

1 **Q. Reference: (2024 Rate of Return on Rate Base, page 2 of 8)**
2

3 **It is stated “The 2022/2023 General Rate Order established a range of rate of return on**
4 **rate base of 36 basis points ($\pm 0.18\%$) from the approved rate of return on rate base for**
5 **2022, 2023 and, in effect, 2024.” This range is consistent with longstanding regulatory**
6 **practice of the Board.”**

7 **a) Please confirm that the information in Tables 1 through 6 is relative to**
8 **information included in the 2023 Test Year with adjustments made to rate base**
9 **and the cost of debt while all other data and information in the 2023 Test Year is**
10 **unchanged.**

11 **b) The changes applied to rate base and the cost of debt reflect changes since the**
12 **2023 Test Year was filed. Has anything else changed since the 2023 Test Year was**
13 **filed as part of the 2022/2023 GRA that has not been identified and quantified in**
14 **this Application?**

15 **c) As noted, the Order on the 2022/2023 GRA established a range of rate of return**
16 **on rate base of 36 basis points. Did the Board Order establish this range for the**
17 **sake of establishing future rates until the next GRA is filed, or is the range**
18 **intended to apply to Newfoundland Power’s actual rate of return on rate base?**
19 **Please cite statements made in the Board’s Order that support Newfoundland**
20 **Power’s position.**

21 **d) In Newfoundland Power’s opinion, should the Board consider its actual rate of**
22 **return on rate base in its decision on this Application? More specifically, if**
23 **Newfoundland Power’s actual rate of return on rate base is well-above the**
24 **approved range, should the Board take this into consideration in its Order on the**
25 **Application, or does Newfoundland Power consider actual experience immaterial**
26 **to the Application?**

27 **e) Does the Board require Newfoundland Power to report its actual rate of return**
28 **on rate base between GRAs? If so, please file all reports provided by**
29 **Newfoundland Power to the Board with respect to return on rate base filed since**
30 **the 2022/2023 GRA.**

31 **f) What process is followed if Newfoundland Power’s actual rate of return on rate**
32 **base exceeds, or falls short of, the midpoint, but falls within the approved range**
33 **on rate of return of rate base? Is there a sharing of the revenue excess or shortfall**
34 **relative to the midpoint with customers?**

35 **g) What process is followed if Newfoundland Power’s actual rate of return on rate**
36 **base exceeds, or falls short of, the approved range on rate of return of rate base?**
37 **Is there a sharing of the revenue excess or shortfall relative to the range with**
38 **customers?**

39 **h) If Newfoundland Power’s actual return is above the established range, would it**
40 **file a GRA for a rate reduction? What has Newfoundland Power done in the past**
41 **in such situations?**

42 **i) If Newfoundland Power’s actual return is below the established range, would it**
43 **file a GRA for a rate increase? What has Newfoundland Power done in the past**
44 **in such situations?**

1 A. a) In Order No. P.U. 3 (2022), the Board ordered, among other things, that
2 Newfoundland Power file an application on or before November 15, 2023 for
3 approval of the Company's 2024 forecast average rate base and rate of return on rate
4 base, maintaining the common equity ratio and return on common equity accepted for
5 rate setting in that order.¹

6
7 Newfoundland Power's Application is filed in compliance with the Board's order.

8
9 The revisions to the Company's 2023 test year revenue requirement required by the
10 order are limited to its return on rate base and associated income tax effects.

11
12 For further information on the changes to Newfoundland Power's 2023 test year
13 revenue requirement used to set existing customer rates as a result of the revisions
14 required by Order No. P.U. 3 (2022), see section 5.0 *Revenue Requirement Impacts* in
15 the *2024 Rate of Return on Rate Base* report filed with the Application.

16
17 b) See part a).

18
19 c) In Order No. P.U. 3 (2022), the Board approved a rate of return on average rate base
20 for 2022 of 6.61%, in a range of 6.43% to 6.79%, and for 2023 of 6.39%, in range of
21 6.21% to 6.57%.² Revenue requirements for 2022 and 2023 were determined using
22 the midpoint of the range for the respective year.

23
24 In the same order, the Board ordered: (i) that Newfoundland Power file an application
25 on or before November 15, 2023 for approval of the Company's 2024 forecast
26 average rate base and rate of return on rate base, maintaining the common equity ratio
27 and return on common equity accepted for rate setting in that order; and (ii) that
28 Newfoundland Power file its next general rate application no later than June 1, 2024.³

29
30 Consistent with past practice of the Board, it is the Company's view that the
31 established range of rate of return on rate base of 36 basis points would also be
32 applicable to 2024 and any change would be considered as part of Newfoundland
33 Power's *2025/2026 General Rate Application*.⁴

34
35 d) In Newfoundland Power's view, the Board has the ability to consider all information
36 it deems necessary to provide a decision on the Company's Application.

37
38 As explained in the responses to Request for Information PUB-NP-001 and
39 NLH-NP-007, the Company is forecasting excess earnings in 2023 due to a higher
40 forecast return on debt compared to the Company's 2023 test year return on debt,
41 which is largely outside of Newfoundland Power's control. The increased 2023 return
42 on debt, since existing customer rates were established in March 2022, reflects
43 increases to the Bank of Canada's benchmark interest rate over that timeframe. From

¹ See Order No. P.U. 3 (2022) – Amendment No. 2, page 20, lines 17-20.

² See Order No. P.U. 3 (2022) – Amendment No. 2, page 17.

³ See Order No. P.U. 3 (2022) – Amendment No. 2, page 20.

⁴ See Order No. P.U. 41 (2017) and Order No. P.U. 36 (2020).

1 March 2022 to July 2023, the Bank of Canada increased its interest rate 10 times for a
2 total increase of 4.75%.

- 3
4 e) Yes, the Company's actual rate of return on rate base is reported annually to the
5 Board in *Return 13 Return on Average Rate Base & Determination of Excess*
6 *Earnings*.

7
8 Attachments A and B provide Return 13 for 2021 and 2022, respectively.

- 9
10 f) There is no customer sharing of earnings or shortfalls when Newfoundland Power's
11 rate of return on rate base falls within the ± 18 basis point range approved by the
12 Board.
13
14 g) Any earnings in excess of the upper limit of the allowed range of return on rate base
15 as determined by the Board are transferred to the Company's Excess Earnings
16 Account. The Excess Earnings Account definition provides that the disposition of any
17 balance in the account shall be determined by the Board. There is no approved
18 mechanism for the sharing of earnings shortfalls with customers.
19
20 h) Any earnings in excess of the upper limit of the allowed range of return on rate base
21 as determined by the Board are transferred to the Company's Excess Earnings
22 Account, as outlined in part g).

23
24 Newfoundland Power last had a balance in its excess earnings account in 2013. As
25 part of the Company's *2016/2017 General Rate Application*, excess earnings from
26 2013 were used to lower its 2016 revenue requirement.⁵

27
28 See the response to Request for Information PUB-NP-007 for practical options to
29 dispose of the 2023 Excess Earnings Account balance.

- 30
31 i) Outside of an extraordinary event, Newfoundland Power would not anticipate filing a
32 general rate application in the described scenario.⁶ From a review of its general rate
33 applications over the last 25 years, none were filed as a result of its actual return
34 being below the bottom of the range established by the Board.

⁵ See *Schedule 1, Appendix E*, page 1, line 17 of Newfoundland Power's compliance application filed with the Board on June 17, 2016 in relation to its *2016/2017 General Rate Application*.

⁶ For example, in Order No. UE22-8, the Island Regulatory and Appeals Commission approved, on an interim basis, an application by Maritime Electric to defer costs associated with Hurricane Fiona of approximately \$35.9 million.

**Newfoundland Power Inc.
Return 13: Return on Average Rate Base & Determination of Excess Earnings
2021**

Newfoundland Power Inc.
Return on Average Rate Base¹ & Determination of Excess Earnings
For The Years Ended December 31
(\$000s)

	<u>2021</u>	<u>2020</u>
1 Net Earnings from Return 1	43,757	43,577
2 Add: Non-regulated Expenses (net of income taxes) from Return 12	<u>2,521</u>	<u>2,892</u>
3	46,278	46,469
4 Finance Costs		
5 Interest on Long-term Debt from Return 25	35,450	36,811
6 Other Interest from Return 25	183	609
7 Amortization of Debt Issue Expenses from Return 25	217	233
8 AFUDC ²	<u>(995)</u>	<u>(949)</u>
9	34,855	36,704
10		
11 Regulated Earnings	81,133	83,173
12		
13 Average Rate Base from Return 3	1,202,946	1,181,897
14		
15 Rate of Return on Average Rate Base	6.74%	7.04%
16	<hr/>	
17		
18 Average Rate Base from Return 3	1,202,946	1,181,897
19		
20 Upper Limit of the Allowed Range of Return on Average Rate Base ³	6.83%	7.22%
21		
22 Upper Limit of Allowed Regulated Earnings	82,161	85,333
23		
24 Regulated Earnings	<u>81,133</u>	<u>83,173</u>
25		
26 Excess Earnings (net of income taxes)	-	-
27		
28 Income Taxes	<u>-</u>	<u>-</u>
29		
30 Excess Revenue	<u>-</u>	<u>-</u>

¹ The return on average rate base is calculated in accordance with the methodology approved in Order No. P.U. 32 (2007).

² For financial reporting purposes, the equity component of AFUDC is reported as other income in Return 1.

³ Based on a return on rate base for 2021 of 6.65% approved in Order No. P.U. 36 (2020) and a return on rate base for 2020 of 7.04% approved in Order No. P.U. 2 (2019) plus the approved range of 0.18% for each year.

**Newfoundland Power Inc.
Return 13: Return on Average Rate Base & Determination of Excess Earnings
2022**

Newfoundland Power Inc.
Return on Average Rate Base¹ & Determination of Excess Earnings
For The Years Ended December 31
(\$000s)

	<u>2022</u>	<u>2021</u>
1 Net Earnings from Return 1	45,650	43,757
2 Add: Non-Regulated Expenses (net of income taxes) from Return 12	2,264	2,521
3	<u>47,914</u>	<u>46,278</u>
4 Finance Costs		
5 Interest on Long-Term Debt from Return 25	35,597	35,450
6 Other Interest from Return 25	453	183
7 Amortization of Debt Issue Expenses from Return 25	215	217
8 AFUDC ²	(1,498)	(995)
9	<u>34,767</u>	<u>34,855</u>
10		
11 Regulated Earnings	82,681	81,133
12		
13 Average Rate Base from Return 3	1,230,434	1,202,946
14		
15 Rate of Return on Average Rate Base	6.72%	6.74%
16		
17		
18 Average Rate Base from Return 3	1,230,434	1,202,946
19		
20 Upper Limit of the Allowed Range of Return on Average Rate Base ³	6.79%	6.83%
21		
22 Upper Limit of Allowed Regulated Earnings	83,546	82,161
23		
24 Regulated Earnings	<u>82,681</u>	<u>81,133</u>
25		
26 Excess Earnings (net of income taxes)	-	-
27		
28 Income Taxes	<u>-</u>	<u>-</u>
29		
30 Excess Revenue	<u>-</u>	<u>-</u>

¹ The return on average rate base is calculated in accordance with the methodology approved in Order No. P.U. 32 (2007).

² For financial reporting purposes, the equity component of AFUDC is reported as other income in Return 1.

³ Based on a return on rate base for 2022 of 6.61% approved in Order No. P.U. 3 (2022) and a 2021 return on rate base of 6.65% approved in Order No. P.U. 36 (2020) plus the approved range of 0.18% for each year.