
Q. Reference: NLH-NP-010 and CA-NP-003

(Reference NLH-NP-010 and CA-NP-003). NLH-NP-010 asks why Newfoundland Power “believes that it is appropriate to request a rate increase at this time for higher costs related to rate base and debt costs but does not consider other financial impacts that may result in the cost savings that led Newfoundland Power to forecast excess earnings in 2023.” CA-NP-003b also relates to potential cost savings, inquiring of Newfoundland Power whether it considered cost saving measures specifically in light of its 2024 forecast revenue shortfall based on its proposed increase in the regulated rate of return on rate base.

- a) Given that Newfoundland Power is proposing an increase in 2024 customer rates to address that revenue shortfall, is it not incumbent on Newfoundland Power to demonstrate that it explored cost-cutting measures?
- b) Once Newfoundland Power determined the extent of its revenue shortfall, what specific cost-cutting measures did it identify to help address it before deciding to seek a rate increase?
- c) According to NLH-NP-001 Attachment A, Newfoundland Power’s operating expenses for 2023F and 2024F (Before Recovery) are \$73.473 million and \$78.775 million, respectively. That is a \$5.3 million (or 7.2%) increase in operating expenses. Please explain why such a large increase in operating expenses is anticipated.
- d) According to NLH-NP-001 Attachment A, Newfoundland Power’s depreciation expenses for 2023F and 2024F (Before Recovery) are \$74.869 million and \$79.775 million, respectively. That is a \$4.7 million (or 6.3%) increase. Please explain why such a large increase in depreciation expenses is anticipated.
- e) Please provide a table comparing Newfoundland Power’s actual (2020 through 2023) and forecast (2024) operating expenses and depreciation expenses to those included in the test years for the relevant GRA.

- A. a) Appendix C to the 2024 Rate of Return on Rate Base report shows that the only proposed changes to the Company’s 2023 test year revenue requirement relate to its increased 2024 return on debt and return on equity (and related income tax effects) in compliance with Order No. P.U. 3 (2022).¹ There are no other changes to its 2023 test year revenue requirement related to other cost changes in 2024, such as higher operating costs and depreciation expense.

Changes in Newfoundland Power’s costs since the 2023 test year beyond the increase to the 2024 return on rate base of \$11.8 million are proposed to be recovered through customer rates effective July 1, 2025 in the Company’s 2025/2026 General Rate Application (“2025/2026 GRA”). It is typical for a utility to demonstrate its operating cost efficiency during GRA processes. Newfoundland Power anticipates supporting

¹ For supporting calculations for the change in the return on equity of \$2.296 million outlined in Appendix C, see the responses to Requests for Information PUB-NP-009 and PUB-NP-010. Also, see the response to Request for Information PUB-NP-013 which demonstrates that changes in factors such as sales and operating costs in 2024 do not impact the \$11.8 million revenue requirement proposed in the Application to any material effect.

1 its operating cost forecast included in the proposed 2025 and 2026 test year revenue
2 requirements in its 2025/2026 GRA. The Company has also outlined cost efficiencies
3 for 2024 in the response to Request for Information CA-NP-003.
4

5 b) See part a).
6

7 With respect to managing its debt costs in 2024, Newfoundland Power advanced its
8 planned 2024 spring long-term debt issuance to the third quarter of 2023 to take
9 advantage of lower interest rates on first mortgage bonds compared to the interest
10 rates on its short-term credit facility. Overall, the Company estimates this lowered its
11 2024 forecast debt costs by \$0.4 million.
12

13 c) The forecast increase in operating expenses in 2024 as compared to the 2023 forecast
14 primarily reflects labour inflation and increases in non-labour costs, including higher
15 other company fees,² computing equipment and software, and other non-labour
16 inflationary increases.³ In addition, amortization of deferred conservation and demand
17 management program costs in 2024 are forecast to be higher than 2023.
18

19 d) The primary reasons for the \$4.7 million increase in 2024 forecast depreciation expense
20 compared to the 2023 test year are: (i) the inclusion of an additional year of capital
21 investment in 2024;⁴ and (ii) the full year impact of depreciation for capital assets that
22 went into service in 2023.⁵ Depreciation rates and methodologies used for the 2024
23 forecast are based on the *2019 Depreciation Study* approved by the Board in Order No.
24 P.U. 3 (2022).

² Includes higher consulting fees related to: (i) upcoming changes in accounting standards; (ii) information technology, including cybersecurity; and (iii) regulatory proceedings anticipated in 2024, including the *2025/2026 General Rate Application*.

³ See the response to Request for Information NLH-NP-011, Attachment B.

⁴ In Order No. P.U. 2 (2024), the Board approved \$114.3 million in capital expenditures for 2024.

⁵ For example, the Company's Customer Information System was completed in 2023 and was therefore subject to the half year depreciation rule in 2023. This project, along with all other projects that went into service in 2023, will be subject to full year depreciation in 2024.

- 1 e) Table 1 provides Newfoundland Power's actual/forecast operating costs and
2 depreciation compared to the relevant test years for 2020 through 2024.⁶

Table 1:
Operating Costs and Depreciation Expense
2020 Actual through 2024 Forecast
(\$000s)

	2020A	2021A	2022A	2023A	2024F
Operating Costs					
Actual/Forecast	64,200	64,286	68,869	73,912	78,775
Test Year	64,610	64,610	64,996	70,725	70,725
Variance	(410)	(324)	3,873	3,187	8,050
Depreciation					
Actual/Forecast	64,982	67,546	70,662	74,536	79,557
Test Year	64,908	64,908	70,932	74,458	74,458
Variance	74	2,638	(270)	78	5,099

⁶ The Company's 2020 test year costs were approved in Order No. P.U. 2 (2019) and were, in effect, the test year costs for 2021. The 2022 and 2023 test year costs were approved in Order No. P.U. 3 (2022). The 2023 approved test year costs are, in effect, the test year costs for 2024.