Reference: Section 3: Finance

Q. Volume 1, page 3-15. Re-state Table 3-12 to include the credit metrics if the Application proposals for 2022 and 2023 were based on a return on equity of 8.25%, 8.5%, 8.75%, 9%, 9.25% and 9.5% in addition to the 9.8% proposed.

A. Cash flow metrics shown in Table 3-12 referenced in this Request for Information are positively impacted by the combination of current marginal energy costs and the decline in the Company's energy sales from the level reflected in existing customer rates. With sales in decline, Newfoundland Power avoids purchasing power at a marginal rate of 18.165¢/kWh. This is substantially higher than lost sales revenue, which reflects an average supply cost rate of 7.439¢/kWh. These energy supply cost variances currently result in a positive impact on operating cash flow pre-working capital.[1]

As part of the Company's *2022/2023 General Rate Application*, forecast supply costs will be reconciled with forecast revenue from energy sales under proposed customer rates.[2] As a result of the rebalancing of 2022 and 2023 supply costs, the energy supply cost variances will, in large part, not exist in the proposed test years.

For purposes of comparing the 2022 and 2023 existing credit metrics to the scenarios outlined in the Request for Information, the existing credit metrics have been restated to the exclude the effect of energy supply cost variances in those years.

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1 Ultimately, any savings are credited to customers via the Company's Energy Supply Cost Variance Clause. For additional information on the effect of energy supply cost variances, see response to Request for Information PUB-NP-027.

2 As a result of rebalancing supply costs, 2022 energy supply cost adjustments are forecast to reduce from $24.3 million under existing customer rates to $4.9 million under proposed customer rates. 2023 energy supply cost adjustments under existing customer rates of $26.7 million are forecast to be fully rebalanced under proposed customer rates.

1 Tables 1 and 2 show *pro forma* credit metrics for 2022 and 2023, respectively, under
2 existing customer rates as well as for each scenario requested.[3]

Table 1:
Credit Metrics
Existing Rates and Proposed Scenarios
2022 *Pro Forma*

	Existing[4]	**8.25%**	**8.50%**	**8.75%**	**9.00%**	**9.25%**	**9.50%**	**9.80%**
Pre-tax Interest Coverage (times)	2.2	2.4	2.5	2.5	2.6	2.6	2.7	2.7
Cash Flow Interest Coverage (times)	4.0	4.3	4.3	4.4	4.4	4.4	4.5	4.5
Cash Flow Debt Coverage (%)	15.2	16.7	16.9	17.0	17.2	17.4	17.6	17.8

Table 2:
Credit Metrics
Existing Rates and Proposed Scenarios
2023 *Pro Forma*

	Existing[5]	**8.25%**	**8.50%**	**8.75%**	**9.00%**	**9.25%**	**9.50%**	**9.80%**
Pre-tax Interest Coverage (times)	2.0	2.5	2.6	2.6	2.7	2.7	2.8	2.9
Cash Flow Interest Coverage (times)	4.2	4.6	4.7	4.7	4.8	4.8	4.8	4.9
Cash Flow Debt Coverage (%)	15.5	17.1	17.3	17.5	17.7	17.9	18.2	18.4

3 Existing scenario reflects a forecast return on equity ("ROE") of 7.16% for 2022 and 6.34% for 2023. Each *pro forma* scenario, with ROEs ranging from 8.25% to 9.50% for both 2022 and 2023, assumes all *2022/2023 General Rate Application* proposals are approved other than the change in the respective ROE.
4 Excludes the effect of energy supply cost variances in 2022 under existing customer rates.
5 Excludes the effect of energy supply cost variances in 2023 under existing customer rates.