Ms. Cheryl Blundon
Board of Commissioners of Public Utilities
120 Torbay Road
Prince Charles Building
St. John's, NL A1A 5B2

Grant Thornton LLP
Suite 300
15 International Place
St. John's, NL
A1A 0L4

T +1 709 778 8800
F +1 709 722 7892

September 7, 2022

Dear Ms. Blundon,

Re: Newfoundland Power Inc.
2023 Capital Budget Application

We have completed our review as requested in your letter July 21, 2022 relating to Newfoundland Power Inc.'s (the "Company's") 2023 Capital Budget Application as it pertains to the calculation of the 2021 actual average rate base and the calculations of the 2022 and 2023 forecast rate base additions, deductions and allowances.

The procedures undertaken in the course of our financial analysis do not constitute an audit of the Company's financial information and consequently, we do not express an opinion on the financial information.

The results of our review for each required task are noted below:

2021 Average Rate Base Calculation

Pursuant to Order No. P.U. 32 (2007), the Board of Commissioners of Public Utilities (the "Board") approved the Company's proposal to complete its transition to the Asset Rate Base Method ("ARBM") commencing January 1, 2008. The actual average rate base for 2021 as calculated by the Company under the ARBM and provided in Schedule C of its Application is $1,202,946,000 which is an increase of $21,049,000 (1.8%) over the average rate base for 2020 of $1,181,897,000.

The net change in the Company's average rate base from 2020 to 2021 can be summarized as follows:

(000's)	2021	2020
Average rate base - opening balance	**$ 1,181,897**	$ 1,153,556
Change in average deferred charges and deferred regulatory costs	**(1,560)**	471
Average change in:		
Plant in service	**74,767**	78,115
Accumulated depreciation	**(39,590)**	(37,536)
Contributions in aid of construction	**(82)**	(2,891)
Weather normalization reserve	**(3,837)**	(2,626)
Other post-employment benefits	**(5,887)**	(4,814)
Deferred income taxes	**(2,944)**	(3,898)
Rate base allowances	**843**	1,391
Customer Finance Programs	**(369)**	(181)
Demand Management Incentive Acct	**(269)**	501
Other rate base components (net)	**(23)**	(191)
Average rate base - ending balance	**$ 1,202,946**	$ 1,181,897

Our procedures with respect to verifying the calculation of the average rate base were directed towards the verification of the data incorporated in the calculations and the methodology used by the Company. Specifically, the procedures which we performed included the following:

- agreed all carry-forward data to supporting documentation including audited financial statements and internal accounting records, where applicable;
- agreed component data (capital expenditures; depreciation; etc.) to supporting documentation as noted under each section;
- checked the clerical accuracy of the continuity of the rate base for 2021; and
- agreed the methodology used in the calculation of the average rate base to the Public Utilities Act to ensure it is in accordance with Board Orders and established policy and procedure.

Based upon the results of the above procedures we did not note any discrepancies in the calculation of the 2021 average rate base, and therefore conclude that the 2021 average rate base included in Schedule C of the Company's Application is in accordance with established practice and Board Orders.

Rate Base Additions, Deductions and Allowances

In accordance with Order No. P.U. 19 (2003), the Company has filed evidence with the Board pertaining to its forecast deferred charges, including pension costs, to be included in the calculation of the forecast average rate base for 2022 and 2023 in its 2023 Capital Budget application. The report also provides a comprehensive review of all additions, deductions and allowances included in the rate base, with the exception of plant investment. The 2022 and 2023 forecast rate base additions, deductions and allowances are consistent with the calculation of the Company's 2022 and 2023 forecast average rate base reflected by the most recent forecast and estimates presented with year-end data. This is consistent with past evidence in accordance with Order No. P.U. 19 (2003). Each, in turn, is reviewed below.

Rate Base Additions

The forecast additions to rate base for 2022 and 2023 and the actual additions in 2020 and 2021 as presented by the Company are as follows:

($000's)	Actual 2020	Actual 2021	Forecast 2022	Forecast 2023
Deferred Pension Costs	$89,900	$88,888	$95,109	$102,130
Credit Facility Issue Costs	46	96	51	37
Cost Recovery Deferral – Hearing Costs	247	-	-	-
Cost Recovery Deferral – Conservation	17,049	16,421	20,407	22,294
Cost Recovery Deferral – Pension Capitalization	-	-	-	799
Cost Recovery Deferral – 2022 Revenue Shortfall	-	-	460	230
Customer Finance Programs	2,098	1,755	1,789	1,801
Demand Management Incentive Account	1,002	1,342	-	-
Total Additions	$110,342	$108,502	$117,816	$127,291

Source: Newfoundland Power Inc. - 2023 Capital Budget Application
Report on *Rate Base: Additions, Deductions & Allowance*s - Table 1

Our comments with respect to the additions to rate base are noted below:

Deferred Pension Costs

Deferred pension costs are the result of the pension funding exceeding the pension expense as determined in accordance with the recommendations of U.S. GAAP.

Grant Thornton

According to the table below, the forecast pension plan funding for 2022 and 2023 is $2,730,000 and $2,609,000 and the forecast pension plan recovery is $3,491,000 and $4,412,000 for 2022 and 2023 respectively. The difference between the funding and the recovery (or expense), as indicated below, represents the decrease or increase in deferred pension costs forecasted for 2022 and 2023.

($000's)	**Actual 2020**	**Actual 2021**	**Forecast 2022**	**Forecast 2023**
Deferred Pension Costs, January 1	$91,824	$89,900	$88,888	$95,109
Add: Pension Plan Funding	2,838	2,764	2,730	2,609
Less: Pension Plan (Expense) Recovery	(4,762)	(3,776)	3,491	4,412
(Decrease)/Increase in Deferred Pension Costs	(1,924)	(1,012)	6,221	7,021
Deferred Pension costs, December 31	$89,900	$88,888	$95,109	$102,130

Source: Newfoundland Power Inc. - 2023 Capital Budget Application
Report on *Rate Base: Additions, Deductions & Allowance*s - Table 2

The forecast pension funding for 2022 and 2023 per Table 2 of the Rate Base: Additions, Deductions & Allowances report is $2,730,000 and $2,609,000 respectively, compared to actual funding in 2021 of $2,764,000. The forecast funding amounts have been agreed to schedules provided by the Company's actuary.

The forecast pension recovery for 2022 and 2023 is $3,491,000 and $4,412,000 respectively compared to an actual expense in 2021 of $3,776,000. The forecast pension recovery for 2022 changed from $2,521,000 to $3,491,000 from the 2022 to 2023 Capital Budget Application. According to the Company, the primary reason for the increase in pension recovery (decrease in pension expense) for the 2022 forecast is an increase in the forecast discount rate (3.20% vs 2.60%) and a corresponding reduction in the amortization of actuarial losses in the updated 2022 forecast. Furthermore, according to the Company, the 2022 and 2023 increase in forecast pension recovery (decrease in forecast pension expense) from the 2021 actual is due primarily to a reduction in the amortization of actuarial losses in the amount of $6,800,000 in 2021 verses $Nil in the 2022 and 2023 forecasts. The forecast pension recovery (expense) amounts have been agreed to schedules provided by the Company's actuary.

Based on our review of forecast deferred pension costs, we confirm that we have not noted any discrepancies or unusual items.

Deferred Credit Facility Issue Costs

In August 2021, the committed credit facility was renegotiated again to extend its maturity date to August 2026. Costs related to this amendment totalled $71,000 and are being amortized over the five-year life of the agreement, beginning in 2021.

In the 2022/2023 General Rate Application, the unamortized credit facility issue costs of $31,000 for the 2018 and 2019 amendments were included as a component of the Company's cost of capital for revenue requirement purposes in 2022 and 2023. As these costs are now reflected in customer rates, they are not included in rate base for those years.

However, the unamortized credit facility issue costs associated with the 2021 credit facility amendments are included in rate base for 2021, 2022 and 2023 as these costs have not yet been reflected in the Company's revenue requirements.

Based on our review of forecast deferred credit facility issue costs, we confirm that we have not noted any discrepancies or unusual items.

Cost Recovery Deferral – Hearing Costs

In Order No. P.U. 2 (2019), the Board approved hearing costs of up to $1.0 million related to the 2019/2020 General Rate Application to be recovered in customer rates over the period March 1, 2019 through December 31, 2021. In Order No. P.U.3 (2022), the Board approved the recovery of actual hearing costs related costs related to the Company's 2022/2023 General Rate Application directly through the Rate Stabilization Account ("RSA"). According to the Company, the actual hearing costs for the 2019/2020 General Rate Application were $329,728. The Company transferred $670,272 to the Rate Stabilization Account on March 31, 2019 representing the difference between actual of $329,728 and estimated costs of $1,000,000 as directed by the Board in Order No. P.U. 2 (2019) instead of a reduction in rate base in 2019. As of December 31, 2021, the balance of actual hearing costs is $Nil.

Based on our review of forecast deferred cost recovery relating to hearing costs, we confirm that we have not noted any discrepancies or unusual items, and it is consistent with approved Board Orders.

Cost Recovery Deferral – Conservation

On April 17, 2013, the Board issued Order No. P.U. 13 (2013) and approved the deferral of annual customer energy conservation program costs and the amortization of annual costs over seven years beginning in 2014 with recovery through the Rate Stabilization Account.

In Order No. P.U. 3 (2022), the Board approved the amortization of annual costs over 10 years, commencing January 1, 2021 for historical balances and annual charges. The implementation of Order No. P.U. 3 (2022) resulted in a $1,875,000 true-up increase in deferred conservation costs in 2022 relating to annual deferred customer energy conservation program costs incurred up to December 31, 2021.

Based on our review of forecast deferred cost recovery relating to conservation and amortization of annual costs, we confirm that we have not noted any discrepancies or unusual items, and it is consistent with approved Board Orders.

Cost Recovery Deferral – Pension Capitalization

On February 16, 2022, the Board issued Order No. P.U.3 (2022) and approved the following:

(i) revisions to the Company's calculation of its General Expenses Capitalized ("GEC"),

(ii) the establishment of a Pension Capitalization Cost Deferral Account,

(iii) the deferral of $1.427 million ($0.999 million after-tax) with recovery through the RSA over a five-year period commencing January 1, 2023.

The unamortized balance as at December 31, 2023 is $799,000.

Based on our review of forecast deferred cost recovery relating to pension capitalization and amortization, we confirm that we have not noted any discrepancies or unusual items, and it is consistent with approved Board Orders.

Cost Recovery Deferral – 2022 Revenue Shortfall

The Board's disposition of Newfoundland Power's 2022/2023 General Rate Application in Order No. P.U. 3 (2022) resulted in a $930,000 ($650,000 after-tax) shortfall in the recovery of the revenue requirements for 2022 (the "2022 Revenue Shortfall"). The Order approved the recovery of this shortfall through a regulatory amortization beginning on March 1, 2022 and ending December 31, 2024.

Based on our review of forecast deferred cost recovery relating to the 2022 Revenue Shortfall and amortization, we confirm that we have not noted any discrepancies or unusual items, and it is consistent with Order No. P.U. 3 (2022).

Customer Finance Programs

As indicated by the Company, Customer Finance Programs are loans provided to customers for purchase and installation of products and services related to conservation programs and contributions in aid of construction.

As part of the Company's transition to ARBM in 2008, inclusion of certain other assets and liabilities was required, including Customer Finance Programs receivables. The 2022 and 2023 forecast Customer Finance Programs receivable balance is comparable with that of 2021 and 2020.

Demand Management Incentive Account

In Order No. P.U. 32 (2007) the Board approved the Company's proposal to establish the Demand Management Incentive Account ("DMI").

In Order No. P.U. 10 (2022) the Board approved a debit transfer of $1,917,733 equal to the balance in the 2021 DMI account of $1,342,413 plus related income tax effects of $575,320 to the Rate Stabilization Account as at March 31, 2022.

Based on our review of forecast DMI, we confirm that we have not noted any discrepancies or unusual items, and it is consistent with approved Board Orders.

Rate Base Deductions

The forecast deductions to rate base for 2022 and 2023 and the actual figures for 2021 and 2020 as presented by the Company are as follows:

($000's)	Actual 2020	Actual 2021	Forecast 2022	Forecast 2023
Other Post-Employment Benefits ("OPEBs")	$66,739	$73,566	$78,930	$84,183
Customer Security Deposits	1,212	1,401	1,401	1,401
Accrued Pension Liabilities	5,258	5,168	5,289	5,468
Accumulated Deferred Income Taxes	12,683	15,976	18,767	32,054
Weather Normalization Reserve	3,734	2,020	6,904	-
2019 Revenue Surplus	613	-	-	-
Total Deductions	$90,239	$98,131	$111,291	$123,106

Source: Newfoundland Power Inc. - 2023 Capital Budget Application
Report on *Rate Base: Additions, Deductions & Allowance*s - Table 10

Our comments with respect to the deductions to rate base are noted below:

OPEBs Liability

The Company's OPEBs are comprised of retirement allowances for retiring employees, as well as health, medical and life insurance for retirees and their dependents.

On June 30, 2010, the Company submitted an application to the Board requesting approval for the 2011 adoption of accrual accounting for OPEBs for regulatory purposes. Under the accrual basis, OPEBs costs are recognized as an expense as employees earn the benefits that they will receive after retirement. The application also addressed treatment of the projected OPEBs transitional balance as at January 1, 2011 and the creation of an OPEBs Cost Variance Deferral Account. On December 10, 2010, Order No. P.U. 31 (2010) approved the adoption of the accrual method of accounting for OPEBs costs and income tax related to OPEBs effective January 1, 2011 and the amortization using the straight-line method over a 15-year period of the transitional balance estimated to be $52,400,000. The actual transitional balance was $52,560,000 resulting in annual amortization of $3,504,000.

The total amount of the deduction to rate base related to OPEBs for 2021 is $73,566,000 with $78,930,000 and $84,183,000 forecast for 2022 and 2023 respectively. The actual and forecast OPEBs are consistent with calculations provided by the Company's actuary.

Customer Security Deposits

Customer Security Deposits are provided by customers in accordance with the Schedule of Rates, Rules and Regulations.

As part of the transition to ARBM in 2008 the inclusion of Customer Security Deposits was required as a component of rate base. The 2022 and 2023 forecast Customer Security Deposits balance is consistent with the 2021 balance.

Accrued Pension Liabilities

Accrued pension liabilities represent the executive and senior management supplemental pension benefits comprised of a defined benefit plan (Pension Uniformity Plan - PUP) and a defined contribution plan (Supplementary Employee Retirement Plan - SERP). The balance represents the cumulative costs of these unfunded plans, net of associated benefit payments.

As part of the transition to ARBM in 2008 the inclusion of accrued pension liabilities was required as a component of rate base. The actual and forecast PUP are consistent with calculations provided by the Company's actuary. The Company is the designated administrator responsible for the overall administration, interpretation, and application of the SERP. The liability is determined by the Company in accordance with the terms of the SERP.

Accumulated Deferred Income Taxes

Deferred Income Taxes arise due to the Board's approval of the Company's use of tax accrual accounting related to plant investment, pension costs and other employee future benefit costs.

According to the Company, the increase in deferred income taxes for the forecast year 2022 is primarily the result of continued investment in the electricity system and the conclusion of the amortization of net actuarial losses in 2021. Similarly, according to the Company, the increase in deferred income taxes for the forecast year 2023 is primarily the result of continued investment in the electricity system, the anticipated going into service of the Company's Customer Information System capital project in 2023, and the conclusion of the amortization of net actuarial losses in 2021. The deferred tax provision on plant investment in 2023 is $11,954,000.

Based on our review of Accumulated Deferred Income Tax balances, we confirm that we have not noted any material discrepancies or unusual items, and it is consistent with approved Board Orders.

Weather Normalization Reserve

The disposition of the December 31, 2021 balance to the Rate Stabilization Account as of March 31, 2022 was approved in Order No. P.U. 11 (2022).

The forecast in 2022 includes a weather normalization reserve of $6,904,000 owing to customers based on actual weather adjustments up to March 31, 2022.

Based on our review of the forecast weather normalization reserve, we confirm that we have not noted any discrepancies or unusual items.

Cost Over Recovery – 2019 Revenue Surplus

As a result of the Board's decisions included in Order No. P.U. 2 (2019), the Company's 2019 revenue surplus was $2,500,000 ($1,700,000 after tax). The Board Order provided for a credit of the 2019 revenue surplus through a regulatory amortization beginning March 1, 2019 and concluding on December 31, 2021. Therefore, the balance for the 2019 revenue surplus as of December 31, 2021 and for the forecasted years 2022 and 2023 is $Nil.

Based on our review of the forecast cost over recovery – 2019 revenue surplus, we confirm that we have not noted any discrepancies or unusual items.

Rate Base Allowances

The Rate Base allowances included in the Company's rate base are the Cash Working Capital ("CWC") allowance and the Materials and Supplies allowance. These represent the average amount of investor-supplied working capital necessary to provide service. The CWC for 2020 through 2021 was calculated based on the method used to calculate the 2019/2020 test year average rate base approved by the Board in Order No. P.U. 2 (2019). However, the 2022 and 2023 forecast CWC and the Materials and Supplies allowance are based on the method used to calculate the 2022/2023 Test Year average rate base as approved by the Board in Order No. P.U. 3 (2022).

There was a decrease in forecast CWC in 2022 and 2023 due to changes in the Cash Working Capital Factor ("CWCF"). The CWCF decreased from 1.789% in 2021 to 1.138% and 1.199% in 2022 and 2023 respectively. In addition, there was also a decrease in taxes. According to the Company, for rate base purposes, current or cash taxes as opposed to total taxes are used in the calculation of the annual rate base allowance. The reduction in current tax for 2023 forecast compared to the 2022 forecast and 2021 actual is primarily related to the increased capital cost allowance associated with the Customer Connect System which is scheduled to be in service in 2023. This is because software costs qualify for a 100% write-off for tax purposes in the year of implementation.

According to the Company, there was an increase in average materials and supplies for the 2022 forecast because the 2022 average materials and supplies forecast is based on the 2021 actual average materials and supplies inflated using the most recent available GDP deflator data. Similarly, there was an increase in the 2023 forecast because the 2023 average materials and supplies forecast is inflated based on the 2022 forecast and related GDP deflator.

Based on our review of the Rate Base Allowances, we have not noted any discrepancies or unusual items and the forecast for 2022 and 2023 is consistent with 2022/2023 test year data.

We trust this is the information you requested. If you have any questions, please contact me.

Yours sincerely,
Grant Thornton LLP

Barry Griffiths, CPA, CA,
Principal