

Undertaking 150

Page 56, lines 2 to 11

Re: PUB-NLH-487 Rev 1 – Reduction in 2014 Test Year Revenue Requirement of \$2.1 million

Undertake to provide the calculation of that variance, the 2.1.

The reduction in 2014 Test Year revenue requirement of \$562.8 million to \$560.7 million was calculated by updating revenue requirement and the corresponding 2014 revenue deficiency using 2014 Actuals capital assets in service instead of Test Year 2014 capital assets in service.

Please refer to Undertaking 150, Attachment 1 for the calculation of the \$2.1 million reduction in 2014 Revenue Requirement and the \$5.1 million reduction in 2015 Revenue Requirement.

	<u>Revenue Requirement</u> <u>(\$000's)</u>	<u>Reference</u>
2014 Test Year	562,855	Page 2 of 4, Line 4
2014 Revised Test Year Scenario	560,755	Page 2 of 4, Line 4
	<u>2,100</u>	
2015 Test Year	662,475	Page 2 of 4, Line 4
2015 Revised Test Year Scenario	657,415	Page 2 of 4, Line 4
	<u>5,060</u>	

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

	Actual					Revised Test Year Scenario	Test year	Revised Test Year Scenario	Test year
	2010	2011	2012	2013	2014	2014	2014	2015	2015
1 Revenue									
2 Energy sales	414,774	443,796	453,178	472,785	499,129	514,599	514,599	654,907	659,967
3 Revenue defecency	-	-	-	-	45,900	43,821	45,921	-	-
3 Other revenue	2,287	2,317	2,116	2,343	2,067	2,335	2,335	2,508	2,508
4 Total revenue	417,061	446,113	455,294	475,128	547,096	560,755	562,855	657,415	662,475
5									
6 Expenses									
7 Operating expenses	96,976	104,564	106,468	111,812	132,290	126,068	126,068	138,179	138,179
8 Other Income and expense	687	925	5,396	3,634	1,708	2,068	2,068	4,074	4,074
9 Fuels	137,994	131,275	132,003	155,957	195,160	201,714	201,714	267,820	267,820
10 Fuel supply deferral	-	-	-	-	(9,650)	(9,956)	(9,956)	1,991	1,991
11 Power purchases	44,244	52,222	56,986	59,379	63,741	66,668	66,668	63,254	63,254
12 Amortization	43,790	45,217	46,865	50,832	55,283	55,214	55,214	63,792	63,792
13 Accretion of asset retirement obligation	-	467	715	911	852	852	852	878	878
14 Interest	86,766	90,844	89,961	92,394	90,051	89,723	89,723	89,255	89,255
15 Total expenses	410,457	425,514	438,394	474,919	529,435	532,351	532,351	629,243	629,243
16									
17 Net income	6,604	20,599	16,900	209	17,661	28,404	30,504	28,172	33,232
18									
19 Retained earnings									
20 Balance at beginning of year	236,943	212,647	212,096	231,174	231,383	231,383	231,383	259,787	261,887
21 Opening adjustment - retained earnings	-	-	2,178	-	-	-	-	-	-
22 Dividends	(30,900)	(21,150)	-	-	-	-	-	-	-
23 Balance at end of year	212,647	212,096	231,174	231,383	249,044	259,787	261,887	287,959	295,119

Note: For Regulatory reporting purposes, Hydro adopted IFRS in accordance with Board Order P.U. 13 (2012) in the third quarter of 2014. To maintain consistency with prior periods and the 2014 and 2015 Test Years, Hydro has presented 2014 Actuals in this RFI under Canadian GAAP.

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

	Actual					Revised Test	Test year	Revised Test	Test year
	2010	2011	2012	2013	2014	Year Scenario 2014	2014	Year Scenario 2015	2015
1 Regulated capital structure									
2 Long-term debt	1,144,905	1,139,692	1,134,051	1,128,808	1,247,780	1,252,042	1,252,042	1,649,544	1,649,544
3 Promissory notes	-	-	52,000	41,000	53,000	145,564	145,564	-	-
4 Promissory notes - related party	-	-	-	-	-	-	-	-	-
5 less: sinking funds	(208,381)	(246,966)	(263,330)	(267,610)	(228,353)	(220,536)	(220,536)	(238,850)	(238,850)
6 add: mark to market of sinking funds	25,515	45,108	41,425	23,967	40,435	31,071	31,071	31,071	31,071
7	962,039	937,834	964,146	926,165	1,112,862	1,208,141	1,208,141	1,441,765	1,441,765
8 Cost of service exclusions	-	-	-	-	-	-	-	-	-
9 Non-regulated debt pool	(5,521)	(5,118)	(7,217)	(8,187)	(6,757)	(8,187)	(8,187)	(8,187)	(8,187)
10 Net regulated debt	956,518	932,716	956,929	917,978	1,106,105	1,199,954	1,199,954	1,433,578	1,433,578
11 Funded Asset retirement obligation	-	1,617	4,346	7,380	10,283	10,350	10,350	13,357	13,357
12 Employee future benefits	48,348	53,556	56,890	61,553	66,969	66,213	66,213	72,454	72,454
13 Contributed capital	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
14 Retained earnings cost of service exclusions	-	-	187	786	2,212	1,122	977	1,445	1,300
15 Retained earnings	212,647	212,096	231,174	231,383	249,044	259,787	261,887	287,959	295,119
16 Total	1,317,513	1,299,985	1,349,526	1,319,080	1,534,613	1,637,426	1,639,381	1,908,793	1,915,808
18 Regulated capital structure (%)									
19 Debt	72.6%	71.8%	70.9%	69.6%	72.1%	73.3%	73.2%	75.1%	74.8%
20 Asset retirement obligation	0.0%	0.1%	0.3%	0.6%	0.7%	0.6%	0.6%	0.7%	0.7%
21 Employee future benefits	3.7%	4.1%	4.2%	4.7%	4.4%	4.0%	4.0%	3.8%	3.8%
22 Equity	23.7%	24.0%	24.6%	25.2%	22.9%	22.0%	22.1%	20.4%	20.7%
23 Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
24									
25 Regulated average capital structure (%)									
26 Debt	72.4%	72.2%	71.4%	70.3%	70.8%	71.4%	71.4%	74.2%	74.0%
27 Asset retirement obligation	0.0%	0.1%	0.2%	0.4%	0.6%	0.6%	0.6%	0.7%	0.7%
28 Employee future benefits	3.4%	3.9%	4.2%	4.4%	4.5%	4.4%	4.4%	3.9%	3.9%
29 Equity	24.2%	23.8%	24.3%	24.9%	24.0%	23.6%	23.65%	21.2%	21.4%
30 Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
31									
32 Weighted average cost of capital (WACC)									
33 Embedded cost of debt	8.26%	8.26%	8.26%	8.30%	7.59%	7.33%	7.33%	6.67%	6.67%
34 Asset retirement obligation	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
35 Employee future benefits	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
36 Equity	4.47%	4.47%	4.47%	4.47%	8.80%	8.80%	8.80%	8.80%	8.80%
37 WACC	7.06%	7.03%	6.98%	6.94%	7.49%	7.32%	7.32%	6.81%	6.82%

Note: For Regulatory reporting purposes, Hydro adopted IFRS in accordance with Board Order P.U. 13 (2012) in the third quarter of 2014. To maintain consistency with prior periods and the 2014 and 2015 Test Years, Hydro has presented 2014 Actuals in this RFI under Canadian GAAP.

A The asset retirement obligation is not part of capital structure until it has been funded by rate payers. As such, the unfunded amount is removed. The funded amount includes the depreciation and accretion charges that have been recorded in net income.

B 2011-2013 numbers have been revised to conform with Board Order P.U. 27 (2014). Please refer to PUB-NLH-389 for further information.

C Proposed 2015 return on equity based on NP's approved return on equity.

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

	Actual					Revised Scenario	Test year	Revised Scenario	Test year
	2010	2011	2012	2013	2014	2014	2014	2015	2015
1 Property, plant, and equipment	1,386,061	1,410,432	1,440,619	1,463,070	1,610,898	1,610,898	1,673,188	1,889,482	1,889,482
2 add: accumulated depreciation	669,742	707,241	88,865	138,317	104,522	104,522	193,532	203,834	203,834
3 add: contributions in aid of construction	97,257	98,054	14,052	15,786	3,061	3,061	16,550	4,447	17,936
5 less: work in progress	(17,002)	(23,736)	(32,948)	(13,822)	(128,003)	(128,003)	(42,950)	(240,977)	(240,977)
6 Capital assets in service	2,136,058	2,191,991	1,510,588	1,603,351	1,590,478	1,590,478	1,840,320	1,856,786	1,870,275
7 less: asset retirement obligation	(11,395)	(17,976)	(19,685)	(16,715)	(14,508)	(14,508)	(14,442)	(12,169)	(12,169) A
8 less: contributions in aid of construction	(97,257)	(98,054)	(14,052)	(15,786)	(3,061)	(3,061)	(16,550)	(4,447)	(17,936)
9 less: accumulated depreciation	(669,742)	(707,241)	(88,865)	(138,317)	(104,522)	(104,522)	(193,532)	(203,834)	(203,834)
10 Capital assets - current year	1,357,664	1,368,720	1,387,986	1,432,533	1,468,387	1,468,387	1,615,796	1,636,336	1,636,336
11 Capital assets - previous year	1,353,626	1,357,664	1,368,720	1,387,986	1,432,533	1,432,533	1,432,533	1,468,387	1,615,796 B
12 Unadjusted capital assets - average	1,355,645	1,363,192	1,378,353	1,410,259	1,450,460	1,450,460	1,524,165	1,552,361	1,626,066
13 less: Average net assets not in use	(777)	(846)	(2,235)	(8,544)	(15,201)	(2,941)	(2,941)	(2,605)	(2,605) C
14 Capital assets - average	1,354,868	1,362,346	1,376,118	1,401,715	1,435,259	1,447,519	1,521,224	1,549,756	1,623,461
15									
16 Cash working capital allowance	3,092	4,625	7,810	5,875	8,331	9,207	9,207	7,037	7,037
17 Fuel	29,908	33,680	50,308	48,949	60,041	65,110	65,110	66,633	66,633
18 Materials and supplies	24,089	24,096	25,339	25,763	26,425	25,823	25,823	27,402	27,402
19 Deferred charges	71,925	68,048	65,670	64,628	64,593	71,203	71,203	77,491	77,491 D
20									
21 Average rate base	1,483,882	1,492,795	1,525,245	1,546,929	1,594,648	1,618,862	1,692,567	1,728,319	1,802,024
22									
23 Unadjusted return on regulated equity	6,604	20,599	16,900	209	17,661	28,404	30,504	28,172	33,232
24 add: Cost of service exclusions	-	61	187	599	1,426	336	336	323	323 C
25 Interest	86,766	90,844	89,961	92,394	90,051	89,723	89,723	89,255	89,255
26 Return on rate base	93,370	111,504	107,048	93,202	109,138	118,463	120,563	117,750	122,810
27									
28 Rate of return on rate base	6.29%	7.47%	7.02%	6.02%	6.84%	7.32%	7.12%	6.81%	6.82%

Note: For Regulatory reporting purposes, Hydro adopted IFRS in accordance with Board Order P.U. 13 (2012) in the third quarter of 2014. To maintain consistency with prior periods and the 2014 and 2015 Test Years, Hydro has presented 2014 Actuals in this RFI under Canadian GAAP.

A Asset retirement obligation costs are not funded through debt or Hydro funds, but are to be fully recovered from rate payers over the life of the asset retirement obligation through depreciation. As such, we remove these costs from rate base.

B 2012 'Capital assets - previous year' value reflects Order No. P.U. 13 (2012).

C 2011-2013 numbers have been revised to conform with Board Order P.U. 27 (2014). Please refer to PUB-NLH-389 for further information.

D The calculation for average deferred charges in 2014 Actuals excludes P.U. 58 (2014) - 2014 Cost Deferral, P.U. 38 (2013) - Deferred Lease Costs, and P.U. 56 (2014) - Fuel Supply Deferral. Recovery of these expenditures is subject to pre-approval by the PUB.