Q. In the 2025-2026 General Rate Application, filed on November 9, 2023, Newfoundland Power notes forecast 2023 Excess Earnings of approximately $5.1 million ($3.6 million after tax).

(a) Did Newfoundland Power consider using the 2023 Excess Earnings to partially offset the proposed 1.5% increase for July 1, 2024. If not considered, please explain why. If it was considered, please explain why Newfoundland Power decided not to propose to use the 2023 Excess Earnings.

(b) Please provide the impact on the rate increase if the 2023 Excess Earnings are used to offset the proposed increase for both the return on equity reflecting (i) the lower end of the implied range of return on equity (8.10%) and (ii) mid-point of the implied range of return on equity (8.50%).

(c) Further to (b), under both scenarios please provide the impact on the revenue shortfall if rates are implemented February 1, March 1, April 1 and July 1, 2024 if the 2023 Excess Earnings are used to offset the proposed increase.

A. (a) As described in its *2025/2026 General Rate Application* ("2025/2026 GRA"), Newfoundland Power is forecasting excess earnings for 2023.[1] The forecast 2023 excess earnings will be transferred to the Company's Excess Earnings Account on December 31, 2023. The Excess Earnings Account definition provides that the disposition of any balance in the account shall be determined by the Board.[2] Although the Company has considered how the excess earnings may be disposed of, the Company does not plan to make a formal proposal until after year-end, when the amount of the excess earnings will be known and will have been transferred to the Excess Earnings Account.

There are two practical options for the disposition of the balance in the Excess Earnings Account: (i) using the balance to partially offset the proposed July 1, 2024 rate increase through a transfer to the Company's Rate Stabilization Account ("RSA"); and (ii) using the balance to offset the 2024 revenue shortfall amount to be recovered as part of its 2025/2026 GRA.[3]

Customer rates are designed to collect annual revenue requirements. Newfoundland Power is proposing to revise existing customer rates effective July 1, 2024 to incorporate the additional $11.8 million in annual revenue requirement outlined in the Application. With a customer rate implementation date of July 1, 2024, there is a revenue shortfall in 2024 of $6.7 million.[4]

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1 See the *2025/2026 General Rate Application, Volume 1, Evidence, Section 3*, pages 3-12 to 3-13.

2 For the definition of the Excess Earnings Account, see the Company's *System of Accounts*, *Section 3,* paragraph 3.05 on page 19, which was filed with the Board as part of Newfoundland Power's *2022 Annual Report to the Board* dated March 31, 2023.

3 The adjustments to 2025 and 2026 revenue requirements would be completed in an amended or compliance filing at the conclusion of the Company's *2025/2026 General Rate Application* process.

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

While the $11.8 million revenue requirement will be collected on an annual ongoing basis through base customer rates, the forecast $5.1 million excess earnings amount in 2023 is a one-time amount. As such, there are practical issues with using the forecast $5.1 million excess earnings balance to offset the annualized $11.8 million revenue requirement.[5] To provide for the same effect (that is, to use the 2023 excess earnings balance to partially offset the July 1, 2024 rate increase), Newfoundland Power could transfer the actual balance in the excess earnings account to its RSA on March 31, 2023 so that it is factored into the annual July 1st rate adjustment. This approach would reduce the July 1st, 2024 customer rate increase by an estimated 0.6%.[6]

The second option is to offset the $6.7 million shortfall in 2024 with the forecast $5.1 million excess earnings amount in 2023. Depending on the actual excess earnings amount for 2023, the net 2024 revenue requirement to be recovered through customer rates determined in the Company's *2025/2026 General Rate Application* could be reduced to $1.6 million.[7] This treatment is consistent with past practice of the Board.[8]

(b) If the Excess Earnings Account is used to offset the proposed July 1, 2024 rate increase as described in part a), the customer rate impact would be an estimated 0.6% decrease in either requested scenario.

(c) If the Excess Earnings Account is used offset the proposed July 1, 2024 rate increase through the Company's July 1st RSA adjustment as described in part a), it would not impact base revenue requirements and electricity rates. Therefore, it would have no impact on the 2024 Revenue Shortfall under either the 8.10% or the 8.50% requested scenario.

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[5] If the forecast $5.1 million was used to partially offset the $11.8 million in base rate revenue requirement, a second base rate change would be required in one year to, in effect, remove the $5.1 million credit from base rate revenue requirement.

[6] $5.1 million / existing customer billings of $826.2 million = 0.6%. There would be an equal 0.6% increase on July 1, 2025 after the amount has been fully credited to customers, resulting in the Company's RSA increasing from a credit of $5.1 million to a balance of zero associated with the Excess Earnings Account.

[7] $6.7 million - $5.1 million = $1.6 million. Assuming a 30-month amortization period, the 2024 Revenue Shortfall annual amortization would be reduced by $2.0 million ($5.1 million / 30 months x 12 months). The associated reduction to customer rates effective July 1, 2025 is an estimated 0.2%.

[8] As part of Newfoundland Power's *2016/2017 General Rate Application*, excess earnings from 2013 were used to lower the Company's 2016 revenue requirement. 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*.

Table 1 provides the impact to the 2024 revenue shortfall for the requested scenarios assuming option two is taken; the excess earnings balance is used to offset the 2024 revenue shortfall amount to be recovered as part of Newfoundland Power's 2025/2026 GRA. For any scenario where a net revenue surplus remains, the amount could be used to offset the 2025 Revenue Shortfall outlined in the Company's 2025/2026 GRA.[9]

Table 1:
Forecast 2024 Revenue Shortfall Impacts
($000s)

	February 1	March 1	April 1	July 1
ROE 8.50%				
2024 Revenue Shortfall[10]	1,414	2,720	4,022	6,722
2023 Excess Earnings	(5,094)	(5,094)	(5,094)	(5,094)
Net 2024 Revenue Shortfall (Surplus)	**(3,680)**	**(2,374)**	**(1,072)**	**1,628**
ROE 8.10%				
2024 Revenue Shortfall	1,773	2,584	3,393	5,072
2023 Excess Earnings	(5,094)	(5,094)	(5,094)	(5,094)
Net 2024 Revenue Shortfall (Surplus)	**(3,321)**	**(2,510)**	**(1,701)**	**(22)**

9 Newfoundland Power is forecasting a $16.8 million Revenue Shortfall in 2025.

10 See PUB Information Request (i) relating to the *2024 Rate of Return on Rate Base Application.*