

March 14, 2014

Board of Commissioners of Public Utilities
Prince Charles Building
120 Torbay Road, P.O. Box 21040
St. John's, NL
A1A 5B2

ATTENTION: Ms. Cheryl Blundon
Director of Corporate Services & Board Secretary

Dear Ms. Blundon:

**Re: Newfoundland and Labrador Hydro - 2013 General Rate Application
Update of Financial Results and Forecasts**

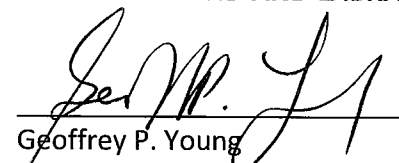
This is further to the Board's letter of February 28, 2014 requesting an update to Hydro's 2013 General Rate Application (GRA) to reflect the actual financial numbers for 2013, specifically Schedule 1 of Tab C, Section 3 – Financial Results and Forecasts; along with relevant charts and tables in this section; and an explanation for variances between 2013 actual numbers and forecast 2013 Test Year numbers as previously filed in the GRA.

Please find enclosed the original and 12 copies of the requested information as specified above.

Should you have any questions please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



Geoffrey P. Young
Senior Legal Counsel

GPY/jc

cc: Gerard Hayes – Newfoundland Power
Paul Coxworthy – Stewart McKelvey Stirling Scales
Thomas J. O'Reilly, Q.C. – Cox & Palmer
Stephanie Kearns – Olthuis, Kleer, Townshend LLP

Thomas Johnson – Consumer Advocate
Yvonne Jones, MP Labrador
Ed Hearn, Q.C. – Miller & Hearn

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

Finance
Schedule I
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| | Actual | | | | | | | Proposed |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2013 |
| 1 Revenue | | | | | | | | |
| 2 Energy sales | 429,794 | 425,196 | 425,528 | 414,774 | 443,796 | 453,178 | 472,785 | 565,737 |
| 3 Other revenue | 1,983 | 2,197 | 2,218 | 2,287 | 2,317 | 2,116 | 2,343 | 2,350 |
| 4 Total revenue | <u>431,777</u> | <u>427,393</u> | <u>427,746</u> | <u>417,061</u> | <u>446,113</u> | <u>455,294</u> | <u>475,128</u> | <u>568,087</u> |
| 5 | | | | | | | | |
| 6 Expenses | | | | | | | | |
| 7 Operating expenses | 97,693 | 96,694 | 100,369 | 96,976 | 104,564 | 106,468 | 111,541 | 113,820 |
| 8 Loss on disposal of property, plant, and equipment | 902 | 2,580 | 1,267 | 687 | 925 | 5,396 | 3,634 | 1,304 |
| 9 Fuels | 150,281 | 149,854 | 136,933 | 137,994 | 131,275 | 132,003 | 155,957 | 219,390 |
| 10 Power purchases | 38,606 | 41,388 | 46,782 | 44,244 | 52,222 | 56,986 | 59,379 | 58,674 |
| 11 Amortization | 38,342 | 40,393 | 41,744 | 43,790 | 45,217 | 46,865 | 50,832 | 51,656 |
| 12 Accretion of asset retirement obligation | - | - | - | - | 467 | 715 | 911 | 843 |
| 13 Interest | 103,242 | 87,610 | 83,440 | 86,766 | 90,844 | 89,961 | 92,394 | 89,043 |
| 14 Total expenses | <u>429,066</u> | <u>418,519</u> | <u>410,535</u> | <u>410,457</u> | <u>425,514</u> | <u>438,394</u> | <u>474,648</u> | <u>534,730</u> |
| 15 | | | | | | | | |
| 16 Net income | <u>2,711</u> | <u>8,874</u> | <u>17,211</u> | <u>6,604</u> | <u>20,599</u> | <u>16,900</u> | <u>480</u> | <u>33,357</u> |
| 17 | | | | | | | | |
| 18 Retained earnings | | | | | | | | |
| 19 Balance at beginning of year | 208,147 | 210,858 | 219,732 | 236,943 | 212,647 | 212,096 | 231,174 | 231,174 |
| 20 Opening adjustment - retained earnings | - | - | - | - | - | 2,178 | - | - |
| 21 Dividends | - | - | - | (30,900) | (21,150) | - | - | - |
| 22 Balance at end of year | <u>210,858</u> | <u>219,732</u> | <u>236,943</u> | <u>212,647</u> | <u>212,096</u> | <u>231,174</u> | <u>231,654</u> | <u>264,531</u> |

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

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| | Actual | | | | | | | Proposed |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2013 |
| 1 Assets | | | | | | | | |
| 2 Current assets | | | | | | | | |
| 3 Cash and cash equivalents | - | - | 10,942 | 37,760 | 6,685 | 2,480 | 6,726 | - |
| 4 Short-term investments | - | - | 20,000 | 8,992 | - | - | - | - |
| 5 Accounts receivable | 69,114 | 69,495 | 65,703 | 61,678 | 79,569 | 80,373 | 85,383 | 55,202 |
| 6 Current portion of regulatory assets | 17,154 | 5,000 | 4,789 | 3,851 | 2,762 | 2,157 | 2,157 | 2,824 |
| 7 Inventory | 60,925 | 42,993 | 49,964 | 53,390 | 54,258 | 51,673 | 63,974 | 74,077 |
| 8 Prepaid expenses | 841 | 1,156 | 1,492 | 2,322 | 2,284 | 2,949 | 2,742 | 2,221 |
| 9 Current portion of sinking funds | - | - | - | - | - | - | 65,426 | - |
| 10 | <u>148,034</u> | <u>118,644</u> | <u>152,890</u> | <u>167,993</u> | <u>145,558</u> | <u>139,632</u> | <u>226,408</u> | <u>134,324</u> |
| 11 | | | | | | | | |
| 12 Property, plant, and equipment | 1,352,229 | 1,354,348 | 1,364,205 | 1,386,061 | 1,410,432 | 1,440,619 | 1,463,070 | 1,492,240 |
| 13 Sinking funds | 151,765 | 163,881 | 179,613 | 208,381 | 246,966 | 263,330 | 202,184 | 284,010 |
| 14 Regulatory assets | 81,308 | 74,626 | 69,324 | 65,885 | 63,597 | 62,824 | 62,117 | 63,096 |
| 15 | | | | | | | | |
| 16 Total assets | <u><u>1,733,336</u></u> | <u><u>1,711,499</u></u> | <u><u>1,766,032</u></u> | <u><u>1,828,320</u></u> | <u><u>1,866,553</u></u> | <u><u>1,906,405</u></u> | <u><u>1,953,779</u></u> | <u><u>1,973,670</u></u> |
| 17 | | | | | | | | |
| 18 Liabilities and shareholder equity | | | | | | | | |
| 19 Current liabilities | | | | | | | | |
| 20 Promissory notes | 8,016 | 4,557 | - | - | - | 52,000 | 41,000 | 106,606 |
| 21 Accounts payable and accrued liabilities | 65,295 | 46,212 | 51,115 | 65,237 | 49,341 | 39,299 | 66,796 | 46,207 |
| 22 Accrued interest | 30,566 | 28,667 | 28,667 | 28,667 | 28,667 | 28,667 | 28,667 | 28,667 |
| 23 Current portion of long-term debt | 208,315 | 8,322 | 8,150 | 8,150 | 8,150 | 8,150 | 82,150 | 8,150 |
| 24 Current portion of regulatory liabilities | 23,488 | 22,324 | 89,814 | 118,849 | 137,593 | 168,985 | 213,997 | 143,853 |
| 25 Deferred capital contribution | - | 470 | 165 | 123 | 3,497 | 1,938 | 702 | 1,420 |
| 26 Due to related parties | 182 | 450 | 21,441 | 37,224 | 49,258 | 1,873 | 731 | 6,704 |
| 27 Promissory notes - non-regulated | <u>(33,421)</u> | <u>145,004</u> | <u>(3,531)</u> | <u>(5,521)</u> | <u>(5,118)</u> | <u>(7,217)</u> | <u>(8,458)</u> | <u>(7,217)</u> |
| 28 | <u>302,441</u> | <u>256,006</u> | <u>195,821</u> | <u>252,729</u> | <u>271,388</u> | <u>293,695</u> | <u>425,585</u> | <u>334,390</u> |
| 29 | | | | | | | | |
| 30 Long-term debt | 1,145,198 | 1,146,414 | 1,141,618 | 1,136,755 | 1,131,542 | 1,125,901 | 1,046,658 | 1,119,876 |
| 31 Regulatory liabilities | 15,499 | 31,546 | 32,788 | 40,931 | 33,271 | 33,174 | 40,268 | 24,969 |
| 32 Asset retirement obligations | - | - | - | 11,395 | 19,593 | 24,031 | 24,094 | 24,528 |
| 33 Employee future benefits | 39,805 | 41,881 | 44,060 | 48,348 | 53,556 | 56,890 | 61,553 | 63,836 |
| 34 Contributed capital | - | - | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 |
| 35 Shareholder's equity / retained earnings | 210,858 | 219,732 | 236,943 | 212,647 | 212,096 | 231,174 | 231,654 | 264,531 |
| 36 Accumulated other comprehensive income | 19,535 | 15,920 | 14,802 | 25,515 | 45,107 | 41,540 | 23,967 | 41,540 |
| 37 | | | | | | | | |
| 38 Total liabilities and shareholder's equity | <u><u>1,733,336</u></u> | <u><u>1,711,499</u></u> | <u><u>1,766,032</u></u> | <u><u>1,828,320</u></u> | <u><u>1,866,553</u></u> | <u><u>1,906,405</u></u> | <u><u>1,953,779</u></u> | <u><u>1,973,670</u></u> |

Newfoundland and Labrador Hydro
Financial Results and Forecasts
Statement of Cash Flows
(\$000s)

Finance
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| | Actual | | | | | | Proposed |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|------------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| 1 Cash provided by (used in) | | | | | | | |
| 2 Operating activities | | | | | | | |
| 3 Net income | 2,711 | 8,874 | 17,211 | 6,604 | 20,599 | 16,900 | 480 |
| 4 Adjusted for items not involving cash flow | | | | | | | |
| 5 Amortization | 38,342 | 40,393 | 41,744 | 43,790 | 45,217 | 46,865 | 50,832 |
| 6 Accretion of long-term debt | 675 | 479 | 394 | 426 | 460 | 498 | 540 |
| 7 Accretion of asset retirement obligation | - | - | - | - | 467 | 715 | 911 |
| 9 Employee future benefits | 4,268 | 2,560 | 2,179 | 4,288 | 5,208 | 4,521 | 4,663 |
| 10 Loss on disposal of property, plant and equipment | 902 | 2,580 | 1,267 | 687 | 925 | 3,844 | 2,687 |
| 11 Other | (92) | - | - | - | - | 92 | (273) |
| 12 | <u>46,806</u> | <u>54,886</u> | <u>62,795</u> | <u>55,795</u> | <u>72,876</u> | <u>73,435</u> | <u>59,840</u> |
| 13 Changes in non-cash balances | | | | | | | |
| 14 Accounts receivable | (9,698) | (381) | 3,792 | 4,025 | (17,891) | (804) | (5,010) |
| 15 Inventory | (15,482) | 17,932 | (6,971) | (3,426) | (868) | 2,585 | (12,301) |
| 16 Prepaid expenses | 244 | (315) | (336) | (830) | 38 | (665) | 207 |
| 17 Regulatory assets | 49,744 | 18,836 | 5,513 | 4,377 | 3,377 | 1,378 | 707 |
| 18 Regulatory liabilities | (11,382) | 14,883 | 68,732 | 37,178 | 11,084 | 31,295 | 52,106 |
| 19 Accounts payable and accrued liabilities | 27,214 | (19,083) | 4,903 | 14,122 | (15,896) | (10,042) | 27,497 |
| 20 Accrued interest | - | (1,899) | - | - | - | - | - |
| 21 Due to related parties | (3,288) | 268 | 20,991 | 15,783 | 12,034 | (47,385) | (1,142) |
| 23 | <u>84,158</u> | <u>85,127</u> | <u>159,419</u> | <u>127,024</u> | <u>64,754</u> | <u>49,797</u> | <u>121,904</u> |
| 24 Financing activities | | | | | | | |
| 25 Increase (decrease) in long-term debt | 12,691 | (188,692) | (172) | - | - | - | - |
| 26 Increase (decrease) in deferred capital contribution | - | 470 | (305) | (42) | 3,374 | (1,559) | (1,236) |
| 27 Increase in contributed capital | - | - | 100,000 | - | - | - | - |
| 28 Dividends | - | - | - | (30,900) | (21,150) | - | - |
| 29 (Decrease) increase in promissory notes - non-regulated | (49,483) | 172,911 | (148,535) | (1,990) | 403 | (2,099) | (1,241) |
| 30 Increase (decrease) in promissory notes | - | - | - | - | - | 52,000 | (11,000) |
| 32 Transfer of employee future benefits to non-regulated | - | (484) | - | - | - | - | - |
| 33 | <u>(36,792)</u> | <u>(15,795)</u> | <u>(49,012)</u> | <u>(32,932)</u> | <u>(17,373)</u> | <u>48,342</u> | <u>(13,477)</u> |
| 34 Investing activities | | | | | | | |
| 35 Additions to property, plant and equipment | (36,023) | (45,785) | (54,097) | (55,401) | (63,083) | (77,474) | (80,657) |
| 36 Decrease (increase) in short term investments | 560 | - | (20,000) | 11,008 | 8,992 | - | - |
| 37 Proceeds on disposal of property, plant and equipment | 602 | 693 | 1,229 | 463 | 301 | 1,200 | 3,997 |
| 38 Settlement of asset retirement obligation | - | - | - | - | - | - | (262) |
| 39 Increase in sinking funds | (19,592) | (20,781) | (22,040) | (23,344) | (24,666) | (26,070) | (27,521) |
| 40 | <u>(54,453)</u> | <u>(65,873)</u> | <u>(94,908)</u> | <u>(67,274)</u> | <u>(78,456)</u> | <u>(102,344)</u> | <u>(104,181)</u> |
| 41 | | | | | | | |
| 42 Net (decrease) increase in cash | (7,087) | 3,459 | 15,499 | 26,818 | (31,075) | (4,205) | 4,246 |
| 43 | | | | | | | |
| 44 Cash position, beginning of year | (929) | (8,016) | (4,557) | 10,942 | 37,760 | 6,685 | 2,480 |
| 45 | | | | | | | |
| 46 Cash position, end of year | <u>(8,016)</u> | <u>(4,557)</u> | <u>10,942</u> | <u>37,760</u> | <u>6,685</u> | <u>2,480</u> | <u>-</u> |

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

Finance
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| | Actual | | | | | | | Proposed |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2013 |
| 1 Regulated capital structure | | | | | | | | |
| 2 Long-term debt | 1,353,513 | 1,154,736 | 1,149,768 | 1,144,905 | 1,139,692 | 1,134,051 | 1,128,808 | 1,128,026 |
| 3 Promissory notes | 7,000 | 163,000 | - | - | - | 52,000 | 41,000 | 106,606 |
| 4 Promissory notes - related party | 88 | 90 | - | - | - | - | - | - |
| 5 less: sinking funds | (151,765) | (163,881) | (179,613) | (208,381) | (246,966) | (263,330) | (267,610) | (284,010) |
| 6 add: mark to market of sinking funds | 19,535 | 15,920 | 14,802 | 25,515 | 45,108 | 41,425 | 23,967 | 41,425 |
| 7 | <u>1,228,371</u> | <u>1,169,865</u> | <u>984,957</u> | <u>962,039</u> | <u>937,834</u> | <u>964,146</u> | <u>926,165</u> | <u>992,047</u> |
| 8 Cost of service exclusions | - | - | - | - | - | - | - | - |
| 9 Non-regulated debt pool | (40,421) | (17,996) | (3,531) | (5,521) | (5,118) | (7,217) | (8,458) | (7,217) |
| 10 Net regulated debt | <u>1,187,950</u> | <u>1,151,869</u> | <u>981,426</u> | <u>956,518</u> | <u>932,716</u> | <u>956,929</u> | <u>917,707</u> | <u>984,830</u> |
| 11 Asset retirement obligation | - | - | - | 11,395 | 19,593 | 24,031 | 24,094 | 24,528 |
| 12 less: unfunded asset retirement obligation | - | - | - | (11,395) | (17,976) | (19,685) | (16,715) | (17,320) |
| 13 Employee future benefits | 39,805 | 41,881 | 44,060 | 48,348 | 53,556 | 56,890 | 61,553 | 63,836 |
| 14 Contributed capital | - | - | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 |
| 15 Retained earnings cost of service exclusions | - | - | - | - | - | 113 | 446 | 161 |
| 16 Retained earnings | 210,858 | 219,732 | 236,943 | 212,647 | 212,096 | 231,174 | 231,654 | 264,531 |
| 17 Total | <u>1,438,613</u> | <u>1,413,482</u> | <u>1,362,429</u> | <u>1,317,513</u> | <u>1,299,985</u> | <u>1,349,452</u> | <u>1,318,739</u> | <u>1,420,566</u> |
| 18 | | | | | | | | |
| 19 Regulated capital structure (%) | | | | | | | | |
| 20 Debt | 82.5% | 81.5% | 72.1% | 72.6% | 71.8% | 70.9% | 69.6% | 69.3% |
| 21 Asset retirement obligation | 0.0% | 0.0% | 0.0% | 0.0% | 0.1% | 0.3% | 0.6% | 0.5% |
| 22 Employee future benefits | 2.8% | 3.0% | 3.2% | 3.7% | 4.1% | 4.2% | 4.7% | 4.5% |
| 23 Equity | 14.7% | 15.5% | 24.7% | 23.7% | 24.0% | 24.5% | 25.2% | 25.7% |
| 24 Total | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> |
| 25 | | | | | | | | |
| 26 Regulated average capital structure (%) | | | | | | | | |
| 27 Debt | | 82.0% | 76.8% | 72.4% | 72.2% | 71.4% | 70.3% | 70.1% |
| 28 Asset retirement obligation | | 0.0% | 0.0% | 0.0% | 0.1% | 0.2% | 0.4% | 0.4% |
| 29 Employee future benefits | | 2.9% | 3.1% | 3.4% | 3.9% | 4.2% | 4.4% | 4.4% |
| 30 Equity | | 15.1% | 20.1% | 24.2% | 23.8% | 24.3% | 24.9% | 25.1% |
| 31 Total | | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> |
| 32 | | | | | | | | |
| 33 Weighted average cost of capital (WACC) | | | | | | | | |
| 34 Embedded cost of debt | | 8.26% | 8.26% | 8.26% | 8.26% | 8.26% | 8.26% | 8.01% |
| 35 Asset retirement obligation | | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| 36 Employee future benefits | | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| 37 Equity | | 4.47% | 4.47% | 4.47% | 4.47% | 4.47% | 4.47% | 8.80% |
| 38 WACC | | <u>7.45%</u> | <u>7.24%</u> | <u>7.06%</u> | <u>7.03%</u> | <u>6.98%</u> | <u>6.92%</u> | <u>7.83%</u> |

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

B Proposed 2013 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)

Finance
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| | Actual | | | | | | | Proposed |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2013 |
| 1 Property, plant, and equipment | 1,352,229 | 1,354,348 | 1,364,205 | 1,386,061 | 1,410,432 | 1,440,619 | 1,463,070 | 1,492,240 |
| 2 add: accumulated depreciation | 570,225 | 603,362 | 632,085 | 669,742 | 707,241 | 88,865 | 138,317 | 140,043 |
| 3 add: contributions in aid of construction | 96,396 | 96,143 | 96,749 | 97,257 | 98,054 | 14,052 | 15,786 | 22,269 |
| 5 less: work in progress | (2,535) | (9,456) | (10,579) | (17,002) | (23,736) | (32,948) | (13,822) | (21,472) |
| 6 Capital assets in service | 2,016,315 | 2,044,397 | 2,082,460 | 2,136,058 | 2,191,991 | 1,510,588 | 1,603,351 | 1,633,080 |
| 7 less: asset retirement obligation | - | - | - | (11,395) | (17,976) | (19,685) | (16,715) | (17,320) A |
| 8 less: contributions in aid of construction | (96,396) | (96,143) | (96,749) | (97,257) | (98,054) | (14,052) | (15,786) | (22,269) |
| 9 less: accumulated depreciation | (570,225) | (603,362) | (632,085) | (669,742) | (707,241) | (88,865) | (138,317) | (140,043) |
| 10 Capital assets - current year | 1,349,694 | 1,344,892 | 1,353,626 | 1,357,664 | 1,368,720 | 1,387,986 | 1,432,533 | 1,453,448 |
| 11 Capital assets - previous year | 1,345,766 | 1,349,694 | 1,344,892 | 1,353,626 | 1,357,664 | 1,368,720 | 1,387,986 | 1,387,986 B |
| 12 Unadjusted capital assets - average | 1,347,730 | 1,347,293 | 1,349,259 | 1,355,645 | 1,363,192 | 1,378,353 | 1,410,259 | 1,420,717 |
| 13 less: Average net assets not in use | - | - | - | (777) | (423) | (1,428) | (3,906) | (3,005) |
| 14 Capital assets - average | 1,347,730 | 1,347,293 | 1,349,259 | 1,354,868 | 1,362,769 | 1,376,925 | 1,406,353 | 1,417,712 |
| 15 | | | | | | | | |
| 16 Cash working capital allowance | 3,496 | 3,548 | 2,668 | 3,092 | 4,625 | 7,810 | 5,875 | 5,336 |
| 17 Fuel | 25,874 | 34,389 | 20,817 | 29,908 | 33,680 | 50,308 | 48,949 | 50,885 |
| 18 Materials and supplies | 21,699 | 22,561 | 23,567 | 24,089 | 24,096 | 25,339 | 25,763 | 24,701 |
| 19 Deferred charges | 84,725 | 81,996 | 76,870 | 71,925 | 68,048 | 65,670 | 64,627 | 65,451 |
| 20 | | | | | | | | |
| 21 Average rate base | <u>1,483,524</u> | <u>1,489,787</u> | <u>1,473,181</u> | <u>1,483,882</u> | <u>1,493,218</u> | <u>1,526,052</u> | <u>1,551,567</u> | <u>1,564,085</u> |
| 22 | | | | | | | | |
| 23 Unadjusted return on regulated equity | 2,711 | 8,874 | 17,211 | 6,604 | 20,599 | 16,900 | 480 | 33,357 |
| 24 add: Cost of service exclusions | - | - | - | - | - | 113 | 333 | 48 |
| 25 Net interest | 103,242 | 87,610 | 83,440 | 86,766 | 90,844 | 89,961 | 92,394 | 89,043 |
| 26 Return on rate base | <u>105,953</u> | <u>96,484</u> | <u>100,651</u> | <u>93,370</u> | <u>111,443</u> | <u>106,974</u> | <u>93,207</u> | <u>122,448</u> |
| 27 | | | | | | | | |
| 28 Rate of return on rate base | <u>7.14%</u> | <u>6.48%</u> | <u>6.83%</u> | <u>6.29%</u> | <u>7.46%</u> | <u>7.01%</u> | <u>6.01%</u> | <u>7.83%</u> |

A Asset retirement obligation costs are not funded through debt or Hydro funds, but are to be fully recovered from ratepayers 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).

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

| | Actual | | | | | | | Proposed |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2013 |
| 1 Revenue requirement | | | | | | | | |
| 2 Energy sales | 429,794 | 425,196 | 425,528 | 414,774 | 443,796 | 453,178 | 472,785 | 565,737 |
| 3 Other revenue | 1,983 | 2,197 | 2,218 | 2,287 | 2,317 | 2,116 | 2,343 | 2,350 |
| 4 Total revenue requirement | <u>431,777</u> | <u>427,393</u> | <u>427,746</u> | <u>417,061</u> | <u>446,113</u> | <u>455,294</u> | <u>475,128</u> | <u>568,087</u> |
| 5 | | | | | | | | |
| 6 Expenses | | | | | | | | |
| 7 Operating expenses | 97,693 | 96,694 | 100,369 | 96,976 | 104,564 | 106,468 | 111,541 | 113,820 |
| 8 Loss on disposal of property, plant, and equipment | 902 | 2,580 | 1,267 | 687 | 925 | 5,396 | 3,634 | 1,304 |
| 9 Fuels | 150,281 | 149,854 | 136,933 | 137,994 | 131,275 | 132,003 | 155,957 | 219,390 |
| 10 Power purchases | 38,606 | 41,388 | 46,782 | 44,244 | 52,222 | 56,986 | 59,379 | 58,674 |
| 11 Amortization | 38,342 | 40,393 | 41,744 | 43,790 | 45,217 | 46,865 | 50,832 | 51,656 |
| 12 Accretion of asset retirement obligation | - | - | - | - | 467 | 715 | 911 | 843 |
| 13 Expenses prior to cost of service exclusions | <u>325,824</u> | <u>330,909</u> | <u>327,095</u> | <u>323,691</u> | <u>334,670</u> | <u>348,433</u> | <u>382,254</u> | <u>445,687</u> |
| 14 less: Cost of service exclusions | - | - | - | - | - | (113) | (333) | (48) |
| 15 Total expenses | <u>325,824</u> | <u>330,909</u> | <u>327,095</u> | <u>323,691</u> | <u>334,670</u> | <u>348,320</u> | <u>381,921</u> | <u>445,639</u> |
| 16 Return on rate base | <u>105,953</u> | <u>96,484</u> | <u>100,651</u> | <u>93,370</u> | <u>111,443</u> | <u>106,974</u> | <u>93,207</u> | <u>122,448</u> |
| 17 | | | | | | | | |
| 18 Average rate base | <u>1,483,524</u> | <u>1,489,787</u> | <u>1,473,181</u> | <u>1,483,882</u> | <u>1,493,218</u> | <u>1,526,052</u> | <u>1,551,567</u> | <u>1,564,085</u> |
| 19 | | | | | | | | |
| 20 Rate of return on rate base | <u>7.14%</u> | <u>6.48%</u> | <u>6.83%</u> | <u>6.29%</u> | <u>7.46%</u> | <u>7.01%</u> | <u>6.01%</u> | <u>7.83%</u> |

Newfoundland and Labrador Hydro
 Financial Results and Forecasts
 Rate Stabilization Plan
 (\$000s)

| | Actual | | | | | | | Proposed |
|---|-----------------|-----------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2013 |
| 1 Historical rate stabilization plan balances | | | | | | | | |
| 2 Utility | 12,053 | - | - | - | - | - | - | - |
| 3 Industrial | - | - | - | - | - | - | - | - |
| 4 Total | <u>12,053</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| 5 | | | | | | | | |
| 6 Current rate stabilization plan | | | | | | | | |
| 7 Hydraulic | (14,820) | (30,903) | (32,562) | (40,399) | (32,737) | (32,676) | (39,801) | (24,507) |
| 8 Utility | (14,652) | (10,330) | (53,069) | (56,251) | (55,940) | (64,905) | (80,174) | (33,086) |
| 9 Industrial | (8,829) | (11,994) | (36,884) | (62,612) | (81,653) | (104,080) | 566 | (679) |
| 10 Segregated Load Variation | - | - | - | - | - | - | (8,200) | - |
| 11 Utility Surplus | - | - | - | - | - | - | (115,330) | (87,340) |
| 12 Industrial Surplus | - | - | - | - | - | - | (10,858) | (22,749) |
| 13 Total | <u>(38,301)</u> | <u>(53,227)</u> | <u>(122,515)</u> | <u>(159,262)</u> | <u>(170,330)</u> | <u>(201,661)</u> | <u>(253,797)</u> | <u>(168,361)</u> |
| 14 | | | | | | | | |
| 15 Combined rate stabilization plan balances | <u>(26,248)</u> | <u>(53,227)</u> | <u>(122,515)</u> | <u>(159,262)</u> | <u>(170,330)</u> | <u>(201,661)</u> | <u>(253,797)</u> | <u>(168,361)</u> |
| 16 | | | | | | | | |
| 17 Average fuel cost per barrel | <u>\$ 52.51</u> | <u>\$ 71.59</u> | <u>\$ 52.51</u> | <u>\$ 73.90</u> | <u>\$ 91.92</u> | <u>\$ 114.80</u> | <u>\$ 106.63</u> | <u>\$ 108.74</u> |

Newfoundland and Labrador Hydro
Financial Results and Forecasts
Employee Future Benefits
(\$000s)

Finance
Schedule I
Page 8 of 11

| | Actual | | | | | | Proposed |
|---|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| 1 Accrued employee future benefits liability | | | | | | | |
| 2 Balance at beginning of year | 35,537 | 39,805 | 41,881 | 44,060 | 48,348 | 52,207 | 56,890 A |
| 3 Current service | 1,885 | 1,666 | 1,143 | 1,651 | 2,068 | 2,875 | 3,332 |
| 4 Interest | 3,057 | 3,079 | 3,197 | 3,767 | 4,036 | 4,137 | 3,758 |
| 5 Amortization of actuarial losses | 1,215 | 911 | - | 676 | 1,166 | - | - B |
| 6 Amortization of past service costs | 20 | 20 | 20 | 20 | 20 | - | - |
| 7 Transfers | - | (1,456) | (43) | 32 | - | - | - |
| 8 Benefits paid | (1,909) | (2,144) | (2,138) | (1,858) | (2,082) | (2,329) | (2,368) |
| 9 Balance at end of year | 39,805 | 41,881 | 44,060 | 48,348 | 53,556 | 56,890 | 63,836 |
| 10 Unamortized losses | 20,307 | 702 | 14,007 | 20,875 | 35,630 | 30,006 | 27,782 |
| 11 Accrued employee future benefits obligation | 60,112 | 42,583 | 58,067 | 69,223 | 89,186 | 86,896 | 91,618 |
| 12 | | | | | | | |
| 13 Funded employee future benefits balance | | | | | | | |
| 14 Balance at beginning of year | 35,537 | 39,805 | 41,881 | 44,060 | 48,348 | 52,207 | 56,890 A |
| 15 Employee future benefits expense | 6,177 | 5,676 | 4,360 | 6,114 | 7,290 | 7,012 | 9,314 |
| 16 Amortization of actuarial losses | - | - | - | - | - | - | - |
| 17 Transfers | - | (1,456) | (43) | 32 | - | - | - |
| 18 Benefits paid | (1,909) | (2,144) | (2,138) | (1,858) | (2,082) | (2,329) | (2,368) |
| 19 Balance at end of year | 39,805 | 41,881 | 44,060 | 48,348 | 53,556 | 56,890 | 63,836 |

A 2012 Balance at beginning of year reflects Order No. P.U. 13 (2012).

B Pursuant to Order No. P.U. 13 (2012), in 2013 Hydro deferred the amortization of actuarial gains and losses of \$1,708 (2012 - \$2,264).

Newfoundland and Labrador Hydro
Financial Results and Forecasts
Net Interest
(\$000s)

| | Actual | | | | | | | Proposed |
|--|----------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2013 |
| 1 Net Interest | | | | | | | | |
| 2 Long-term debt | 101,450 | 94,051 | 90,450 | 90,450 | 90,450 | 90,450 | 90,450 | 90,450 |
| 3 Interest on rate stabilization plan | 1,125 | 2,746 | 7,026 | 10,244 | 12,237 | 13,188 | 17,113 | 14,395 |
| 4 Accretion of long-term debt | 675 | 479 | 394 | 426 | 460 | 499 | 540 | 540 |
| 5 Amortization of foreign exchange losses | 2,157 | 2,157 | 2,157 | 2,157 | 2,157 | 2,157 | 2,157 | 2,157 |
| 6 Debt guarantee fee | 13,145 | - | - | - | 3,874 | 3,693 | 3,735 | 3,735 |
| 7 Other interest | 2,398 | 10,434 | (1,885) | (160) | (231) | 705 | 14 | 226 |
| 8 Interest on sinking fund | (11,439) | (12,629) | (13,891) | (15,190) | (16,557) | (18,025) | (19,434) | (19,302) |
| 9 Interest capitalized during construction | (6,269) | (9,628) | (811) | (1,161) | (1,546) | (2,706) | (2,181) | (3,158) |
| 10 Net interest | 103,242 | 87,610 | 83,440 | 86,766 | 90,844 | 89,961 | 92,394 | 89,043 |

Newfoundland and Labrador Hydro
 Financial Results and Forecasts
 Funded Asset Retirement Obligation
 (\$000s)

| | Actual | | | | | | | Proposed |
|--|--------|------|------|------|-------|-------|-------|----------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2013 |
| 1 Funded asset retirement obligation: | | | | | | | | |
| 2 Opening | - | - | - | - | - | 1,617 | 4,346 | 4,346 |
| 3 Accretion | - | - | - | - | 468 | 715 | 911 | 843 |
| 4 Depreciation | - | - | - | - | 1,149 | 2,044 | 2,274 | 2,280 |
| 6 Asset retirement obligation disposed | - | - | - | - | - | (30) | (151) | (262) |
| 7 Ending | - | - | - | - | 1,617 | 4,346 | 7,380 | 7,207 |

Newfoundland and Labrador Hydro
Financial Results and Forecasts
Revenue Requirement Analysis - 2013 Actual vs. GRA Proposed Budget
(\$000s)

| | Actual 2013 | GRA Proposed 2013 | Actual to Proposed | Reference |
|--|------------------------|------------------------------|-------------------------------|------------------|
| 1 Revenue requirement | | | | |
| 2 Energy sales | 472,785 | 565,737 | (92,952) | 1 |
| 3 Other revenue | 2,343 | 2,350 | (7) | |
| 4 Total revenue requirement | 475,128 | 568,087 | (92,959) | |
| 5 | | | | |
| 6 Expenses | | | | |
| 7 Operating expenses | | | | |
| 8 Salaries and fringe benefits | 76,246 | 77,241 | (995) | 2 |
| 9 System equipment maintenance | 22,005 | 21,495 | 510 | 3 |
| 10 Office supplies and expenses | 2,595 | 2,571 | 24 | |
| 11 Professional services | 5,874 | 7,022 | (1,148) | 4 |
| 12 Insurance | 2,422 | 2,211 | 211 | 5 |
| 13 Equipment rentals | 1,877 | 1,731 | 146 | |
| 14 Travel | 3,338 | 3,156 | 182 | |
| 15 Miscellaneous expenses | 5,218 | 6,380 | (1,162) | 6 |
| 16 Building rental and maintenance | 1,186 | 1,070 | 116 | |
| 17 Transportation | 2,107 | 2,273 | (166) | |
| 18 Cost recoveries | (9,111) | (9,222) | 111 | 7 |
| 19 Allocated to non-regulated customer | (2,216) | (2,108) | (108) | |
| 20 Net operating expenses | 111,541 | 113,820 | (2,279) | |
| 21 Fuels | - | | | |
| 22 No. 6 fuel | 171,786 | 200,315 | (28,529) | 8 |
| 23 Rate stabilization plan deferral | (35,315) | (84) | (35,231) | 8 |
| 24 Diesel and other | 19,486 | 19,159 | 327 | 8 |
| 25 Total fuels | 155,957 | 219,390 | (63,433) | |
| 26 Power purchases | 59,379 | 58,674 | 705 | 9 |
| 27 Amortization | 50,832 | 51,656 | (824) | 10 |
| 28 Accretion of asset retirement obligation | 911 | 843 | 68 | |
| 29 Loss on disposal | 3,634 | 1,304 | 2,330 | 11 |
| 30 Expenses before cost of service exclusions | 382,254 | 445,687 | (63,433) | |
| 31 less: cost of service exclusions | (333) | (48) | (285) | |
| 32 | 381,921 | 445,639 | (63,718) | |
| 33 | | | | |
| 34 Return on rate base | 93,207 | 122,448 | (29,241) | |
| 35 | | | | |
| 36 Average rate base | 1,551,567 | 1,564,085 | (12,518) | |
| 37 | | | | |
| 38 Rate of return on rate base | 6.01% | 7.83% | -1.82% | |

Newfoundland and Labrador Hydro
Financial Results and Forecasts
Revenue Requirement Analysis - 2013 Actual vs. GRA Proposed Budget
(\$000s)

| | Actual 2013 | GRA Proposed 2013 | Actual to Proposed | |
|--|------------------------|------------------------------|-------------------------------|----|
| 1 Capital assets | 1,603,351 | 1,633,080 | (29,729) | 12 |
| 2 less: asset retirement obligation costs | (16,715) | (17,320) | 605 | |
| 3 less: contributions in aid of construction | (15,786) | (22,269) | 6,483 | 13 |
| 4 less: accumulated depreciation | <u>(138,317)</u> | <u>(140,043)</u> | <u>1,726</u> | |
| 5 Capital assets - current year | 1,432,533 | 1,453,448 | (20,915) | |
| 6 Capital assets - previous year | <u>1,387,986</u> | <u>1,387,986</u> | <u>-</u> | |
| 7 Unadjusted Capital assets - average | 1,410,259 | 1,420,717 | (10,458) | |
| 8 less: Average net assets not in use | <u>(3,906)</u> | <u>(3,005)</u> | <u>(901)</u> | |
| 9 Capital assets - average | 1,406,353 | 1,417,712 | (11,359) | |
| 10 | | | - | |
| 11 Cash working capital allowance | 5,875 | 5,336 | 539 | |
| 12 Fuel | 48,949 | 50,885 | (1,936) | |
| 13 Materials and supplies | 25,763 | 24,701 | 1,062 | |
| 14 Deferred charges | 64,627 | 65,451 | (824) | |
| 15 | | | - | |
| 16 Average rate base | <u>1,551,567</u> | <u>1,564,085</u> | <u>(12,518)</u> | |

Newfoundland and Labrador Hydro
Significant Adjustments To The Test Year
(\$000s)

| Reference | Account | Actual 2013 | GRA Proposed 2013 | Actual to Proposed |
|-----------|---|----------------|-------------------------|--------------------|
| 1 | Energy sales | 472,785 | 565,737 | (92,952) |
| | Variance in energy sales is primarily due to the 2013 GRA Proposed Sales having twelve months of new rates as compared to the actuals with twelve months of existing rates. | | | |
| 2 | Salaries and fringe benefits | 76,246 | 77,241 | (995) |
| | Main contributor to the variance is the proposed amortization of actuarial loss included in the 2013 Test Year but not in the 2013 Actual. | | | |
| 3 | System equipment maintenance | 22,005 | 21,495 | 510 |
| | Increase mainly due to more materials needed on operating jobs particularly in the Transmission and Rural Operations as well as the Project Execution and Technical Services Division for work completed on Sandy Pond project for Department of Transportation and Works (recovered in external cost recoveries - see Note 7). | | | |
| 4 | Professional services | 5,874 | 7,022 | (1,148) |
| | Variance mainly due to decrease in PUB related costs, no amortization of the proposed GRA deferral costs and a decrease in support departments' consultants' costs. | | | |
| 5 | Insurance | 2,422 | 2,211 | 211 |
| | Increased costs for new premium renewal which were effective July 1, 2013. | | | |
| 6 | Miscellaneous expenses | 5,218 | 6,380 | (1,162) |
| | Primarily due to delays in customer participation in the Energy Demand Management Program (later recovered in cost recoveries - see Note 7). | | | |
| 7 | Cost recoveries | (9,111) | (9,222) | 111 |
| | Decrease in Conservation Demand Management Recoveries (\$1.2M) due to delays in customer participation (see costs above in Miscellaneous expenses - Note 6) but offset by increase in external recoveries (\$1.1M) due to work completed on Sandy Pond Project for Department of Transportation and Works (see costs above in system equipment maintenance - Note 3). | | | |

| Reference | Account | Actual 2013 | GRA Proposed 2013 | Actual to Proposed |
|-----------|---|----------------|-------------------------|--------------------|
| 8 | Fuels | | | |
| | No. 6 fuel | 171,786 | 200,315 | (28,529) |
| | Rate stabilization plan deferral | (35,315) | (84) | (35,231) |
| | Diesel and other | <u>19,486</u> | <u>19,159</u> | <u>327</u> |
| | Total fuels | <u>155,957</u> | <u>219,390</u> | <u>(63,433)</u> |
| | No. 6 and diesel fuel variance is due to volume and price changes. Rate stabilization plan deferral variance is due to changes in hydraulic production, load and price compared to the 2007 Cost of Service (COS). There is no COS variances in a test year - GRA Proposed. | | | |
| 9 | Power purchases | 59,379 | 58,674 | 705 |
| | Primarily due to increased wind energy production and higher supplier costs. | | | |
| 10 | Amortization | 50,832 | 51,656 | (824) |
| | The in-service date of capital projects was delayed resulting in reduced depreciation expense. | | | |
| 11 | Loss on disposal | 3,634 | 1,304 | 2,330 |
| | Higher loss on disposal of assets and addition of removal costs. | | | |
| 12 | Capital Assets | 1,603,351 | 1,633,080 | (29,729) |
| | Decrease in net book value of assets due to the carry over of projects from 2013 to 2014 as well as lower costs than budgeted on completed projects. | | | |
| 13 | Contributions in aid of construction | (15,786) | (22,269) | 6,483 |
| | Decrease is mainly due to Muskrat Falls construction power project that was budgeted (fully contributed) but these assets were not transferred to Hydro in 2013. | | | |

Chart 3.3

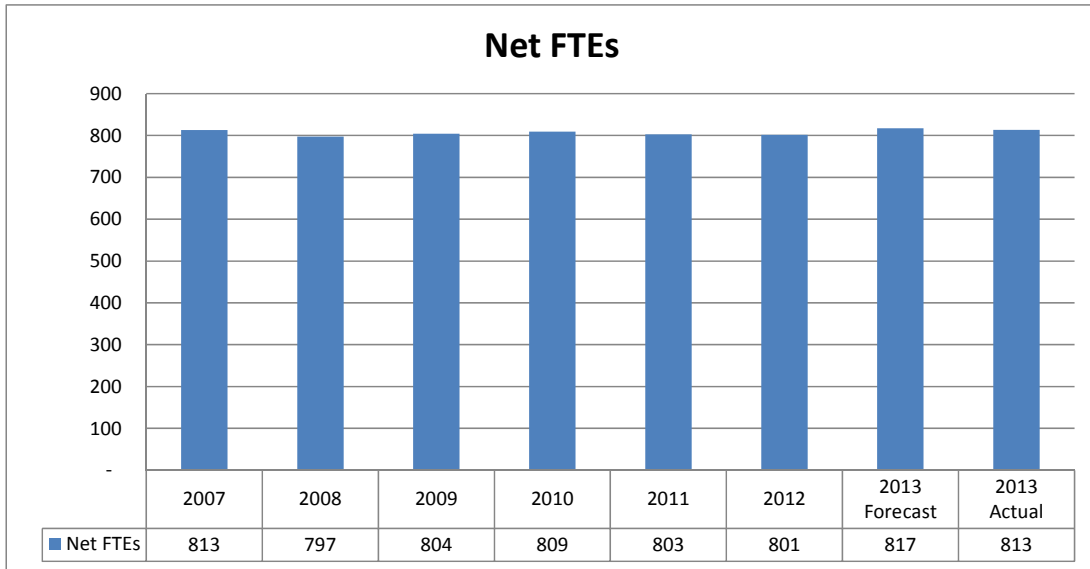


Chart 3.4

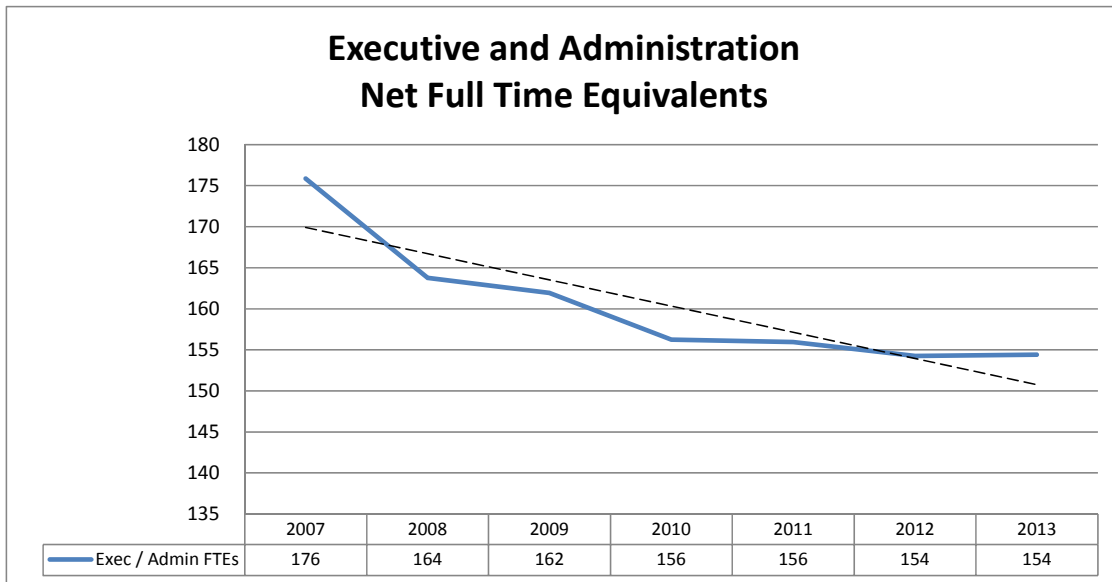


Chart 3.5

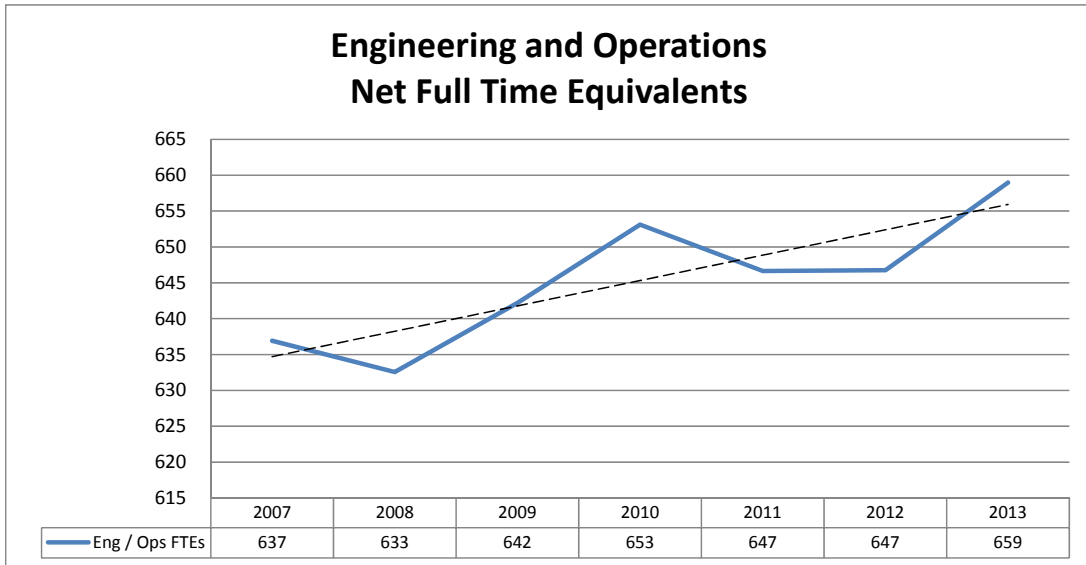


Chart 3.6

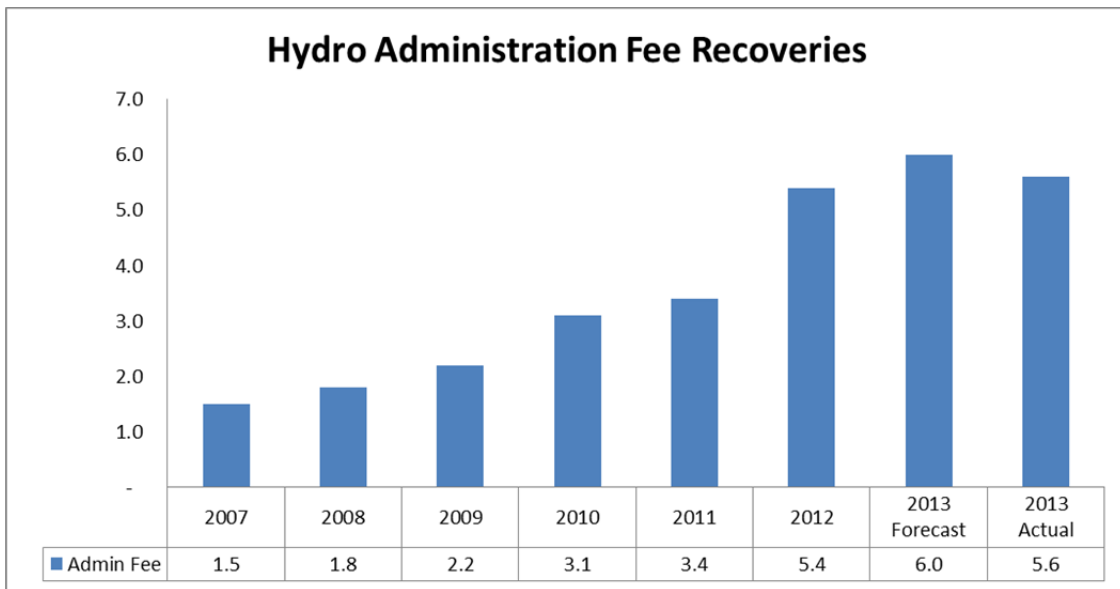


Table 3.4

| Rate of Return on Rate Base | | | | | | | |
|---|--------|-------|-------|-------|-------|-------|-------|
| | Actual | | | | | | |
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| Rate of Return on Rate Base | 7.14% | 6.48% | 6.83% | 6.29% | 7.46% | 7.01% | 6.01% |
| Rate of Return on Rate Base in Order No. P.U. 8(2007) | 7.44% | 7.44% | 7.44% | 7.44% | 7.44% | 7.44% | 7.44% |

Table 3.5

| Rate of Return on Equity | | | | | | | |
|--|--------|-------|-------|-------|-------|-------|-------|
| | Actual | | | | | | |
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| Rate of Return on Equity | 1.30% | 4.12% | 6.18% | 2.03% | 6.59% | 5.25% | 0.14% |
| Rate of Return on Equity in Order No. P.U. 8(2007) | 4.47% | 4.47% | 4.47% | 4.47% | 4.47% | 4.47% | 4.47% |
| NP Return on Equity | 9.75% | 8.69% | 9% | 8.38% | 8.38% | 8.38% | 8.38% |