

General

Q. Reference: "2024 Capital Budget Application," Newfoundland Power, June 22, 2023, 2024 Capital Budget Overview, sec. 2.3.3, p. 9 and Newfoundland Power's response to NLH-NP-039 of this proceeding.

As per Newfoundland Power's response to NLH-NP-039, the estimated increase to revenue requirement due to its 2024 Capital Budget Application is forecast to be \$4.2 million in 2024 and \$1.4 million in 2025.

a) Please indicate why the revenue requirement impact is expected to decrease in 2025.

b) In the event that 2025 was not cumulative, please restate Table 1 from the response to NLH-NP-039 with the cumulative revenue requirement impact for 2025.

A. a) The pro forma revenue requirement impacts provided in the response to Request for Information NLH-NP-039 are based on the annual changes in the Company's forecast average rate base which is used to determine the return on rate base and income tax amounts. This approach ensures that the annual revenue requirement estimates includes all changes in Newfoundland Power's rate base, which is primarily driven by additions from capital expenditures as well as related deductions due to plant retirements and increases in accumulated depreciation.¹ The pro forma revenue requirement impacts also include the annual changes in forecast depreciation expense as well as the customer benefits associated with projects included in the *2024 Capital Budget Application*.²

The annual change in pro forma revenue requirement in 2025 is lower when compared to 2024 primarily due a lower change in average rate base as well as a lower change in depreciation expense.

The higher incremental change in 2024 average rate base is primarily the result of a full year impact of the Company's newly implemented Customer Information System ("CIS"). Implementation of the CIS also results in a higher incremental depreciation impact in 2024 when compared to 2025.

¹ See Newfoundland Power's *2024 Capital Budget Application, Schedule D* for a calculation of the Company's average rate base.

² For further information, see the response for Request for Information PUB-NP-004.

- 1 b) Table 1 adds the requested *pro forma* 2025 cumulative impact to the table provided
 2 in the response to Request for Information NLH-NP-039. These figures would
 3 estimate the change in *pro forma* revenue requirement from 2023 to 2025 forecast
 4 (i.e. a two-year change).

Table 1
***Pro forma* Revenue Requirements as Requested**
(\$millions)

	2024	2025	2025 Cumulative ³
Average Rate Base ⁴	68.5	41.5	110.0
Return % ⁵	6.13%	6.13%	6.13%
Return⁶	4.2	2.5	6.7
Depreciation ⁷	4.7	3.4	8.1
Operating and Maintenance/Customer Benefits ⁸	(5.8)	(5.2)	(5.2)
Income Tax ⁹	1.1	0.7	1.8
<i>Pro Forma</i> Revenue Requirement Impact	4.2	1.4	11.4

³ Average rate base, return, depreciation and income tax figures are the 2024 and 2025 impacts added together, representing two-year change in *pro forma* revenue requirement. The operating and maintenance and customer benefits described in footnote 5 in the response to Request for Information NLH-NP-039 are annualized estimates, therefore, the 2025 cumulative figure is equal to the 2025 figure.

⁴ Forecast annual change in *pro forma* average rate base.

⁵ Incremental weighted average cost of capital calculated using a return on equity of 8.50% as approved by the Board in Order No. P.U. 3 (2022) and an incremental cost of debt of 4.198%. The incremental cost of debt is based upon the Company's debt issue in April 2022 which was approved by the Board in Order No. P.U. 7 (2022).

⁶ Average Rate Base x Return %.

⁷ Forecast change in annual *pro forma* depreciation expense.

⁸ Includes maintenance costs savings and avoided electricity costs associated with the *LED Street Lighting Replacement* project. The 2024 estimate also includes the net present value of the technology projects included in Newfoundland Power's *2024 Capital Budget Application* and customer benefits associated with continued operation of the Mobile and Lookout Brook hydro plants that results in the continued provision of low-cost electricity production to customers.

⁹ Income tax associated with the *pro forma* return on equity.