

WHENEVER. WHEREVER.  
We'll be there.



November 28, 2023

Board of Commissioners  
of Public Utilities  
P.O. Box 21040  
120 Torbay Road  
St. John's, NL A1A 5B2

Attention: Jo-Anne Galarneau  
Executive Director and Board Secretary

Dear Ms. Galarneau:

**Re: 2024 Rate of Return on Rate Base Application – Additional Information**

By way of a letter dated November 17, 2023, the Board directed that Newfoundland Power Inc. (“Newfoundland Power” or the “Company”) file a separate application relating to approval of its 2024 forecast average rate base and rate of return on rate base. The Board further directed the Company to provide specific additional information in relation to the Company’s application. On November 23, 2023, the Company filed its *2024 Rate of Return on Rate Base Application*.

Please find enclosed the additional information requested in the Board’s letter dated November 17, 2023. The rate impact analysis for implementation dates earlier than July 1, 2024, including February 1, March 1, and April 1, 2024, is provided in Schedule A. The rate impact and analysis for a rate of return on rate base using the low, middle and high end of the proposed range is provided in Schedule B.

We trust you will find the enclosed to be in order. Please contact the undersigned with any questions.

Yours truly,

A handwritten signature in black ink that reads "Lindsay Hollett".

Lindsay Hollett  
Senior Legal Counsel &  
Assistant Corporate Secretary

Enclosures

cc. Shirley Walsh  
Newfoundland and Labrador Hydro

Dennis Browne, K.C.  
Browne Fitzgerald Morgan & Avis

**Newfoundland Power Inc.**

55 Kenmount Road • P.O. Box 8910 • St. John's, NL A1B 3P6

PHONE (709) 737-5364 • FAX (709) 737-2974 • [hollett@newfoundlandpower.com](mailto:hollett@newfoundlandpower.com)

**PUB Information Request (i)**

**Rate impact analysis for implementation dates earlier than July 1, 2024, including February 1, March 1 and April 1, 2024:**

The 2024 forecast average rate base and rate of return on rate base outlined in the *2024 Rate of Return on Rate Base Application* (the “Application”) results in a \$11,835,000 increase to the ratemaking 2023 revenue requirement approved by the Board in Order No. P.U. 3 (2022). The \$11,835,000 increase to annual revenue requirement results in an average annual rate increase of 1.5%.<sup>1</sup>

Customer rates are designed to collect annual revenue requirements. A rate change in the year of implementation beyond January 1<sup>st</sup> will result in a revenue shortfall in that initial year. However, the timing of the rate change in the initial year would not change the average annual impact on customer billings as the revenue requirement amount to be collected on an annual, ongoing basis does not change.

Table 1 provides the forecast 2024 rate revenues and corresponding revenue shortfall for each rate implementation scenario requested by the Board as well as for the Company’s proposed implementation date of July 1, 2024.

**Table 1:  
2024 Rate Implementation Date Scenarios  
(\$000s)**

<b>Rate Implementation Date</b>	<b>Annual Revenue Requirement (A)<sup>2</sup></b>	<b>2024 Rate Revenues (B)</b>	<b>2024 Revenue Shortfall (C)<sup>3</sup></b>
February 1, 2024	11,835	10,421	1,414
March 1, 2024	11,835	9,115	2,720
April 1, 2024	11,835	7,813	4,022
July 1, 2024	11,835	5,113	6,722

Newfoundland Power is proposing to revise existing customer rates effective July 1, 2024 to incorporate the additional \$11,835,000 in annual revenue requirement resulting from the Application. With a customer rate implementation date of July 1, 2024, there is a revenue shortfall in 2024 of \$6,722,000.<sup>4</sup>

<sup>1</sup> See the *Application, 2024 Rate of Return on Rate Base* report, 6.2 *Customer Rate Impacts*.

<sup>2</sup> See the *Application, 2024 Rate of Return on Rate Base* report, 5.0 *Revenue Requirement Impacts*. The annual impact on municipal taxes would also be the same in each scenario. The average annual rate impact for each scenario is therefore 1.5%.

<sup>3</sup> C = A – B.

<sup>4</sup> See the *Application, 2024 Rate of Return on Rate Base* report, 6.3 *2024 Revenue Shortfall*.

For any rate implementation date prior to July 1, 2024, the 2024 revenue shortfall amount would be reduced as more revenue would be collected in customer rates in 2024 associated with the \$11,835,000 change in annual revenue requirement.

The disposition of any 2024 revenue shortfall amount would be subject to a future order of the Board.

**PUB Information Request (ii)**

**Rate impact and analysis of a rate of return on rate base using the low, middle and high end of the proposed range of 6.67% to 7.03%.<sup>1</sup>****The 2024 Rate of Return on Rate Base Application (the “Application”)**

Appendix B to the *2024 Rate of Return on Rate Base* report filed with the Application shows the calculation of Newfoundland Power’s 2024 rate of return on rate base of 6.85% (the mid-point) that reflects the specific requirements of Order No. P.U. 3 (2022) of a common equity ratio not to exceed 45% and a rate of return on common equity of 8.50%.<sup>2</sup>

Appendix C to the *2024 Rate of Return on Rate Base* report filed with the application provides the calculation of the Company’s revised 2023 test year revenue requirement resulting from the rate of return on rate base calculations outlined in Appendix B. Annual revenue requirement is \$11,835,000 higher than the amount used to set existing customer rates as a result of the revisions required to reflect Newfoundland Power’s 2024 forecast average rate base and rate of return on rate base of 6.85%.

Rate impacts and further analysis associated with these calculations are provided in the *2024 Rate of Return on Rate Base* report.

**The Low-End and High-End Scenarios**

Applying the range of rate of return on rate base of 36 basis points ( $\pm 0.18\%$ ) maintained in Order No. P.U. 3 (2022), Newfoundland Power’s rate of return on rate base for 2024 is 6.85% within a range of 6.67% to 7.03%. As illustrated in Attachment 1 to this response, the range of rate of return on rate base of 36 basis points results in an implied range in rate of return on common equity of 80 basis points ( $\pm 0.40\%$ ).

To determine revenue requirement and rate impacts associated with a rate of return on rate base of 6.67% (the low-end), a rate of return on common equity of 8.10% would be required to be used to calculate the Company’s 2024 rate of return on rate base rather than the 8.50% approved in Order No. P.U. 3 (2022).<sup>3</sup>

Attachment 2 to this response provides:

- An analysis, consistent with Appendix B to the *2024 Rate of Return on Rate Base* report, to use a rate of return on common equity of 8.10% to determine Newfoundland Power’s 2024 rate of return on rate base;

---

<sup>1</sup> The Application proposes a rate of return on average rate base for 2024 of 6.85% in a range of 6.67% to 7.03%. See paragraph 9(ii) of the Application.

<sup>2</sup> For further information on the Company’s 2024 regulated rate of return on rate base, see the Application, *2024 Rate of Return on Rate Base* report, 4.0 *2024 Regulated Rate of Return on Rate Base*.

<sup>3</sup> 8.50% minus 0.40% = 8.10%.

- An analysis, consistent with Appendix C to the *2024 Rate of Return on Rate Base* report, to provide a calculation of the Company’s revised 2023 test year revenue requirement reflecting a rate of return on rate base 6.67%; and,
- A customer rate impact analysis based on the revenue requirement analysis.

To determine revenue requirement and rate impacts associated with a rate of return on rate base of 7.03% (the high-end), a rate of return on common equity of 8.90% would be required to be used to calculate the Company’s 2024 rate of return on rate base rather than the 8.50% approved in Order No. P.U. 3 (2022).<sup>4</sup>

Attachment 3 to this response provides:

- An analysis, consistent with Appendix B to the *2024 Rate of Return on Rate Base* report, to use a rate of return on common equity of 8.90% to determine Newfoundland Power’s 2024 rate of return on rate base;
- An analysis, consistent with Appendix C to the *2024 Rate of Return on Rate Base* report, to provide a calculation of the Company’s revised 2023 test year revenue requirement reflecting a rate of return on rate base 7.03%; and,
- A customer rate impact analysis based on the revenue requirement analysis.

Table 1 summarizes the results of these analyses.

**Table 1:  
2024 Range of Rate of Return on Rate Base Analysis**

	<b>Low-End (8.10% ROE)</b>	<b>Mid-Point (8.50% ROE)</b>	<b>High-End (8.90% ROE)</b>
Rate of Return on Rate Base	6.67%	6.85%	7.03%
Revenue Requirement Impact (\$000s)	8,249	11,835	15,435
Annual Average Customer Rate Impact	1.0%	1.5%	1.9%

In Newfoundland Power’s view, using any rate of return on common equity other than 8.50% to determine revenue requirement and customer rates amounts for 2024 would not be consistent with Order No. P.U. 3 (2022).

---

<sup>4</sup> 8.50% plus 0.40% = 8.90%.

**Implied Range of Rate of Return on Common Equity**



## Newfoundland Power Inc.

Implied Range of Rate of Return on Common Equity<sup>1</sup>1 2023 Test Year Return on Rate Base:

	<b>Capital Structure</b>	<b>Cost of Capital</b>	<b>Weighted Average Cost of Capital</b>
2			
3 Debt	55.04%	4.67%	2.57%
4 Common Equity	44.96%	<b>8.50%</b>	3.82%
5 <b>Rate of Return on Rate Base</b>	100.00%		6.39%

6

7 Range of rate of return on rate base of 36 basis points:

8 + 18 basis points (upper end) 6.57%

9 - 18 basis points (lower end) 6.21%

10

11 Implied range of rate of return on common equity at upper end of range (+18 basis points):

	<b>Capital Structure</b>	<b>Cost of Capital</b>	<b>Weighted Average Cost of Capital</b>
12			
13 Debt	55.04%	4.67%	2.57%
14 Common Equity	44.96%	<b>8.90%</b>	4.00%
15 <b>Rate of Return on Rate Base</b>	100.00%		6.57%

16

17 Difference from 8.50% rate of return on common equity (8.90% less 8.50%) **0.40%**

18

19 Implied range of rate of return on common equity at lower end of range (-18 basis points):

	<b>Capital Structure</b>	<b>Cost of Capital</b>	<b>Weighted Average Cost of Capital</b>
20			
21 Debt	55.04%	4.67%	2.57%
22 Common Equity	44.96%	<b>8.10%</b>	3.64%
23 <b>Rate of Return on Rate Base</b>	100.00%		6.21%

24

25 Difference from 8.50% rate of return on common equity (8.10% less 8.50%) **-0.40%**

26

27 Summary:

28 At upper end of range of rate of return on rate base (+18 basis points) 0.40%

29 At lower end of range of rate of return on rate base (-18 basis points) **-0.40%**30 **Total implied range of rate of return on common equity** **0.80%**

<sup>1</sup> Based on the 2023 Test Year capital structure and rate of return on rate base approved in Order No. P.U. 3 (2022). This analysis assumes the cost of debt remains constant.

**2024 Rate of Return on Rate Base Analysis  
(Low-End Scenario)**

**Newfoundland Power Inc.**

**2024 Regulated Return on Rate Base (Low-End Scenario)**

1	<b>Average Capitalization (\$000s) - 2024 Existing</b>	
2	Debt	790,532
3	Common Equity	602,221
4		<u>1,392,753</u>
5		
6	<b>Average Capital Structure</b>	
7	Debt	56.76%
8	Common Equity	43.24%
9		<u>100.00%</u>
10		
11	<b>Cost of Capital</b>	
12	Debt	5.27% <sup>1</sup>
13	Common Equity	8.10% <sup>2</sup>
14		
15	<b>Weighted Average Cost of Capital</b>	
16	Debt	2.99%
17	Common Equity	3.50%
18		<u>6.49% <sup>3</sup></u>
19		
20	<b>Return on Rate Base (\$000s)</b>	
21	Return on Debt	41,628 <sup>4</sup>
22	Return on Common Equity	48,988 <sup>5</sup>
23		<u>90,616</u>
24		
25	<b>Average Rate Base (\$000s)</b>	1,358,803 <sup>6</sup>
26		
27	<b>Rate of Return on Rate Base (Low-End Scenario)</b>	<b>6.67%</b>

<sup>1</sup> Cost of Debt shown is net of AFUDC.

<sup>2</sup> A rate of return on common equity of 8.10% is required to provide for a rate of return on rate base at the low-end of 6.67%.

<sup>3</sup> Under the Asset Rate Base Method, differences between average invested capital and average rate base exist for the cash working capital allowance, the materials and supplies allowance and construction work in progress. For 2024, these differences result in the weighted average cost of capital of 6.49% differing by 0.18% from the rate of return on rate base of 6.67%.

<sup>4</sup> From the 2024 Rate of Return on Rate Base report (the "Report"), Appendix D, page 3.

<sup>5</sup> The return on common equity for the purposes of the low-end scenario is calculated as follows (\$000s):

Return on Common Equity from the Report, Appendix D, page 1	42,653
Add: Revenue Shortfall Net of Income Taxes (at 8.10% ROE)	6,335
Return on Common Equity (at 8.10% ROE)	<u>48,988</u>

<sup>6</sup> Average rate base for the purposes of the low-end scenario is calculated as follows (\$000s):

Average Rate Base at Year End before recovery from the Report, Appendix D, page 2	1,357,684
Add: Change in cash working capital due to changes in municipal taxes from the Report, Appendix D, page 2	21
Add: 2024 Revenue Shortfall (based on the low-end analysis) on an after-tax average basis	1,098
Average Rate Base	<u>1,358,803</u>

## Newfoundland Power Inc.

**Revised 2023 Test Year Revenue Requirement and Rate Impact Analysis  
(Low-End Scenario)  
(\$000s)**

	<b>2023 Test Year<sup>1</sup></b>	<b>2024 Return on Rate Base</b>	<b>2024 Revised<sup>2</sup></b>
<b>1 Costs</b>			
2 Power Supply Cost	459,924	-	459,924
3 Operating Costs	70,725	-	70,725
4 Employee Future Benefit Costs	2,771	-	2,771
5 Deferred Cost Recoveries and Amortizations	(816)	-	(816)
6 Depreciation	74,458	-	74,458
7 Income Taxes	20,944	(92) <sup>3</sup>	20,852
8	<u>628,006</u>	<u>(92)</u>	<u>627,914</u>
9			
10 Return on Debt	33,073	8,555	41,628 <sup>4</sup>
11 Return on Equity	49,202	(214)	48,988 <sup>4</sup>
12 <b>Return on Rate Base</b>	<u>82,275</u>	<u>8,341</u>	<u>90,616</u>
13			
14 <b>2023 Revenue Requirement</b>	710,281	8,249	718,530
15			
16 <b>Adjustments</b>			
17 Other Revenue	(6,473)	-	(6,473)
18 Interest on Security Deposits	18	-	18
19 Other Transfers to RSA	(4,581)	-	(4,581)
20	<u>(11,036)</u>	<u>-</u>	<u>(11,036)</u>
21			
22	<u>699,245</u>	<u>8,249</u>	<u>707,494</u>
23			
24 <b>Customer Rate Impact Analysis:</b>			
25			
26 Change in revenue requirement from line 22		8,249	
27 Municipal tax billings effects		<u>204</u>	
28 Change in annual customer billings		8,453	
29 Revenue from existing rates from the Report, Appendix E		<u>826,194</u>	
30 <b>Average annual rate impact (low-end scenario)</b>		<b>1.0%</b>	

<sup>1</sup> From Exhibit 7 (1<sup>st</sup> Revision): 2022 and 2023 Revenue Requirements filed with the Board on December 7, 2021 regarding the Company's 2022/2023 General Rate Application (Amended).

<sup>2</sup> The 2024 revenue requirement is the 2023 test year revenue requirement revised for the increased return on rate base for 2024 in the low-end scenario.

<sup>3</sup> 2024 income tax effects associated with the change in 2024 forecast return on equity  $((\$214)/0.7 \times 30\% = (\$92))$ .

<sup>4</sup> From page 1 of this attachment, lines 21 and 22.

**2024 Rate of Return on Rate Base Analysis  
(High-End Scenario)**

**Newfoundland Power Inc.**

**2024 Regulated Return on Rate Base (High-End Scenario)**

1	<b>Average Capitalization (\$000s) - 2024 Existing</b>	
2	Debt	790,532
3	Common Equity	602,221
4		<u>1,392,753</u>
5		
6	<b>Average Capital Structure</b>	
7	Debt	56.76%
8	Common Equity	43.24%
9		<u>100.00%</u>
10		
11	<b>Cost of Capital</b>	
12	Debt	5.27% <sup>1</sup>
13	Common Equity	8.90% <sup>2</sup>
14		
15	<b>Weighted Average Cost of Capital</b>	
16	Debt	2.99%
17	Common Equity	3.85%
18		<u>6.84% <sup>3</sup></u>
19		
20	<b>Return on Rate Base (\$000s)</b>	
21	Return on Debt	41,628 <sup>4</sup>
22	Return on Common Equity	54,018 <sup>5</sup>
23		<u>95,646</u>
24		
25	<b>Average Rate Base (\$000s)</b>	1,361,318 <sup>6</sup>
26		
27	<b>Rate of Return on Rate Base (High-End Scenario)</b>	<b>7.03%</b>

<sup>1</sup> Cost of Debt shown is net of AFUDC.

<sup>2</sup> A rate of return on common equity of 8.90% is required to provide for a rate of return on rate base at the high-end of 7.03%.

<sup>3</sup> Under the Asset Rate Base Method, differences between average invested capital and average rate base exist for the cash working capital allowance, the materials and supplies allowance and construction work in progress. For 2024, these differences result in the weighted average cost of capital of 6.84% differing by 0.19% from the rate of return on rate base of 7.03%.

<sup>4</sup> From the 2024 Rate of Return on Rate Base report (the "Report"), Appendix D, page 3.

<sup>5</sup> The return on common equity for the purposes of the high-end scenario is calculated as follows (\$000s):

Return on Common Equity from the Report, Appendix D, page 1	42,653
Add: Revenue Shortfall Net of Income Taxes (at 8.90% ROE)	<u>11,365</u>
Return on Common Equity (at 8.90% ROE)	<u>54,018</u>

<sup>6</sup> Average rate base for the purposes of the high-end scenario is calculated as follows (\$000s):

Average Rate Base at Year End before recovery from the Report, Appendix D, page 2	1,357,684
Add: Change in cash working capital due to changes in municipal taxes from the Report, Appendix D, page 2	21
Add: 2024 Revenue Shortfall (based on the high-end analysis) on an after-tax average basis	<u>3,613</u>
Average Rate Base	<u>1,361,318</u>

Newfoundland Power Inc.

Revised 2023 Test Year Revenue Requirement and Rate Impact Analysis  
(High-End Scenario)  
(\$000s)

	2023 Test Year <sup>1</sup>	2024 Return on Rate Base	2024 Revised <sup>2</sup>
1 <b>Costs</b>			
2 Power Supply Cost	459,924	-	459,924
3 Operating Costs	70,725	-	70,725
4 Employee Future Benefit Costs	2,771	-	2,771
5 Deferred Cost Recoveries and Amortizations	(816)	-	(816)
6 Depreciation	74,458	-	74,458
7 Income Taxes	20,944	2,064 <sup>3</sup>	23,008
8	628,006	2,064	630,070
9			
10 Return on Debt	33,073	8,555	41,628 <sup>4</sup>
11 Return on Equity	49,202	4,816	54,018 <sup>4</sup>
12 <b>Return on Rate Base</b>	82,275	13,371	95,646
13			
14 <b>2023 Revenue Requirement</b>	710,281	15,435	725,716
15			
16 <b>Adjustments</b>			
17 Other Revenue	(6,473)	-	(6,473)
18 Interest on Security Deposits	18	-	18
19 Other Transfers to RSA	(4,581)	-	(4,581)
20	(11,036)	-	(11,036)
21			
22	699,245	15,435	714,680
23			
24 <b>Customer Rate Impact Analysis:</b>			
25			
26 Change in revenue requirement from line 22		15,435	
27 Municipal tax billings effects		382	
28 Change in annual customer billings		15,817	
29 Revenue from existing rates from the Report, Appendix E		826,194	
30 <b>Average annual rate impact (high-end scenario)</b>		<b>1.9%</b>	

<sup>1</sup> From Exhibit 7 (1<sup>st</sup> Revision): 2022 and 2023 Revenue Requirements filed with the Board on December 7, 2021 regarding the Company's 2022/2023 General Rate Application (Amended).

<sup>2</sup> The 2024 revenue requirement is the 2023 test year revenue requirement revised for the increased return on rate base for 2024 in the high-end scenario.

<sup>3</sup> 2024 income tax effects associated with the change in 2024 forecast return on equity ( $\$4,816/0.7 \times 30\% = \$2,064$ ).

<sup>4</sup> From page 1 of this attachment, lines 21 and 22.