

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

20

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

22 **Rates**

- 23
 - Rates proposed in the 2013 General Rate Application are effective until
 - 24 December 31, 2014;
 - 25 • 2015 – 2017 are test years;
 - 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 August, 2013;
- Load forecasts were updated as of June 2013;

Operating & Maintenance

- 2014 is based on budget;
- 2015-2017 costs were escalated at a rate of 2.5% for operating and 3% for labour per annum;

Rate Stabilization Plan

- Newfoundland Power refund of \$124 million paid in December 2014;
- Industrial refund phase-in from 2013 to 2015;

Capital Expenditures

- Based on five-year capital plan filed with the Public Utilities Board in August, 2013. Updated for a 60MW CT for Holyrood in 2015 at approximately \$120 million and a third line from Bay d'Espoir to Western Avalon in 2017 at approximately \$260 million;

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;
- Corporate escalation 2.5% for operating and capital and 3% for labour per annum;
- Interest rates are based on the Conference Board of Canada projections for 2015 and beyond;
- Exploits Generation - purchased at 4 ¢/kWh during projection period; and
- No new Incremental Labrador Industrial load and no upgrade of Labrador interconnected transmission assets.

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

NP-NLH-020, Attachment 1
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	598.0	630.4	690.4	703.1
3 Other revenue	<u>2.3</u>	<u>2.4</u>	<u>2.4</u>	<u>2.5</u>
4 Total revenue	<u>600.4</u>	<u>632.8</u>	<u>692.9</u>	<u>705.6</u>
5				
6 Expenses				
7 Operating expenses	116.8	120.1	123.7	127.0
8 Loss on disposal of property, plant, and equipment	2.8	3.0	3.0	3.0
9 Fuels	246.5	270.5	312.1	318.5
10 Power purchases	59.2	58.7	58.9	58.5
11 Amortization	56.1	62.1	71.2	74.6
12 Accretion of asset retirement obligation	0.9	0.9	0.9	0.9
13 Interest	<u>89.4</u>	<u>75.5</u>	<u>75.9</u>	<u>80.7</u>
14 Total expenses	<u>571.5</u>	<u>590.8</u>	<u>645.7</u>	<u>663.2</u>
15				
16 Net income	<u>28.8</u>	<u>42.0</u>	<u>47.2</u>	<u>42.4</u>
17				
18 Retained Earnings				
19 Balance at beginning of year	237.4	266.2	308.2	355.4
20 Opening adjustment - retained earnings	-	-	-	-
21 Dividends	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
22 Balance at end of year	<u>266.2</u>	<u>308.2</u>	<u>355.4</u>	<u>397.8</u>

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

NP-NLH-020, Attachment 1
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	-	-	-	-
4 Short-term investments	-	-	-	-
5 Accounts receivable	63.5	77.7	87.3	86.9
6 Current portion of regulatory assets	2.5	2.8	2.8	2.8
7 Inventory	72.5	56.4	80.5	61.8
8 Prepaid expenses	1.6	1.6	1.7	1.7
9	140.1	138.5	172.2	153.1
10				
11 Property, plant, and equipment	1,588.3	1,796.5	1,911.9	1,976.8
12 Sinking funds	217.5	228.2	242.8	176.5
13 Regulatory assets	61.7	59.0	56.8	53.6
14				
15 Total assets	<u>2,007.5</u>	<u>2,222.1</u>	<u>2,383.7</u>	<u>2,360.0</u>
16				
17 Liabilities and shareholder equity				
18 Current liabilities				
19 Promissory notes	156.1	90.5	120.8	191.3
20 Accounts payable and accrued liabilities	96.0	57.1	58.8	60.3
21 Accrued interest	28.7	24.2	24.3	25.9
22 Current portion of long-term debt	8.2	233.2	6.7	6.7
23 Current portion of regulatory liabilities	8.3	2.4	16.8	13.3
24 Deferred capital contribution	0.7	0.2	-	-
25 Due to related parties	3.0	3.0	3.0	3.0 A
26 Promissory notes - non-regulated	(8.5)	(8.5)	(8.5)	(8.5) A
27	292.5	402.0	221.9	292.0
28				
29 Long-term debt	1,194.3	1,265.6	1,563.1	1,428.5
30 Regulatory liabilities	32.1	23.8	18.0	13.6
31 Asset retirement obligations	25.2	25.9	26.6	27.3
32 Employee future benefits	69.5	75.5	81.5	87.5
33 Contributed capital	100.0	100.0	100.0	100.0 A
34 Shareholder's equity / retained earnings	266.2	308.2	355.4	397.8
35 Accumulated other comprehensive income	27.7	21.0	17.1	13.2
36				
37 Total liabilities and shareholder's equity	<u>2,007.5</u>	<u>2,222.1</u>	<u>2,383.7</u>	<u>2,360.0</u>

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

NP-NLH-020, Attachment 1
Page 3 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 Regulated capital structure				
2 Long-term debt	1,202.5	1,498.8	1,569.8	1,435.1
3 Promissory notes	156.1	90.5	120.8	191.3
4 Promissory notes - related party	-	-	-	-
5 less: sinking funds	(217.5)	(228.2)	(242.8)	(176.5)
6 add: mark to market of sinking funds	27.9	21.0	17.1	13.3
7	<u>1,169.0</u>	<u>1,382.1</u>	<u>1,464.9</u>	<u>1,463.2</u>
8 Cost of service exclusions	-	-	-	-
9 Non-regulated debt pool	(8.5)	(8.5)	(8.5)	(8.5)
10 Net regulated debt	<u>1,160.5</u>	<u>1,373.6</u>	<u>1,456.5</u>	<u>1,454.7</u>
11 Asset retirement obligation	25.2	25.9	26.6	26.6
12 less: unfunded asset retirement obligation	(15.0)	(12.8)	(10.5)	(8.2) A
13 Employee future benefits	69.5	75.5	81.5	87.5
14 Contributed capital	100.0	100.0	100.0	100.0
15 Retained earnings cost of service exclusions	0.5	-	-	-
16 Retained earnings	<u>266.2</u>	<u>308.2</u>	<u>355.4</u>	<u>397.8</u>
17 Total	<u><u>1,606.9</u></u>	<u><u>1,870.5</u></u>	<u><u>2,009.5</u></u>	<u><u>2,058.4</u></u>
18				
19 Regulated capital structure (%)				
20 Debt	72.2%	73.4%	72.5%	70.7%
21 Asset retirement obligation	0.6%	0.7%	0.8%	0.9%
22 Employee future benefits	4.3%	4.0%	4.1%	4.3%
23 Equity	<u>22.8%</u>	<u>21.8%</u>	<u>22.7%</u>	<u>24.2%</u>
24 Total	<u><u>100.0%</u></u>	<u><u>100.0%</u></u>	<u><u>100.0%</u></u>	<u><u>100.0%</u></u>
25				
26 Regulated average capital structure (%)				
27 Debt	70.8%	72.8%	73.0%	71.6%
28 Asset retirement obligation	0.6%	0.7%	0.8%	0.8%
29 Employee future benefits	4.6%	4.2%	4.0%	4.2%
30 Equity	<u>24.1%</u>	<u>22.3%</u>	<u>22.2%</u>	<u>23.4%</u>
31 Total	<u><u>100.0%</u></u>	<u><u>100.0%</u></u>	<u><u>100.0%</u></u>	<u><u>100.0%</u></u>
32				
33 Weighted average cost of capital (WACC)	7.5%	6.8%	6.8%	6.7%
34 Embedded cost of debt	0.0%	0.0%	0.0%	0.0%
35 Asset retirement obligation	0.0%	0.0%	0.0%	0.0%
36 Employee future benefits	<u>8.8%</u>	<u>8.8%</u>	<u>8.8%</u>	<u>8.8%</u> B
37 Equity	<u><u>7.5%</u></u>	<u><u>6.9%</u></u>	<u><u>6.8%</u></u>	<u><u>6.8%</u></u>
38 WACC				

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

2014-2017 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
(\$millions)

	Proposed 2014	Proposed 2015	Proposed 2016	Proposed 2017
1 Property, plant, and equipment	1,588.3	1,796.5	1,911.9	1,976.8
2 add: accumulated depreciation	193.2	254.5	325.1	399.1
3 add: contributions in aid of construction	21.9	22.6	23.0	23.5
5 less: work in progress	(61.4)	(130.8)	(218.7)	(277.9)
6 Capital assets in service	1,742.0	1,942.7	2,041.4	2,121.5
7 less: asset retirement obligation	(15.0)	(12.8)	(10.5)	(8.2) A
8 less: contributions in aid of construction	(21.9)	(22.6)	(23.0)	(23.5)
9 less: accumulated depreciation	(193.2)	(254.5)	(325.1)	(399.1)
10 Capital assets - current year	1,511.8	1,652.9	1,682.7	1,690.6
11 Capital assets - previous year	1,450.2	1,511.8	1,652.9	1,682.7
12 Unadjusted capital assets - average	1,481.0	1,582.4	1,667.8	1,686.7
13 less: Average net assets not in use	(1.6)	-	-	-
14 Capital assets - average	1,479.4	1,582.4	1,667.8	1,686.7
15				
16 Cash working capital allowance	5.3	5.4	5.5	5.6
17 Fuel	50.9	38.8	42.7	44.7
18 Materials and supplies	24.7	25.6	25.7	26.4
19 Deferred charges	65.5	63.0	60.7	58.0
20				
21 Average rate base	1,625.8	1,715.2	1,802.4	1,821.4
22				
23 Unadjusted return on regulated equity	28.8	42.0	47.2	42.4
24 add: Cost of service exclusions	0.2	-	-	-
25 Net interest	89.4	75.5	75.9	80.7
26 Return on rate base	118.5	117.5	123.1	123.1
27				
28 Rate of return on rate base	7.3%	6.9%	6.8%	6.8%

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, Hydro removed these costs from rate base.

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

NP-NLH-020, Attachment 1
Page 5 of 6, NLH GRA 2013

	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	(31.2)	(23.5)	(17.7)	(13.3)
8 Utility	(6.7)	(2.2)	(15.8)	(12.5)
9 Industrial	1.1	(0.2)	(0.9)	(0.8)
10 Utility surplus	-	-	-	-
11 Industrial surplus	(2.8)	-	-	-
12 Segregated Load	-	-	-	-
13 Total	<u>(39.5)</u>	<u>(25.9)</u>	<u>(34.4)</u>	<u>(26.6)</u>
14				
15 Combined rate stabilization plan balances	<u>(39.5)</u>	<u>(25.9)</u>	<u>(34.4)</u>	<u>(26.6)</u>
16				
17 Average fuel cost per barrel	<u>\$ 101.60</u>	<u>\$ 95.11</u>	<u>\$ 97.98</u>	<u>\$ 100.00</u>

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

NP-NLH-020, Attachment 1
Page 6 of 6, NLH GRA 2013

	Proposed 2014	Proposed 2015	Proposed 2016	Proposed 2017
1 Revenue requirement				
2 Energy sales	598.0	630.4	690.4	703.1
3 Other revenue	2.3	2.4	2.4	2.5
4 Total revenue requirement	600.4	632.8	692.9	705.6
5				
6 Expenses				
7 Operating expenses	116.8	120.1	123.7	127.0
21 Fuels	246.5	270.5	312.1	318.5
26 Power purchases	59.2	58.7	58.9	58.5
27 Amortization	56.1	62.1	71.2	74.6
28 Accretion of asset retirement obligation	0.9	0.9	0.9	0.9
29 Loss on disposal	2.8	3.0	3.0	3.0
30 Expenses before cost of service exclusions	482.1	515.4	569.8	582.5
31 less: cost of service exclusions	(0.2)	-	-	-
32	481.9	515.4	569.8	582.5
33				
34 Return on rate base	118.5	117.5	123.1	123.1
35				
36 Average rate base	1,625.8	1,715.2	1,802.4	1,821.4
37				
38 Rate of return on rate base	7.3%	6.9%	6.8%	6.8%