

September 26, 2024

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

Background

On November 23, 2023, Newfoundland Power Inc. (“Newfoundland Power” or the “Company”) filed an application with the Board of Commissioners of Public Utilities (the “Board”) for approval of the Company’s 2024 forecast average rate base and rate of return on rate base (the “RORB Application”) in compliance with Order No. P.U. 3 (2022). The RORB Application also proposed an average 1.5% customer rate increase effective July 1, 2024 and deferred cost recovery of a 2024 revenue shortfall based on the proposed customer rate implementation date.

On August 1, 2024, the Board issued Order No. P.U. 20 (2024) (the “RORB Order”) on the RORB Application. Reasons for Decision were issued on September 18, 2024. The RORB Order denied the proposals in the RORB Application, and indicated that Newfoundland Power may file a revised application, reflecting no rate increases for customers, that includes the following: (i) a rate of return on rate base for 2024 of 6.67%, in a range of 6.49% to 6.85%; (ii) a revised 2024 forecast average rate base; (iii) the transfer of the balance in the Company’s Excess Earnings Account as of December 31, 2023 to offset the 2024 revenue shortfall; and (iv) the transfer of the remaining portion of the 2024 revenue shortfall to Newfoundland Power’s Rate Stabilization Account (“RSA”) for future recovery.

The Application

Enclosed please find an application prepared in accordance with the RORB Order (the “Application”). The Application proposes:

- A 2024 regulated rate of return on rate base of 6.67%, in a range of 6.49% to 6.85%;

Newfoundland Power Inc.

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- As outlined in Schedule 1 to the Application, a 2024 forecast average rate base of \$1,362.8 million, which incorporates 2023 actuals and the Company's 2024 capital budget approved in Order No. P.U. 2 (2024);
- As outlined in Schedule 2 to the Application, deferred cost recovery of a 2024 revenue shortfall of \$9.0 million, with transfer of the amount to Newfoundland Power's RSA on December 31, 2024; and,
- Transfer of the balance in the Company's Excess Earnings Account as of December 31, 2023 of \$5.4 million to the RSA on December 31, 2024. A calculation of the 2023 excess earnings balance is provided in Schedule 3 to the Application.

2024 Return on Rate Base Reporting

In *Annual Return 13: Return on Average Rate Base & Determination of Excess Earnings*, Newfoundland Power is required to report a comparison of its actual rate of return on average rate base to its regulated rate of return on average rate base approved by the Board for that year. Based on this comparison, excess earnings for that year are determined.¹

As provided for by the RORB Order, Newfoundland Power's 2024 regulated rate of return on rate base is 6.67%, which is based on its 2024 forecast weighted average cost of capital ("WACC").² This approach results in the exclusion of return amounts related to invested capital balances greater than average rate base in setting the 2024 regulated rate of return on rate base.³

To ensure the Company's 2024 actual rate of return on rate base is calculated consistent with the approach in the RORB Order, an adjustment is necessary to the calculation of 2024 actual rate of

¹ For example, see *Annual Return 13: Return on Average Rate Base & Determination of Excess Earnings* for December 31, 2023 filed with the Board on March 28, 2024.

² See Order No. P.U. 20 (2024), Reasons for Decisions, page 6 which provides a table outlining the Company's 2024 forecast WACC. Newfoundland Power's 2024 forecast cost of debt of 5.27% shown in the table is calculated by dividing its 2024 forecast return on debt of \$41.6 million by its 2024 average debt of \$790.5 million. The Company's 2024 forecast cost of equity of 8.50% is calculated by dividing its 2024 forecast return on equity of \$51.6 million by its 2024 average equity of \$606.7 million (with a 2024 revenue shortfall at an 8.50% return on equity as shown in response to Request for Information PUB-NP-008).

³ As provided in footnote 2, Newfoundland Power's WACC is determined by dividing its total returns by its average invested capital balances. As shown in Appendix B of the *2024 Rate of Return on Rate Base* report filed with the original application, the Company's average invested capital is forecast to be \$32.7 million higher than its average rate base in 2024. As such, determining the 2024 regulated return on rate base (in dollars) by multiplying Newfoundland Power's WACC by its 2024 average rate base results in the exclusion of approximately \$2.2 million in 2024 forecast return amounts related to invested capital balances greater than average rate base (\$32.7 million x 6.67% = \$2.2 million).

return on rate base to also exclude return amounts related to invested capital balances greater than average rate base.⁴

Attachment A to this letter demonstrates the adjustment to *Annual Return 13* for 2024. With the adjustment, the Company's 2024 forecast rate of return on rate base at an 8.50% return on equity equals its 2024 forecast WACC of 6.67%, which is consistent with the Board's direction in determining the rate of return on rate base for 2024 in the RORB Order.⁵

Conclusion

A copy of the Application has been forwarded directly to Newfoundland and Labrador Hydro, and Mr. Dennis Browne, K.C., the Consumer Advocate.

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

Yours truly,



Dominic Foley
Legal Counsel

Enclosures

cc. Shirley Walsh
Newfoundland and Labrador Hydro

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

⁴ The adjustment will provide for a comparison, in effect, of Newfoundland Power's actual WACC to its regulated WACC for 2024.

⁵ See Order No. P.U. 20 (2024), Reasons for Decisions, page 5, lines 20-27.

Newfoundland Power Inc.

Forecast Return on Average Rate Base & Determination of Excess Earnings
For The Year Ended December 31, 2024
(\$000s)

	<u>2024F</u> <u>(unadjusted)</u>	<u>2024F</u> <u>(adjusted)</u>
1 Regulated Return on Equity ¹	51,498	51,498
2 Excess Earnings Adjustment at December 31 (from line 32)	-	-
3	51,498	51,498
4 Finance Costs ²		
5 Interest on Long-Term Debt	39,053	39,053
6 Other Interest	3,635	3,635
7 Amortization of Debt Issue Expenses	225	225
8 AFUDC	(1,285)	(1,285)
9	41,628	41,628
10		
11 Regulated Earnings	93,126	93,126
12		
13 Adjustment for Weighted Average Cost of Capital Approach ³	-	(2,181)
14		
15 Regulated Return on Rate Base	93,126	90,945
16		
17 Average Rate Base ⁴	1,362,753	1,362,753
18		
19 Rate of Return on Average Rate Base	6.83%	6.67%
20		
21		
22 Average Rate Base	1,362,753	1,362,753
23 Adjustment for Excess Earnings Liability	-	-
24 Average Rate Base for Excess Earnings Calculation	1,362,753	1,362,753
25		
26 Upper Limit of the Allowed Range of Return on Average Rate Base ⁵	6.85%	6.85%
27		
28 Upper Limit of Allowed Regulated Earnings	93,349	93,349
29		
30 Regulated Earnings	93,126	90,945
31		
32 Excess Earnings (net of income taxes)	-	-

¹ From Appendix B of the 2024 Rate of Return on Rate Base report filed with the original application, which reflects a return on equity of 8.50%.

² From Appendix D of the 2024 Rate of Return on Rate Base report filed with the original application.

³ The following adjustment is necessary to determine the 2024 forecast rate of return on average rate base on the same basis as the 6.67% rate of return on average rate base in Order No. P.U. 20 (2024):

2024 forecast average invested capital*	1,392,753
2024 forecast average rate base*	1,360,058
Difference	32,695
2024 forecast weighted average cost of capital*	6.67%
Adjustment	2,181

*From Appendix B of the 2024 Rate of Return on Rate Base report filed with the original application.

⁴ From Schedule 1.

⁵ As per Order No. P.U. 20 (2024).

IN THE MATTER OF the *Public Utilities Act*, R.S.N.L. 1990, Chapter P-47, as amended, (the “Act”); and

IN THE MATTER OF an application by Newfoundland Power Inc. (“Newfoundland Power” or the “Company”) for approval of a 2024 forecast average rate base and rate of return on rate base and deferred recovery of a 2024 revenue shortfall (the “Application”).

TO: The Board of Commissioners of Public Utilities of Newfoundland and Labrador (the “Board”)

THE APPLICATION OF Newfoundland Power SAYS THAT:

A. Background:

1. Newfoundland Power is a corporation duly organized and existing under the laws of the Province of Newfoundland and Labrador, is a public utility within the meaning of the Act, and is subject to the provisions of the *Electrical Power Control Act, 1994*.
2. In Order No. P.U. 3 (2022) (the “2022/2023 GRA Order”), the Board ordered Newfoundland Power to file an application on or before November 15, 2023 for approval of the 2024 forecast average rate base and rate of return on rate base maintaining the common equity ratio and return on common equity established for ratemaking purposes.
3. On November 9, 2023, the Company filed a *2025/2026 General Rate Application* which sought the approval of Newfoundland Power’s 2024 forecast average rate base and rate of return on rate base, as well as approval of the Company’s 2025 and 2026 test year revenue requirements.
4. On November 17, 2023, the Board directed that the Company file a separate application relating to approval of its 2024 forecast average rate base and rate of return on rate base.
5. On November 23, 2023, Newfoundland Power filed an application for approval of the Company’s 2024 forecast average rate base and rate of return on rate base (the “RORB Application”) made in compliance with Order No. P.U. 3 (2022) and the Board’s direction of November 17, 2023. The RORB Application proposed an average 1.5% customer rate increase effective July 1, 2024 and deferred cost recovery of a 2024 revenue shortfall based on the proposed customer rate implementation date.

6. On August 1, 2024, the Board issued Order No. P.U. 20 (2024) (the “RORB Order”) on the RORB Application. Reasons for Decision were issued on September 18, 2024. The RORB Order denied the proposals in the RORB Application, and indicated that Newfoundland Power may file a revised application, reflecting no rate increases for customers, that includes the following: (i) a rate of return on rate base for 2024 of 6.67%, in a range of 6.49% to 6.85%; (ii) a revised 2024 forecast average rate base; (iii) the transfer of the balance in the Company’s Excess Earnings Account as of December 31, 2023 to offset the 2024 revenue shortfall; and (iv) the transfer of the remaining portion of the 2024 revenue shortfall to Newfoundland Power’s Rate Stabilization Account (“RSA”) for future recovery.

B. Newfoundland Power Proposals:

7. The Application proposes:
 - (i) A 2024 regulated rate of return on rate base of 6.67%, in a range of 6.49% to 6.85%, as required by the RORB Order;
 - (ii) A 2024 forecast average rate base of \$1,362,753,000, which incorporates 2023 actuals and the Company’s 2024 capital budget approved in Order No. P.U. 2 (2024);
 - (iii) Deferred cost recovery of a 2024 revenue shortfall of \$9,000,000, with transfer of the amount to Newfoundland Power’s RSA on December 31, 2024; and
 - (iv) Transfer of the balance in the Company’s Excess Earnings Account as of December 31, 2023 of \$5,368,122 to the RSA on December 31, 2024, which serves to partially offset the 2024 revenue shortfall amount.
8. The calculations in support of the Application proposals are disclosed in the following schedules:
 - (i) Schedule 1 to this Application provides the 2024 forecast average rate base;
 - (ii) Schedule 2 to this Application provides the 2024 deferred cost recovery amount; and
 - (iii) Schedule 3 to this Application provides the 2023 excess earnings balance.

C. Order Requested:

9. Newfoundland Power requests that the Board make an Order, pursuant to section 80 of the Act, approving:
- (i) a rate of return on average rate base for 2024 of 6.67%, in a range of 6.49% to 6.85%;
 - (ii) a forecast average rate base for 2024 of \$1,362,753,000;
 - (iii) deferred cost recovery of \$9,000,000 for 2024;
 - (iv) transfer of the 2024 revenue shortfall of \$9,000,000 to the RSA on December 31, 2024; and
 - (v) transfer of the balance in the Excess Earnings Account as of December 31, 2023 of \$5,368,122 to the RSA on December 31, 2024.

D. Communications:

10. Communication with respect to this Application should be forwarded to the attention of Dominic Foley and Liam O'Brien, Counsel to Newfoundland Power.

DATED at St. John's, Newfoundland and Labrador, this 26th day of September, 2024.

NEWFOUNDLAND POWER INC.



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IN THE MATTER OF the *Public Utilities Act*, R.S.N.L. 1990, Chapter P-47, as amended, (the “Act”); and

IN THE MATTER OF an application by Newfoundland Power Inc. (“Newfoundland Power” or the “Company”) for approval of a 2024 forecast average rate base and rate of return on rate base and deferred recovery of a 2024 revenue shortfall (the “Application”).

AFFIDAVIT

I, Paige London, of the City of St. John’s, in the Province of Newfoundland and Labrador, Chartered Professional Accountant, make oath and say as follows:

1. THAT I am Vice President, Finance and Chief Financial Officer of Newfoundland Power Inc.;
2. THAT I have read and understand the foregoing Application; and
3. THAT, to the best of my knowledge, information and belief, all matters, facts and things set out in this Application are true.

SWORN TO before me at the City of St. John’s in the Province of Newfoundland and Labrador this 26th day of September, 2024:



Lindsay S. Hollett
Barrister, NL


Paige London

Newfoundland Power Inc.

2024 Forecast Average Rate Base
(\$000s)

	<u>2024F</u>	<u>2023A</u>
1 Net Plant Investment		
2 Plant Investment	2,422,619	2,311,786
3 Accumulated Depreciation	(1,011,503)	(957,928)
4 Contributions in Aid of Construction	<u>(47,762)</u>	<u>(47,887)</u>
5	1,363,354	1,305,971
6		
7 Additions to Rate Base		
8 Deferred Pension Costs	108,296	101,430
9 Deferred Credit Facility Costs	74	105
10 Cost Recovery Deferral - Pension Capitalization	1,198	799
11 Cost Recovery Deferral - 2022 Revenue Shortfall	-	229
12 Cost Recovery Deferral - Conservation	21,977	20,708
13 Cost Recovery Deferral - Load Research & Retail Rate Design Review	560	189
14 Customer Finance Programs	1,152	1,199
15 Weather Normalization Reserve	(2,482)	6,321
16 Demand Management Incentive Account	<u>-</u>	<u>978</u>
17	130,775	131,958
18		
19 Deductions from Rate Base		
20 Other Post-Employment Benefits	86,139	84,357
21 Customer Security Deposits	653	653
22 Accrued Pension Obligation	5,570	5,397
23 Accumulated Deferred Income Taxes	33,436	30,609
24 Excess Earnings Account	-	3,714
25 Refundable Investment Tax Credits	<u>274</u>	<u>292</u>
26	126,072	125,022
27		
28 Year End Rate Base	1,368,057	1,312,907
29		
30 Average Rate Base Before Allowances	1,340,482	1,267,997
31		
32 Rate Base Allowances		
33 Materials and Supplies Allowance	14,619	14,778
34 Cash Working Capital Allowance	7,652	7,304
35		
36 Average Rate Base at Year End	<u>1,362,753</u>	<u>1,290,079</u>

Newfoundland Power Inc.

2024 Deferred Cost Recovery
(\$000s, unless otherwise noted)

1	2024 Average Rate Base (from Schedule 1)	A	1,362,753
2			
3	2024 Rate of Return on Rate Base (per Order No. P.U. 20 (2024))	B	6.67%
4			
5	2024 Return on Rate Base	C = A x B	90,896
6			
7	2023 Test Year Return on Rate Base	D	82,275 ¹
8			
9	Increase in Return on Rate Base	E = C - D	8,621
10			
11	Income Tax Effects	F	379 ²
12			
13	2024 Deferred Cost Recovery	G = E + F	9,000 ³

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

² Income tax effects (\$000s):

2024 pro forma return on equity (\$1,362,753 x 2024F equity ratio of 43.24% x 8.50%)	50,087
2023 test year return on equity*	49,202
Change	885

Income tax effects (\$885 / 0.7 x 30%) **379**

*From *Exhibit 8 (1st Revision): 2022 and 2023 Return on Rate Base* filed with the Board on December 7, 2021 regarding the Company's 2022/2023 General Rate Application (Amended) .

³ The 2024 Deferred Cost Recovery amount will be recorded as a regulatory asset when approved by the Board and transferred to the Company's Rate Stabilization Account on December 31, 2024.

Newfoundland Power Inc.

**Excess Earnings Account Balance
As of December 31, 2023**

Excess earnings for 2023 (net of income taxes)	A ¹	3,713,500
Income taxes	B ²	<u>1,591,500</u>
Excess earnings for 2023 (before income taxes)	C = A + B	5,305,000
Existing account balance	D ³	<u>63,122</u>
Excess earnings account balance as of December 31, 2023	E = C + D	<u>5,368,122</u>

¹ See line 33 on *Return 13: Return on Average Rate Base & Determination of Excess Earnings of Newfoundland Power's 2023 Annual Returns* filed with the Board on March 28, 2024.

² $\$3,713,500 / 0.70 \times 30\% = \$1,591,500$.

³ The Company had excess earnings in 2001 and 2002 related primarily to a tax refund. The existing balance of \$63,122 reflects the residual portion of refunds that pertains to customers that no longer have an active electricity account.