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

August 30, 2023

Dear Ms. Blundon,

Re: Newfoundland Power Inc.
2024 Capital Budget Application

We have completed our review as requested on July 11, 2023 relating to Newfoundland Power Inc.’s (the “Company’s”) 2024 Capital Budget Application as it pertains to the calculation of the 2022 actual average rate base and the calculations of rate base additions, deductions and allowances.

The procedures undertaken during 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:

2022 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 2022 as calculated by the Company under the ARBM and provided in Schedule D of its Application is $1,230,434,000 which is an increase of $27,488,000 (2.3%) over the average rate base for 2021 of $1,202,946,000

The net change in the Company's average rate base from 2021 to 2022 can be summarized as follows:

(000's)	2022	2021
Average rate base - opening balance	$ 1,202,946	$1,181,897
Change in average deferred charges and deferred regulatory costs	4,195	(1,560)
Average change in:		
Plant in service	78,786	74,767
Accumulated depreciation	(43,412)	(39,590)
Contributions in aid of construction	(407)	(82)
Weather normalization reserve	(1,421)	(3,837)
Other post-employment benefits	(6,706)	(5,887)
Future income taxes	(2,697)	(2,944)
Rate base allowances	68	843
Customer Finance Programs	(313)	(369)
Demand Management Incentive Acct	(555)	(269)
Other rate base components (net)	(50)	(23)
Average rate base - ending balance	$ 1,230,434	$ 1,202,946

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 2022; 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 2022 average rate base, and therefore conclude that the 2022 average rate base included in Schedule D of the Company's Application is in accordance with established practice and Board Orders.

Rate Base Additions, Deductions and Allowances

The report provides a comprehensive review of all additions, deductions and allowances included in the rate base.

Rate Base Additions

The actual additions in 2021 and 2022 as presented by the Company are as follows:

($000's)	**2021**	**2022**
Deferred Pension Costs	$ 88,888	$ 95,095
Credit Facility Issue Costs	96	87
Cost Recovery Deferral – Conservation	16,421	19,359
Cost Recovery Deferral – Load Research and Retail Rate Design Review	-	20
Cost Recovery Deferral – 2022 Revenue Shortfall	-	459
Customer Finance Programs	1,755	1,472
Total Additions	$107,160	$116,492

Source: Newfoundland Power Inc. - 2024 Capital Budget Application
Report on Rate Base: Additions, Deductions & Allowances - Table 1

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.

According to the table below, pension plan funding for 2021 and 2022 was $2,764,000 and $2,730,000 respectively and the pension plan (expense) recovery was a decrease of $3,776,000 in 2021 and increase of $3,447,000 in 2022 to Deferred Pension Costs.

($000's)	**Actual 2021**	**Actual 2022**
Deferred Pension Costs, January 1	$ 89,900	$ 88,888
Pension Plan Funding	2,764	2,730
Pension Plan (Expense) Recovery	(3,776)	3,477
(Decrease)/ Increase in Deferred Pension Costs	(1,012)	6,207
Deferred Pension costs, December 31	$ 88,888	$ 95,095

Source: Newfoundland Power Inc. - 2024 Capital Budget Application
Report on *Rate Base: Additions, Deductions & Allowance*s - Table 2

The change in the pension plan (expense) recovery for 2022 from a pension expense in 2021 of $3,776,000 to a pension plan recovery in 2022 of $3,477,000 is primary relating to lower amortization of net actuarial losses, mainly as a result of a higher discount rate at December 31, 2021. The pension (expense) recovery amounts have been agreed to schedules provided by the Company's actuary.

Deferred Credit Facility Issue Costs

In August 2021, the committed credit facility was renegotiated 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 August 2022, the committed credit facility was renegotiated to extend its maturity date to August 2027. Costs related to this amendment totalled $38,000 and are being amortized over the five-year life of the agreement, beginning in 2022.

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 2022 and

2021 credit facility amendments are included in rate base for 2021 and 2022 as these costs have not yet been reflected in the Company's revenue requirements. They are being amortized over the amended term.

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 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 – Load Research and Retail Rate Design Review

In Order No. P.U. 3 (2022), the Board approved the deferral of costs incurred in conducting a Load Research Study and a Retail Rate Design Review. In 2022, costs of $28,000 ($20,000 tax effected) have been deferred. A recovery mechanism for these costs has not yet been approved by the Board.

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 the 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 Customer Finance Programs receivable balance is comparable with that of 2021.

Rate Base Deductions

The actual figures for 2021 and 2022 as presented by the Company are as follows:

($000's)	Actual 2021	Actual 2022
Other Post-Employment Benefits ("OPEBs")	$73,566	$80,151
Customer Security Deposits	1,401	1,270
Accrued Pension Liabilities	5,168	5,300
Accumulated Deferred Income Taxes	15,976	18,076
Weather Normalization Reserve	2,020	6,576
Demand Management Incentive Account	(1,342)	107
Total Deductions	$96,789	$111,480

Source: Newfoundland Power Inc. – 2024 Capital Budget Application Report on *Rate Base: Additions, Deductions & Allowance*s - Table 8.

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 2022 is $80,151,000. The 2021 and 2022 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 Customer Security Deposits is comparable with that of 2021.

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 2021 and 2022 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 2022 is primarily the result of continued investment in the electricity system and timing differences associated with the Company's employee future benefits.

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).

In Order No. P.U. 9 (2023) Newfoundland Power's Weather Normalization Reserve of a credit balance of $6,575,737 as of December 31, 2022 was approved.

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

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 of March 31, 2022. In Order No. P.U. 8 (2023) the Board approved a credit in the amount of $153,435 equal to the balance in the 2022 DMI account of $107,404 plus related income tax effects of $46,031 to the Rate Stabilization Account as of March 31, 2023.

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

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 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). The 2022 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).

Based on our review of the Rate Base Allowances, we have not noted any discrepancies or unusual items and 2022 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