

Ms. Jo-Anne Galarneau
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September 10, 2024

Dear Ms. Galarneau,

**Re: Newfoundland Power Inc.
2025 Capital Budget Application**

We have completed our review as requested on July 3, 2024 relating to Newfoundland Power Inc.'s (the "Company's") 2025 Capital Budget Application. Specifically, we have considered the calculation of the 2023 actual average rate base and the calculations of rate base additions, deductions and allowances.

The procedures undertaken during our financial analysis do not constitute an audit of the Company's financial information and consequently, we do not express an opinion on the financial information.

The results of our review for each required task are noted below:

1 2023 Average rate base calculation

Pursuant to Order No. P.U. 32 (2007), the Board of Commissioners of Public Utilities (the "Board") approved the Company's proposal to complete its transition to the Asset Rate Base Method ("ARBM") commencing January 1, 2008. The actual average rate base for 2023 as calculated by the Company under the ARBM and provided in Schedule D of its Application is \$1,290,079,000 which is an increase of \$59,645,000 (4.8%) over the average rate base for 2022 of \$1,230,434,000.

The net change in the Company's average rate base from 2022 to 2023 can be summarized as follows.

(000s)	2022	2023
Average rate base - opening balance	1,202,946	1,230,434
Change in average deferred charges and deferred regulatory costs	4,195	9,028
Average change in:		
Plant in service	78,786	103,769
Accumulated depreciation	(43,412)	(44,253)
Contributions in aid of construction	(407)	(1,554)
Weather normalization reserve	(1,421)	4,171
Other post-employment benefits	(6,706)	(5,396)
Future income taxes	(2,697)	(7,317)
Refundable investment tax credits	-	(146)
Rate base allowances	68	3,399
Customer finance programs	(313)	(278)
Demand management incentive account	(555)	(182)
Other rate base components (net)	(50)	259
Excess earnings	-	(1,857)
Average rate base - ending balance	\$ 1,230,435	\$ 1,290,079

Our procedures with respect to verifying the calculation of the average rate base were directed towards the verification of the data incorporated in the calculations and the methodology used by the Company. Specifically, the procedures we performed included the following:

- agreed all carry-forward data to supporting documentation including audited financial statements and internal accounting records, where applicable;
- agreed component data (capital expenditures; depreciation; etc.) to supporting documentation as noted under each section;
- checked the clerical accuracy of the continuity of the rate base for 2023; and
- agreed the methodology used in the calculation of the average rate base to the Public Utilities Act to ensure it is in accordance with Board Orders and established policy and procedure.

Based upon the results of the above procedures we did not note any discrepancies in the calculation of the 2023 average rate base, and therefore conclude that the 2023 average rate base included in Schedule D of the Company's Application is in accordance with established practice and Board Orders.

2 Rate Base Additions, Deductions and Allowances

The report provides a review of all additions, deductions and allowances included in the rate base.

2.1 Rate Base Additions

The actual additions in 2022 and 2023 as presented by the Company are as follows:

(\$000's)	2022	2023
Deferred Pension Costs	95,095	101,430
Credit Facility Issue Costs	87	105
Cost Recovery Deferral – Conservation	19,359	20,708
Cost Recovery Deferral – 2022 Revenue Shortfall	459	229
Cost Recovery Deferral – Load Research and Retail Rate Design Review	20	189
Cost Recovery Deferral – Pension Capitalization	-	799
Customer Finance Programs	1,472	1,199
Total Additions	\$ 116,492	\$ 124,659

Source: Newfoundland Power Inc. - 2025 Capital Budget Application
Report on Rate Base: Additions, Deductions & Allowances - Table 1

Deferred Pension Costs

Deferred pension costs are the result of the pension funding exceeding the pension expense as determined in accordance with the recommendations of U.S. GAAP.

According to the table below, pension plan funding for 2022 and 2023 was \$2,730,000 and \$1,515,000 respectively and the pension plan recovery was an increase of \$3,477,000 in 2022 and increase of \$4,820,000 in 2023 to Deferred Pension Costs.

(\$000's)	2022	2023
Deferred Pension Costs, January 1	88,888	95,095
Pension Plan Funding	2,730	1,515
Pension Plan (Expense) Recovery	3,477	4,820
(Decrease)/ Increase in Deferred Pension Costs	6,207	6,335
Deferred Pension costs, December 31	\$ 95,095	\$ 101,430

Source: Newfoundland Power Inc. - 2025 Capital Budget Application
Report on *Rate Base: Additions, Deductions & Allowances* - Table 2

Deferred pension costs represent the difference in Newfoundland Power's defined benefit pension plan funding and expense. Deferred pension costs increased from \$3,477,000 in 2022 to \$4,820,000 in 2023 due to a higher than expected return on Newfoundland Power's defined benefit pension plan assets. This return was partially offset by an actuarial loss associated with a lower discount rate at December 31, 2023. The pension expense amounts have been agreed to schedules provided by the Company's actuary.

Credit Facility Costs

The credit facility issue costs represent unamortized costs associated with credit facility amendments as these costs have not yet been reflected in the Company's revenue requirement.

In August 2023, the committed credit facility was renegotiated to extend its maturity date to August 2027. Costs related to this amendment totalled \$44,000 and are being amortized over the five-year life of the agreement, beginning in 2023.

Cost Recovery Deferral – Conservation

On April 17, 2013, the Board issued Order No. P.U. 13 (2013) and approved the deferral of annual customer energy conservation program costs and the amortization of annual costs over seven years beginning in 2014 with recovery through the Rate Stabilization Account ("RSA"). In Order No. P.U. 3 (2022), the Board approved the amortization of annual costs over 10 years, commencing January 1, 2021 for historical balances and annual charges.

Based on our review of deferred cost recovery relating to conservation and amortization of annual costs, we confirm that we have not noted any discrepancies or unusual items, and it is consistent with approved Board Orders.

Cost Recovery Deferral – 2022 Revenue Shortfall

The Board's disposition of Newfoundland Power's 2022/2023 General Rate Application in Order No. P.U. 3 (2022) resulted in a \$930,000 (\$650,000 after-tax) shortfall in the recovery of the revenue requirements for 2022 (the "2022 Revenue Shortfall"). The Board approved recovery of this shortfall through a regulatory amortization beginning on March 1, 2022 and ending December 31, 2024.

Based on our review of the deferred cost recovery relating to the 2022 Revenue Shortfall and amortization, we confirm that we have not noted any discrepancies or unusual items, and it is consistent with Order No. P.U. 3 (2022).

Cost Recovery Deferral – Load Research and Retail Rate Design Review

In Order No. P.U. 3 (2022), the Board approved the deferral of costs incurred in conducting a Load Research Study and a Retail Rate Design Review. In 2023, costs of \$242,000 (\$169,000 tax effected) have been deferred. A recovery mechanism for these costs has not been approved by the Board.

Cost Recovery Deferral – Pension Capitalization

The Pension Capitalization Cost Deferral Account was approved to amortize the forecast revenue requirement increase of \$1,427,000 (\$999,000 tax effected) in Order No. P.U. 3 (2022). This amount related to income tax impacts associated with pension capitalization of a five-year period beginning in January 2023.

Customer Finance Programs

As indicated by the Company, Customer Finance Programs are loans provided to customers for purchase and installation of products and services related to conservation programs and contributions in aid of construction.

2.2 Rate Base Deductions

The actual figures for 2022 and 2023 as presented by the Company are as follows:

(\$000's)	2022	2023
Other Post-Employment Benefits ("OPEBs")	80,151	84,357
Customer Security Deposits	1,270	653
Accrued Pension Liabilities	5,300	5,397
Accumulated Deferred Income Taxes	18,076	30,609
Weather Normalization Reserve	6,576	(6,321)
Demand Management Incentive Account	107	(978)
Refundable Investment Tax Credits	-	292
Excess Earnings Account	-	3,714
Total Deductions	\$ 111,480	\$ 117,723

Source: Newfoundland Power Inc. – 2025 Capital Budget Application
Report on *Rate Base: Additions, Deductions & Allowances* - Table 9.

Our comments with respect to the deductions to rate base are noted below:

OPEBs Liability

The Company's OPEBs are comprised of retirement allowances for retiring employees, as well as health, medical and life insurance for retirees and their dependents. In Order No. P.U. 31 (2010), the Board approved, beginning in 2011, the adoption of the accrual method of accounting for OPEBs and related income tax. In addition, the Board approved a 15-year straight line amortization of a transitional balance starting in 2011. The total amount of the deduction to rate base related to OPEBs for 2023 is \$84,357,000. The 2022 and 2023 OPEBs are consistent with calculations provided by the Company's actuary.

Customer Security Deposits

Customer Security Deposits are provided by customers in accordance with the Schedule of Rates, Rules and Regulations. As part of the transition to ARBM in 2008 the inclusion of Customer Security Deposits is required as a component of rate base.

Accrued Pension Obligation

Accrued pension obligation represent the executive and senior management supplemental pension benefits comprised of a defined benefit plan (Pension Uniformity Plan - PUP) and a defined contribution plan (Supplementary Employee Retirement Plan - SERP). The balance represents the cumulative costs of these unfunded plans, net of associated benefit payments.

As part of the transition to ARBM in 2008 the inclusion of accrued pension liabilities was required as a component of rate base. The 2022 and 2023 PUP are consistent with calculations provided by the Company's actuary. The Company is the designated

administrator responsible for the overall administration, interpretation, and application of the SERP. The liability is determined by the Company in accordance with the terms of the SERP.

Accumulated Deferred Income Taxes

Deferred income taxes arise due to the Board's approval of the Company's use of tax accrual accounting related to plant investment, pension costs and other employee future benefit costs. Accumulated deferred income taxes increased from \$18,076,000 in 2022 to \$30,609,000 in 2023 primarily due to the Company's continued investment in the electricity system, including the Company's new Customer Information System. We recalculated the accumulated deferred income tax balances and compared the result to the support returns filed by the Company. During this review we did not note any differences in the calculation or inconsistencies within the information provided by the Company.

Weather Normalization Reserve

The disposition of the December 31, 2023 balance in the Weather Normalization Reserve account to the RSA as of March 31, 2024 was approved by the Board in Order No. P.U. 11 (2024). Based on our review of the weather normalization reserve, we confirm that it is in agreement with the approved Board Order No. P.U. 11(2024).

Demand Management Incentive Account

The disposition of the December 31, 2023 balance in the DMI Account to the RSA as of March 31, 2024 was approved in Order No. P.U. 12 (2024). Based on our review of DMI, we confirm that we have not noted any discrepancies or unusual items, and it is consistent with approved Board Orders.

Refundable Investment Tax Credits

The Refundable Investment Tax Credit relates to the scientific research and experimental Development (SR&ED) tax incentives that are recognized into income in a way that is consistent with the amortization of the capital assets to which they relate. The Company's SR&ED claims were significantly larger in 2021 and 2022 than in prior years which resulted in a refund. This refund has been deferred and is being amortized into revenue over a period consistent with the depreciation period for the projects relevant to the claim.

Excess Earnings Account

The Board approved the definition of the Excess Earnings Account in Order No. P.U. 23 (2013). In 2023, Newfoundland Power's regulated earnings exceeded the upper limit of the range of return on rate base approved by the Board for 2023 by \$3,714,000. Disposition of any balance in the Excess Earnings Account will be determined by the Board. The allowed regulated earnings are based on a rate of return on rate base of 6.57% calculated as the approved rate of return on rate base of 6.39%, plus 18 basis points for the upper limit of the range as approved by the Board in Order No. P.U. 3 (2022).

2.3 Rate Base Allowances

The cash working capital ("CWC") allowance, together with the materials and supplies allowance, make up the total allowances that are included in Newfoundland Power's rate base. It represents the average amount of investor-supplied working capital necessary to



provide service. The CWC allowance for 2022 and 2023 is calculated based on the method used to calculate the 2022/2023 Test Year average rate base approved by the Board in Order No. P.U. 3 (2022).

In our Newfoundland Power Inc. 2025/2026 General Rate Application Supplemental Report ("Supplemental Report"), we concluded that differences in invested capital and rate base exist under the ARBM. Specifically, these differences pertain to the construction work in progress, materials and supplies, and cash working capital accounts. In our report, we suggested considering whether the methodology used to calculate the allowance included in average rate base requires a revision.

Based on our review of the rate base allowances, we have not noted any discrepancies or unusual items. The 2023 CWC allowance is consistent with 2022/2023 test year data. However, we continue to recommend that the Board closely monitor the account as future changes in methodology may be warranted.

We trust this is the information you requested. If you have any questions, please contact me.

Yours sincerely,
Grant Thornton LLP

A handwritten signature in blue ink, appearing to read "Barry Griffiths".

Barry Griffiths, CPA, CA,
Principal