporting purposes.

Ms. C. Blundon
Public Utilities Board

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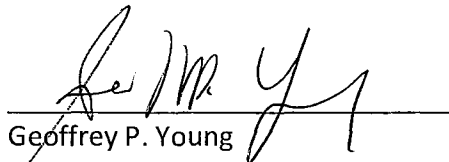
Summary

The changes described in this letter are required to comply with IFRS for financial reporting purposes. Given the impact on results are immaterial, Hydro intends to adopt these changes for the Q3 Board report to minimize differences in external and regulatory reporting. These changes are consistent with the changes approved in the Board's order found in P.U. 13 (2012).

Hydro intends to submit the 2014 and 2015 Test Year in the GRA filing on the same basis used in the 2013 GRA filing and the Q2 Board report for consistency and accordingly will not reflect the changes in presentation noted above.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO


Geoffrey P. Young
Senior Legal Counsel

GPY/jc

Appendix A

Table 1
Regulated Hydro Income Statement Changes

<u>Line</u> <u>No.</u>	<u>Particulars (\$000's)</u>	<u>2014 Q2 PUB</u> <u>Quarterly</u> <u>Presentation</u> (a)	<u>Notes</u>	<u>Adjustments</u> (b)	<u>2014 Q2 PUB</u> <u>Quarterly</u> <u>Revised</u> <u>Presentation</u> (c) = (a) + (b)	<u>Notes</u>	<u>IFRS</u> <u>Adjustments</u> (d)	<u>2014 Q2</u> <u>External</u> <u>Reporting</u> <u>Presentation</u> (e) = (c) + (d)
1	Energy sales	298,261		-	298,261	iii	17,755	316,016
2	Other revenue	959	i	897	1,856	iii	5,694	7,550
3	Revenue	299,220		897	300,117		23,449	323,566
4	Fuels	141,114		-	141,114	iii	30,066	171,180
5	Power purchased	37,629		-	37,629	iii	18	37,647
6	Operating costs	62,597		-	62,597	iii	2,751	65,348
7	Depreciation and amortization	27,432	i, ii	471	27,903	iii	265	28,168
8	Net finance expense	47,822	ii	426	48,248	iii	(7,429)	40,819
9	Other income and expense	(639)		-	(639)		-	(639)
10	Loss, before regulatory adjustments	315,955		897	316,852		25,671	342,523
11	Subtotal	(16,735)		-	(16,735)		(2,222)	(18,957)
12	Regulatory adjustments	-		-	-	iii	(2,222)	(2,222)
13	Loss for period	(16,735)		-	(16,735)		-	(16,735)

Notes:**i Contributions in Aid of Construction**

Under Canadian GAPP, Hydro recorded contributions in aid of construction as a reduction to the carrying value of property, plant and equipment. IFRIC 18 and IAS 18 requires contributions to be recorded as revenue with the unearned portion recorded as deferred revenue and amortized to profit or loss as earned. Contributions in Aid of Construction totalling \$897,000 were recorded under this category.

ii Decommissioning Liabilities (AROs)

Under Canadian GAAP, \$426,000 of accretion costs were presented in amortization for the six months ended June 30, 2014. Under IFRS, accretion has been reclassified as a finance cost.

iii Regulatory adjustments

Under Canadian GAAP, Hydro included certain regulatory deferrals in accounts such as energy sales, other revenue, fuels, operating costs, depreciation and amortization and net finance expense.

IFRS 14 - Regulatory Deferrals requires all regulatory assets and liabilities to be disclosed separately in the statement of financial position.

Please refer to Appendix B for a breakdown of the Regulatory adjustments totalling \$2,222,000.

Appendix B

Table 1
IFRS Regulatory Adjustments

<u>Line</u>			<u>Amount</u>
<u>No.</u>	<u>Particulars</u>	<u>Income Statement Grouping</u>	<u>(\$000's)</u>
1	RSP Recovery	Energy Sales	17,755
2	Rural Rate Adjustment	Other Revenue	5,694
3	RSP Fuel Deferral	Fuels	(32,833)
4	RSP Interest	Net Finance Expense	9,257
5	Amortization of Deferred Foreign Exchange Losses	Net Finance Expense	1,078
6	Deferred Foreign Exchange (Losses) gains on Fuel	Net Finance Expense	(139)
7	Deferred Energy Conservation	Operating Costs	(588)
8	Deferred purchase power savings	Power Purchased	(18)
9	Insurance Proceeds Depreciation	Depreciation & Amortization	(265)
10	Deferred Lease costs	Operating Costs	(2,163)
11	Total Regulatory Adjustments		(2,222)

Appendix C

Table 1
Regulated Hydro Balance Sheet Asset Changes

		<u>2014 Q2 PUB</u>			<u>2014 Q2 PUB</u>			<u>2014 Q2 External</u>
<u>Line</u>		<u>Quarterly</u>			<u>Quarterly</u>		<u>IFRS</u>	<u>Reporting</u>
<u>No.</u>	<u>Particulars (\$000's)</u>	<u>Presentation</u>	<u>Notes</u>	<u>Adjustments</u>	<u>Presentation</u>	<u>Notes</u>	<u>Adjustments</u>	<u>Presentation</u>
		(a)		(b)	(c) = (a) + (b)		(d)	(e) = (c) + (d)
	ASSETS							
	Current assets							
1	Cash and cash equivalents	6,989		-	6,989		-	6,989
2	Trade and other receivables	44,243		-	44,243		-	44,243
3	Current portion of regulatory assets	2,157		-	2,157	i	(2,157)	-
4	Prepayments	4,880		-	4,880		-	4,880
5	Inventories	81,442		-	81,442	i	(250)	81,192
6	Due from related parties	809		-	809		-	809
7	Total current assets	140,520			140,520		(2,407)	138,113
	Non-Current Assets							
8	Property, plant, and equipment	1,518,960	ii, iii	1,486	1,520,446	i, vi	4,080	1,524,526
9	Regulatory assets	63,916		-	63,916	i	(63,916)	-
10	Other long-term assets	209,932		-	209,932		-	209,932
11	Total non-current assets	1,792,808		1,486	1,794,294		(59,836)	1,734,458
12	Total assets	1,933,328		1,486	1,934,814		(62,243)	1,872,571
13	Regulatory deferrals	-		-	-	i	66,323	66,323
14	Total assets, and regulatory deferrals	1,933,328		1,486	1,934,814	vi	4,080	1,938,894

Appendix C

Table 2
Regulated Hydro Balance Sheet Liability Changes

		2014 Q2 PUB		2014 Q2 PUB				2014 Q2 External
Line		Quarterly		Quarterly			IFRS	Reporting
No.	Particulars (\$000's)	Presentation	Notes	Presentation	Notes	Adjustments	Adjustments	Presentation
		(a)		(b)		(c) = (a) + (b)	(d)	(e) = (c) + (d)
	LIABILITIES AND EQUITY							
	Current liabilities							
1	Short-term borrowings	96,362		-		96,362	-	96,362
2	Trade and other payables	65,121		-		65,121	-	65,121
3	Current portion of long-term debt	8,775		-		8,775	-	8,775
4	Current portion of regulatory liabilities	177,575		-		177,575	iv (177,575)	-
5	Accrued interest	28,667		-		28,667	-	28,667
6	Deferred credits	944		-		944	-	944
7	Total current liabilities	377,444		-		377,444	(177,575)	199,869
	Non-current liabilities							
8	Long-term debt	1,045,091		-		1,045,091	-	1,045,091
9	Regulatory liabilities	76,544		-		76,544	iv (76,544)	-
10	Deferred contributions	-	ii	1,319		1,319	-	1,319
11	Decommissioning liabilities	24,520	iii	167		24,687	-	24,687
12	Employee benefit liability	63,868	v	26,245		90,113	-	90,113
13	Total non-current liabilities	1,210,023		27,731		1,237,754	(76,544)	1,161,210
14	Total liabilities	1,587,467		27,731		1,615,198	(254,119)	1,361,079
15	Equity							
16	Shareholder contributions	100,000		-		100,000	-	100,000
17	Retained earnings	214,648		-		214,648	-	214,648
18	Accumulated other comprehensive income	31,213	v	(26,245)		4,968	-	4,968
19	Total Equity	345,861		(26,245)		319,616	-	319,616
20	Total liabilities and equity	1,933,328		1,486		1,934,814	(254,119)	1,680,695
21	Regulatory deferrals	-		-		-	iv 258,199	258,199
22	Total liabilities, equity, and regulatory deferrals	1,933,328		1,486		1,934,814	vi 4,080	1,938,894

Appendix C

Notes:

i Assets - Regulatory Deferrals

Under Canadian GAAP, Hydro included certain regulatory deferrals in accounts such as regulatory assets (i.e. deferred charges) and inventories. IFRS 14 - Regulatory Deferrals requires all regulatory assets and liabilities to be disclosed separately in the statement of financial position. Please refer to Appendix D for the Asset Regulatory Deferrals totalling \$66,323

ii Contributions in Aid of Construction

Under Canadian GAPP, Hydro recorded contributions in aid of construction as a reduction to the carrying value of property, plant and equipment. IFRIC 18 and IAS 18 requires contributions to be recorded as revenue with the unearned portion recorded as deferred revenue and amortized to profit or loss as earned. Contributions in Aid of Construction totalling \$1,319 were recorded under this category.

iii Decommissioning Liabilities

Under Canadian GAAP, decommissioning liabilities were measured based upon the estimated future cash flows to settle the obligation, discounted using the credit-adjusted risk-free rate upon recognition. Subsequent measurement reflected changes to estimated timing and amount of cash flows, but not changes to the discount rate. Under IFRS, decommissioning liabilities are measured using a discount rate reflecting risks specific to the liability. Subsequent measurement reflects changes in estimated timing and amount of cash flows as well as changes to reflect market interest rates. As at June 30, 2014, this resulted in an increase of \$167,000 in decommissioning liabilities and a corresponding increase in property, plant and equipment.

iv Liabilities - Regulatory Deferrals

Under Canadian GAAP, Hydro included certain regulatory deferrals in accounts such as regulatory liabilities (i.e. RSP) and insurance proceeds. IFRS 14 - Regulatory Deferrals requires all regulatory assets and liabilities to be disclosed separately in the statement of financial position. Please refer to Appendix D for the Liability Regulatory Deferrals totalling \$258,199.

v Employee Benefits

Adoption of IAS 19, as amended in 2011, resulted in a change of \$26,245 to the employee and a corresponding decrease of \$26,245 to accumulated other comprehensive income.

vi Insurance Proceeds

Pursuant to Order No. P.U. 13(2012), Hydro records net insurance proceeds in excess of \$50,000 against the capital costs of the related assets. During 2013, Hydro recorded, in regulatory adjustments, net insurance proceeds of \$4,080 with an offset against costs of the related assets. In the absence of rate regulation, Canadian GAAP would require Hydro to include insurance proceeds in net income.

Appendix D

Table 1
Regulatory Assets

<u>Line</u> <u>No.</u>	<u>Particulars</u>	<u>Balance Sheet Grouping</u>	<u>Amount</u> <u>(\$000's)</u>
1	Amortization of Deferred Foreign Exchange Losses	Current portion of regulatory asset	2,157
2	Fuel Inventory	Inventories	250
3	Deferred Charges	Regulatory Assets	63,916
4	Total Regulatory Assets		66,323

Table 2
Regulatory Liabilities

<u>Line</u> <u>No.</u>	<u>Particulars</u>	<u>Balance Sheet Grouping</u>	<u>Amount</u> <u>(\$000's)</u>
1	RSP Current	Current portion of regulatory liabilities	(177,575)
2	RSP Non-Current	Regulatory liabilities	(76,544)
3	Insurance Proceeds, Net of Depreciation ¹		(4,080)
4	Total Regulatory Liabilities		(258,199)

Notes:

¹ These balances are net of depreciation of \$419,000

Newfoundland and Labrador Hydro
Financial Results and Forecasts
Statement of Income and Retained Earnings
(\$000s)

PUB-NLH-488 Attachment 2
Page 1 of 4, NLH GRA 2013

	CGAAP Actual	IFRS Actual	Variance	Notes
	2014	2014		
1 Revenue				
2 Energy sales	499,129	499,129	-	
3 Revenue deficiency	45,900	45,900	-	
3 Other revenue	2,067	2,247	180	Note 1
4 Total revenue	547,096	547,276	180	
5				
6 Expenses				
7 Operating expenses	132,290	132,290	-	
8 Other Income and expense	1,708	1,708	-	
		-	-	
9 Fuels	195,160	195,160	-	
10 Fuel supply deferral	(9,650)	(9,650)	-	
11 Power purchases	63,741	63,741	-	
12 Amortization	55,283	55,463	180	Note 1
13 Accretion of asset retirement obligation	852	852	-	
14 Interest	90,051	90,051	-	
15 Total expenses	529,435	529,615	180	
16				
17 Net income	17,661	17,661	-	
18				
19 Retained earnings				
20 Balance at beginning of year	231,383	231,383	-	
21 Opening adjustment - retained earnings	-	-	-	
22 Dividends	-	-	-	
23 Balance at end of year	249,044	249,044	-	

Note 1: Under Canadian GAPP, Hydro recorded contributions in aid of construction as a reduction to the carrying value of property, plant and equipment. IFRIC 18 and IAS 18 requires contributions to be recorded as revenue with the unearned portion recorded as deferred revenue and amortized to profit or loss as earned. Contributions in Aid of Construction totalling \$0.18M were recorded under this category.

Newfoundland and Labrador Hydro
Financial Results and Forecasts
Balance Sheet
(\$000s)

PUB-NLH-488 Attachment 2
Page 2 of 4, NLH GRA 2013

	CGAAP Actual	IFRS Actual	Variance	Notes
	2014	2014		
1 Assets				
2 Current assets				
3 Cash and cash equivalents	7,918	7,918	-	
4 Short-term investments	-	-	-	
5 Accounts receivable	84,593	84,593	-	
6 Current portion of regulatory assets	2,157	2,157	-	
7 Inventory	85,495	85,495	-	
8 Prepaid expenses	4,474	4,474	-	
9 Due from related parties	-	-	-	
10 Current portion of sinking funds	-	-	-	
11	184,637	184,637	-	
12				
13 Property, plant, and equipment	1,610,898	1,616,252	5,354	Note 2
14 Sinking funds	228,353	228,353	-	
15 Long-term receivable	-	-	-	
16 Regulatory assets	121,984	121,984	-	
17				
18 Total assets	2,145,872	2,151,226	5,354	
20 Liabilities and shareholder equity				
21 Current liabilities				
22 Promissory notes	53,000	53,000	-	
23 Accounts payable and accrued liabilities	96,254	96,254	-	
24 Accrued interest	28,751	28,751	-	
25 Current portion of long-term debt	8,450	8,450	-	
26 Current portion of regulatory liabilities	78,582	78,582	-	
27 Deferred capital contribution	685	685	-	
28 Due to (from) related parties	(1,589)	(1,589)	-	
29 Promissory notes - non-regulated	(6,757)	(6,757)	-	
30	257,376	257,376	-	
31				
32 Deferred contributions	-	3,061	3,061	Note 3
33 Long-term debt	1,239,330	1,239,330	-	
34 Regulatory liabilities	167,821	167,821	-	
35 Asset retirement obligations	24,897	27,190	2,293	Note 4
36 Employee future benefits	66,969	105,928	38,959	Note 5
37 Contributed capital	100,000	100,000	-	
38 Shareholder's equity / retained earnings	249,044	249,044	-	
39 Accumulated other comprehensive income	40,435	1,476	(38,959)	Note 5
40				
41 Total liabilities and shareholder's equity	2,145,872	2,151,226	5,354	

Note 2: The 5.4M variance is due to CIAC's ([Note 3](#)) of \$3.1M and ARO's ([Note 4](#)) of \$2.3M.

Note 3: Under Canadian GAPP, Hydro recorded contributions in aid of construction as a reduction to the carrying value of property, plant and equipment. IFRIC 18 and IAS 18 requires contributions to be recorded as revenue with the unearned portion recorded as deferred revenue and amortized to profit or loss as earned. Contributions in Aid of Construction totalling \$3.06M were recorded under this category.

Note 4: Under Canadian GAAP, decommissioning liabilities were measured based upon the estimated future cash flows to settle the obligation, discounted using the credit-adjusted risk-free rate upon recognition. Subsequent measurement reflected changes to estimated timing and amount of cash flows, but not changes to the discount rate. Under IFRS, decommissioning liabilities are measured using a discount rate reflecting risks specific to the liability. Subsequent measurement reflects changes in estimated timing and amount of cash flows as well as changes to reflect market interest rates. As at December 31, 2014, this resulted in an increase of \$2.29M in decommissioning liabilities and a corresponding increase in property, plant and equipment.

Note 5: Adoption of IAS 19, as amended in 2011, resulted in a change of \$38.96M to the employee and a corresponding decrease of \$38.96M to accumulated other comprehensive income.

Newfoundland and Labrador Hydro
Financial Results and Forecasts
Capital Structure
(\$000s)

PUB-NLH-488 Attachment 2
Page 3 of 4, NLH GRA 2013

	CGAAP	IFRS		
	Actual	Actual	Variance	Notes
	2014	2014		
1 Regulated capital structure				
2 Long-term debt	1,247,780	1,247,780	-	
3 Promissory notes	53,000	53,000	-	
4 Promissory notes - related party	-	-	-	
5 less: sinking funds	(228,353)	(228,353)	-	
6 add: mark to market of sinking funds	40,435	40,435	-	
7	1,112,862	1,112,862		
8 Cost of service exclusions	-	-	-	
9 Non-regulated debt pool	(6,757)	(6,757)	-	
10 Net regulated debt	1,106,105	1,106,105	-	
11 Funded Asset retirement obligation	10,283	10,283	-	
12 Funded Employee future benefits	66,969	66,969	-	
13 Contributed capital	100,000	100,000	-	
14 Retained earnings cost of service exclusions	2,212	2,212	-	
15 Retained earnings	249,044	249,044	-	
16 Total	1,534,613	1,534,613	-	
17				
18 Regulated capital structure (%)				
19 Debt	72.1%	72.1%	-	
20 Asset retirement obligation	0.7%	0.7%	-	
21 Employee future benefits	4.4%	4.4%	-	
22 Equity	22.9%	22.9%	-	
23 Total	100.0%	100.0%	0.0%	
24				
25 Regulated average capital structure (%)				
26 Debt	70.8%	70.8%	-	
27 Asset retirement obligation	0.6%	0.6%	-	
28 Employee future benefits	4.5%	4.5%	-	
29 Equity	24.0%	24.0%	-	
30 Total	100.0%	100.0%	0.0%	
31				
32 Weighted average cost of capital (WACC)				
33 Embedded cost of debt	7.59%	7.59%	-	
34 Asset retirement obligation	0.00%	0.00%	-	
35 Employee future benefits	0.00%	0.00%	-	
36 Equity	8.80%	8.80%	-	
37 WACC	7.49%	7.49%	0.0%	

Newfoundland and Labrador Hydro
Financial Results and Forecasts
Rate of Return on Rate Base
(\$000s)

PUB-NLH-488 Attachment 2
Page 4 of 4, NLH GRA 2013

	CGAAP Actual 2014	IFRS Actual 2014	Variance	Notes
1 Property, plant, and equipment	1,610,898	1,616,252	5,354	Note 6
2 add: accumulated depreciation	193,131	106,078	(87,053)	Note 7
3 add: contributions in aid of construction	17,493		(17,493)	Note 8
4 less: work in progress	(128,003)	(128,003)	-	
5 Capital assets in service	1,693,519	1,594,327	(99,192)	
6 less: asset retirement obligation	(14,508)	(16,801)	(2,293)	Note 9
7 less: contributions in aid of construction	(17,493)	(3,061)	14,432	Note 7
8 less: accumulated depreciation	(193,131)	(106,078)	87,053	Note 7
9 Capital assets - current year	1,468,387	1,468,387	0	
10 Capital assets - previous year	1,432,533	1,432,533	-	
11 Unadjusted capital assets - average	1,450,460	1,450,460	0	
12 less: Average net assets not in use	(15,201)	(15,201)	-	
13 Capital assets - average	1,435,259	1,435,259	0	
14				
15 Cash working capital allowance	8,331	8,331	-	
16 Fuel	60,041	60,041	(0)	
17 Materials and supplies	26,425	26,425	0	
18 Deferred charges	64,593	64,593	-	
19				
20 Average rate base	1,594,648	1,594,649	0	
21				
22 Unadjusted return on regulated equity	17,661	17,661	-	
23 add: Cost of service exclusions	1,426	1,426	-	
24 Interest	90,051	90,051	-	
25 less: Interest	-	-	-	
26 Return on rate base	109,138	109,138	-	
27				
28 Rate of return on rate base	6.84%	6.84%	-	

[Note 6](#) The 5.4M variance is due to CIAC's ([Note 3](#) on Page 2) of \$3.1M and ARO's ([Note 4](#) on Page 2) of \$2.3M.

[Note 7](#) As outlined in Hydro's application and approved in Board Order No. P.U. 13 (2012), asset costs will be restated to net book value as at January 1, 2013 with the accumulated depreciation set to nil. Actual cost data will be maintained for use in the cost of service operating and maintenance expense allocation. This is a change in presentation only and will have no impact to rate payers.

[Note 8](#) The variance of \$17.5 million relates to deemed costs of \$14.4M outlined in [Note 6](#) and the reclassification of contribution in aid of construction from property plant and equipment to liabilities of \$3.1M noted in [Note 2](#) on Page 2.

[Note 9](#) Please refer to [Note 3](#) on Page 2 for further information.