



Board of Commissioners of Public Utilities

Newfoundland Power Inc. – 2025/2026 GRA Compliance Application and July 1, 2025, Customer Rates, Rules, and Regulations Review

Report date: May 23, 2025

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1. Executive summary

1.1 Purpose

Doane Grant Thornton LLP (“we”, “us”, “our”, or “Doane Grant Thornton”) has been engaged by the Board of Commissioners of Public Utilities (the “Board”). We have been asked to review the Application for Approval of Compliance (the “Application”) filed by Newfoundland Power Inc. (the “Utility” or the “Company”) on April 12, 2025, with respect to Order No. P.U. 3 (2025) (the “General Rate Order”) and the Customer Rates, Rules and Regulations, effective July 1, 2025.

1.2 Scope of work

Our review will incorporate the following list of procedures:

1. Review Schedule 1 of the Application and cross reference for internal consistency, complete initial analysis and draft initial questions for the Utility.
2. Compare Schedule 1 of the Application to the matters contained in Board Order Nos. P.U. 16 (2024), P.U. 20 (2024), P.U. 2 (2025), and P.U. 3 (2025) (“Relevant Board Orders”) to assess completeness.
3. Recalculate the revised Forecast Revenue Requirement for 2025 and 2026. Request underlying supporting documentation to validate the revisions.
4. Recalculate the revised Forecast Average Rate Base for 2025 and 2026. Request underlying supporting documentation to validate the revisions.
5. Recalculate the revised Forecast Rate of Return on Rate Base for 2025 and 2026. Request underlying supporting documentation to validate the revisions.
6. Based on the above procedures, calculate the Utility's schedule of rates, tolls and charges as well as the annual Rate Stabilization Adjustment (“RSA”) and Municipal Tax Adjustment (“MTA”) factor change as set out in Schedule 2 of the Application.

1.3 Restrictions and limitations

Our scope of work is as set out throughout this report. The procedures undertaken in the course of our review do not constitute an audit of the Company's financial information and consequently, we do not express an audit opinion on the financial information provided by the Company. Our opinions on other matters are outlined throughout this report.

We acknowledge that our report will be communicated to the parties to the matter and may become a public document accessible through the Board's website. We have given the Board our consent to use our report for this purpose. Our report is not to be reproduced or used for any purpose other than that outlined above without prior written permission in each specific

instance. Doane Grant Thornton LLP recognizes no responsibility to any third party who may rely on this report or other material provided to the Board.

Unless stated otherwise in this report, Doane Grant Thornton LLP has relied on information provided by the Company, the Board's website and third-party sources in preparing this report, whom Doane Grant Thornton LLP believes is reliable. We are not guarantors of the information upon which we have relied in preparing the report and, except as stated, we have not audited or otherwise attempted to verify any of the underlying information or data contained in this report. We have made efforts to ensure a conservative, realistic and transparent approach, however, some of the analysis depends on the input from third parties whose opinions may influence the conclusions. All analysis, information and recommendations contained herein are based on the information available to Doane Grant Thornton LLP as of this report's date.

1.4 Summary of findings, observations and conclusions

The following represents a summary of our key findings and conclusions based on the procedures outlined throughout the report:

Figure 1 – Summary of findings, observations and conclusions

#	Report section	Findings, observations, and conclusions
2.	GRA compliance	<p>Based on our review of Schedule 1 of the Application and the completion of the procedures described in the scope of our report, we can advise that we did not note any discrepancies in the calculations or methodology and present the following findings for the Board's consideration:</p> <ul style="list-style-type: none"> We have reviewed the forecast average rate base and return on common equity for 2025 and 2026 included in Schedule 1 of the Application and obtained appropriate evidence to support the revisions as a result of and in compliance with the Relevant Board Orders: <ul style="list-style-type: none"> The revised forecast 2025 and 2026 average rate base of \$1,412,495,000 and \$1,458,577,000, respectively, appropriately incorporates the Board's direction; and, The proposed revised rates of return on average rate base of 6.65% and 6.63% for 2025 and 2026, respectively, appropriately incorporates the Board's direction. We have reviewed the 2025 and 2026 revenue requirement included in Schedule 1 of the Application and obtained

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#	Report section	Findings, observations, and conclusions
		<p>appropriate evidence to support the revisions as a result of, and in compliance with, the Relevant Board Orders:</p> <ul style="list-style-type: none"> ○ The revised forecast revenue requirements from rates of \$769,532,000 and \$806,675,000 for 2025 and 2026, respectively, appropriately incorporates the Board's direction. • We have reviewed the calculated Compliance Rates and Average Customer Billing Impacts included in Schedule 1 of the Application and obtained appropriate evidence to support the revisions as a result of, and in compliance with, the Relevant Board Orders: <ul style="list-style-type: none"> ○ The Compliance Rates, as calculated in Appendix E of Schedule 1 of the Application, and the Average Customer Billing Impacts, as calculated in Appendix F of Schedule 1 of the Application, appropriately incorporates the base rates arrived at in this Application and applies the RSA and MTA factor as approved in Order No. P.U. 16 (2024).
3.	Proposed customer rates, rules and regulations	<p>Based upon the results of our procedures we can advise that we did not note any discrepancies in the calculations or methodology and therefore we:</p> <ul style="list-style-type: none"> • Confirm that the Company's calculation in Schedule 2 Appendix A of the Application, which represents the MTA factor effective July 1, 2025 of 1.02458, is appropriate. • Confirm that the Company's calculation in Schedule 2 Appendix C of the Application, which represents the RSA effective July 1, 2025, of 1.910 cents per kWh, is appropriately calculated. • Confirm that the Company's proposed schedule of rates as set out in Schedule 2, Appendix F of the Application, incorporates the base rates arrived at in this Application, the Utility rates proposed by Newfoundland & Labrador Hydro ("Hydro") on April 15, 2025, and the 2025 RSA and MTA adjustments included in the Application.

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#	Report section	Findings, observations, and conclusions
		<ul style="list-style-type: none"> • Confirm that the calculation of the proposed base rates recover the 2025 and 2026 test year revenue requirements from rates. • Confirm that the Company's Rules and Regulations as set out in Schedule 2 Appendix H of the Application appropriately reflects the following modifications to the Rate Stabilization Clause: <ul style="list-style-type: none"> ○ The addition of paragraph II.9 to allow for recovery of costs charged annually to the Electrification Cost Deferral Account for costs incurred commencing January 1, 2021, as per the General Rate Order, and ○ The modification of paragraph II.5 to accommodate the revised Utility Rate which now has two second block energy rates during a calendar year, as approved by the Board in Order No. P.U. 1 (2025). • We reviewed the Utility's proposed rate smoothing approach and have the following comments: <ul style="list-style-type: none"> ○ We recognize that the 7% increase proposed by the Utility is consistent with the August 1, 2024 rate increase while also ensuring no customer class experienced a rate increase of greater than 10%, which we would consider appropriate for rate smoothing. ○ The Utility presented the options they considered for their rate smoothing approach, and their rationale for selecting the proposed approach. Based on our review, the proposed rate smoothing option presents a balance between rate stability and cost recovery.

2. GRA compliance

2.1 Scope and procedures

To conduct our review of the 2025/2026 GRA Compliance Report found in Schedule 1 of the Application, we have completed the following procedures:

1. Reviewed all Board Orders and decisions pertaining to the 2025/2026 General Rate Application filed by the Utility on December 12, 2023 (“2025/2026 GRA”) and compiled a list of all decisions and directions of the Board, documenting what directions have been addressed within Schedule 1 of the Application;
2. Completed cross-referencing and recalculation procedures for Schedule 1 of the Application; and,
3. For all Schedule 1 Appendices in the Application, we:
 - a) Recalculated and completed all cross referencing procedures;
 - b) Traced to supporting documentation provided by the Utility; and,
 - c) Assessed and documented compliance with the Relevant Board Orders, including the General Rate Order.

2.2 Analysis

2.2.1 Rate base and rate of return on rate base

The revised 2025 forecast average rate base included in Schedule 1 of the Application of \$1,412,495,000 was increased by \$5,679,000 from the proposed 2025 forecast average rate base of \$1,406,816,000 from the 2025/2026 GRA.

The revised 2026 forecast average rate base included in Schedule 1 of the Application of \$1,458,577,000 increased by \$7,377,000 from the proposed 2026 forecast average rate base of \$1,451,200,000 from the 2025/2026 GRA.

The decrease in the return on common equity from 9.85% per the 2025/2026 GRA to 8.6% as per the General Rate Order, contributed to the following decreases in the forecast rate of return on average rate base:

- 2025 from 7.40% in the 2025/2026 GRA to 6.65% in Schedule 1 of the Application, which results in a range of 6.47% to 6.83%; and,
- 2026 from 7.21% in the 2025/2026 GRA to 6.63% in Schedule 1 of the Application, which results in a range of 6.45% to 6.81%.

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The increase in forecast average rate base was due to a number of changes as implemented per the Relevant Board Orders. These changes have been summarized in the below table:

Figure 2 – Summary of changes to forecast average rate base (000s)¹

Change in forecast average rate base (000s)			
	2025	2026	Notes
Change in cost recovery deferral - 2024 revenue shortfall	(4,235)	(2,823)	1
Change in cost recovery deferral - 2025 revenue shortfall	3,885	5,827	2
Change in cost recovery deferral - IFRS	348	870	3
Change in excess earnings account	3,566	3,566	4
Change in cash working capital allowance	(104)	(63)	5
Additional General Rate Order adjustment	2,219	-	6
Total change in forecast average rate base	5,679	7,377	

Note 1: The change is due to the transfer of the 2024 revenue shortfall balance to the RSA on December 31, 2024. This is in compliance with the Order Nos. P.U. 20 (2024) and P.U. 24 (2024).

Note 2: As outlined in Schedule 1, Appendix D, of the Application, the 2025 revenue shortfall amount has been revised to reflect the Board's determinations in the General Rate Order and Order Nos. P.U. 20 (2024) and P.U. 2 (2025). The revised revenue requirement impact of the 2025 revenue shortfall is $\$30,636,000 - (6 \times \$1,021,000) = \$24,509,000$. Therefore, the 2025 revenue shortfall on an after-tax and average basis, is $\$8,578,000 [(\$24,509,000/2) \times 0.7]$ at December 31, 2025 and $\$12,867,000$ million $[((\$24,509,000 + \$12,254,000)/2) \times 0.7]$ at December 31, 2026. Given the 2025 revenue shortfall amount proposed in the 2025/2026 GRA was $\$4,693,000$ for 2025 and $\$7,040,000$ for 2026, this results in adjustments of $\$3,885,000$ and $\$5,827,000$ for 2025 and 2026, respectively. Additional information on the 2025 revenue shortfall is detailed in [Section 2.2.2.3](#) of this report.

Note 3: The change is due to the Board's approval of the International Financial Reporting Standards ("IFRS") Cost Deferral Account which was not previously applied to the calculation of average rate base in the 2025/2026 GRA. The incorporation of this deferral amount is in compliance with the General Rate Order.

Note 4: The change is due to the transfer of the 2023 Excess Earnings Account balance to the RSA on December 31, 2024. This is in compliance with the Order Nos. P.U. 20 (2024) and P.U. 24 (2024).

Note 5: The change is primarily due to revisions to total operating expenses for the Cash Working Capital Allowance, including purchased power costs, pursuant to the General Rate Order and Order No. P.U. 2 (2025). Specifically, this is the impact on the Cash Working Capital

¹ Numbers in Figure 2 are from Schedule 1, Appendix A, of the Application.

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Allowance resulting from the operating cost decrease associated with the productivity allowance reduction, the Utility's conversion to IFRS, and the short-term incentive payments related to executives and directors.

Note 6: In the General Rate Order, the Board required that the calculation of forecast average rate base be revised for, among other things, Order No. P.U. 20 (2024), which along with Order No. P.U. 24 (2024), set the Utility's average rate base for 2024. The \$2,200,000 adjustment is the result of the 2025 average rate base calculation incorporating the 2024 average rate base amount of \$1,362,800,000 which was approved in Order No. P.U. 24 (2024). We have recalculated this adjustment balance and found no errors.

2.2.2 Revenue requirement

As a result of the Relevant Board Orders, the revised forecast revenue requirements from rates included in Schedule 1 of the Application is calculated to be \$769,532,000 for 2025, a net increase of \$762,000 from the amount proposed in the 2025/2026 GRA, and \$806,675,000 for 2026, a net increase of \$17,073,000 from the amount proposed in the 2025/2026 GRA.

2.2.2.1 2025 revenue requirement

The breakdown of changes for the 2025 revenue requirement is as follows:

Figure 3 – Summary of changes to 2025 revenue requirement (000s)²

Change in 2025 revenue requirement (000s)					
	P.U. 20 (2024)	P.U. 2 (2025)	General Rate Order	Total adjustment	Notes
Power supply cost	-	(11,783)	-	(11,783)	1
Operating costs	-	-	(3,851)	(3,851)	2
Deferred cost recoveries and amortizations	(6,728)	(12,581)	6,869	(12,440)	3
Income taxes	48	50	(3,767)	(3,669)	4
Return on rate base	409	(740)	(9,827)	(10,158)	5
Other revenue	(118)	26	2,590	2,498	6
Energy supply cost variance deferral	-	40,165	-	40,165	7
Total change in 2025 revenue requirement	(6,389)	15,137	(7,986)	762	

Note 1: On September 16, 2024, the Utility filed an application prepared in accordance with the Wholesale Rate Settlement Agreement which proposed:

- i. flow-through the impacts of the revised wholesale rate on its 2025 and 2026 test year revenue requirements currently before the Board in its 2025/2026 GRA; and
- ii. rebase power supply costs into base rate test year revenue requirements.

² Numbers in Figure 3 are from Schedule 1, Appendix C (pg. 1), of the Application.

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The difference in power supply cost represents the difference in the Utility's 2025 test year forecast power supply costs adjusted for the flow-through of Hydro's revised wholesale rate change, which has been outlined below:

Figure 4 – Power supply cost (000s)³

000s	Purchased energy (GWh)	Billing demand (MW)	Demand charge	1 st Block	2 nd Block Winter	2 nd Block Other	Total
Revised 2025 test year	5,903.70	1,346.21	80,772	321,867	68,755	47,451	518,845
2025 test year	5,903.70	1,346.21	80,772	96,782	197,809	155,265	530,628
Change	-	-	-	225,085	(129,054)	(107,814)	(11,783)

Note 2: The reduction in operating costs is due to the Board ordered productivity allowance, removal of short-term incentive ("STI") costs and removal of costs associated with Newfoundland Power's conversion to IFRS, as outlined below:

	(000s)
Productivity allowance reduction	(2,000)
STI payments	(856)
Conversion to IFRS	(995)
Total	(3,851)

Note 3: The changes to deferred cost recoveries and amortizations relate to the impacts of various Board Orders which have been explained below.

Order No. P.U.20 (2024):

Order No. P.U. 20 (2024) denied recovery of the 2024 revenue shortfall through base rates and instead provided for the recovery of the shortfall through the RSA. In addition, the denial of the customer rate increase in Order No. P.U. 20 (2024) resulted in lower customer billings in 2025 resulting in a higher 2025 Revenue Shortfall. The associated revenue shortfall and financing effects associated with this are as detailed below.

	(000s)
Removal of 2024 revenue shortfall amortization	(1,343)
Increased 2025 revenue shortfall (net of amortization)	(5,385)
Total	(6,728)

³ Numbers in Figure 4 are from Schedule 1, Appendix B, of the Company's Wholesale Rate Flow-Through Application, filed on September 16, 2024.

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Order No. P.U.2 (2025):

The proposed revisions to test year revenue requirements for the implementation of a new wholesale rate and the rebasing of power supply costs, as proposed in the Wholesale Application, both impact the Company's 2025 revenue shortfall amount and subsequent amortization. The below table provides the amortization schedule for the 2025 revenue shortfall proposed in the 2025/2026 GRA and the revenue requirement impact of the change in the 2025 revenue shortfall resulting from the proposed change in wholesale rate.

	<u>(000s)</u>
2025 revenue shortfall (proposed in 2025/2026 GRA)	(13,408)
2025 revenue shortfall (revised for Wholesale Applicati	(25,989)
Total	(12,581)

General Rate Order:

The adjustment of \$6,869,000 related to the General Rate Order to adjust the 2025 revenue requirement amount to (\$24,011,000) for deferred cost recoveries and amortizations which includes amortization of \$498,000 associated with the Pension Capitalization Cost Deferral Account. The remaining amount of (\$24,509,000) relates to the 2025 revenue shortfall as explained in Note 2 of [Section 2.2.1](#) of this report. A summary calculation of this adjustment is detailed below:

	<u>(000s)</u>
Deferred cost recoveries and amortizations per 2025/2026 GRA	11,571
2025 revenue shortfall as detailed in Note 2 of Section 2.2.1 of this report	(24,509)
Adjustment per Order No. P.U.20 (2024)	6,728
Adjustment per Order No. P.U.2 (2025)	12,581
Pension Capitalization Cost Deferral Account amortization	498
Total	6,869

Note 4: These changes reflect the income tax impact associated with the noted revenue requirement changes. The \$3,767,000 adjustment relating to the General Rate Order is primarily resulting from the reduction in return on equity and impacts associated with the removal of RSA balances and interest.

Note 5: Return on rate base has been adjusted to reflect the reduction in return on equity in accordance with the General Rate Order as well as the financing effects associated with Order Nos. P.U. 2 (2025) and P.U.20 (2024) including the removal of RSA balances and the implementation of a new wholesale rate, effective January 1, 2025.

Note 6: The changes to other revenue mainly relate to the Utility's efforts to align Weighted Average Cost of Capital ("WACC") and rate of return on rate base in the 2025 test year by removing RSA balances and interest revenue from its 2025 test year forecast.

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Note 7: This change is related to the rebasing of power supply costs effective January 1, 2025 per the Wholesale Rate Settlement Agreement and Order No. P.U. 2 (2025).

2.2.2.2 2026 revenue requirement

The breakdown of changes for the 2026 revenue requirement is as follows:

Figure 5 – Summary of changes to 2026 revenue requirement (000s)⁴

Change in 2026 revenue requirement (000s)					
	P.U. 20 (2024)	P.U. 2 (2025)	General Rate Order	Total adjustment	Notes
Power supply cost	-	(6,756)	-	(6,756)	1
Operating costs	(1)	-	(3,392)	(3,393)	2
Deferred cost recoveries and amortizations	10	6,290	(3,436)	2,864	3
Income taxes	84	53	(3,243)	(3,106)	4
Return on rate base	294	(167)	(8,160)	(8,033)	5
Other revenue	(1)	-	-	(1)	
Energy supply cost variance deferral	-	35,495	-	35,495	6
Other transfers to RSA	1	-	2	3	
Total change in 2026 revenue requirement	387	34,915	(18,229)	17,073	

Note 1: The difference in power supply cost represents the difference in the Utility's 2026 test year forecast power supply costs adjusted for the flow-through of Hydro's revised wholesale rate change, which has been outlined below:

Figure 6 – Power supply cost (000s)⁵

000s	Purchased energy (GWh)	Billing demand (MW)	Demand charge	1 st Block	2 nd Block Winter	2 nd Block Other	Total
Revised 2026 test year	5,862.10	1,334.81	80,089	321,867	67,022	46,654	515,632
2026 test year	5,862.10	1,334.81	80,089	96,782	194,563	150,954	522,388
Change	-	-	-	225,085	(127,541)	(104,300)	(6,756)

Note 2: The reduction in operating costs is due to the Board ordered productivity allowance, removal of STI costs, removal of costs associated with Newfoundland Power's conversion to IFRS, and a minor revision to the electrification cost amortization, as outlined below:

⁴ Numbers in Figure 5 are from Schedule 1, Appendix C (pg. 2), of the Application.

⁵ Numbers in Figure 6 are from Schedule 1, Appendix B, of the Company's Wholesale Rate Flow-Through Application, filed on September 16, 2024.

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	<u>(000s)</u>
Productivity allowance reduction	(2,000)
STI payments	(895)
Conversion to IFRS	(495)
Electrification cost amortization	<u>(2)</u>
Total	(3,392)

Note 3: The changes to deferred cost recoveries and amortizations relate to the impacts of various Board Orders which have been explained below.

Order No. P.U.20 (2024):

Order No. P.U. 20 (2024) denied recovery of the 2024 revenue shortfall through base rates and instead provided for the recovery of the shortfall through the RSA. In addition, the denial of the customer rate increase in Order No. P.U. 20 (2024) resulted in lower customer billings in 2025 resulting in a higher 2025 Revenue Shortfall. These impacts were mostly offset in the 2026 test year revenue requirements, as outlined below:

	<u>(000s)</u>
Removal of 2024 revenue shortfall amortization	(2,689)
Increased 2025 revenue shortfall (net of amortization)	<u>2,699</u>
Total	10

Order No. P.U.2 (2025):

As explained above, the proposed revisions to test year revenue requirements for the implementation of a new wholesale rate and the rebasing of power supply costs, as proposed in the Wholesale Application, both impact the Company's 2025 revenue shortfall amount and subsequent amortization. The below table outlines the 2026 revenue requirement impact associated with this:

	<u>(000s)</u>
2025 revenue shortfall (proposed in 2025/2026 GRA)	6,704
2025 revenue shortfall (revised for Wholesale Application proposals)	<u>12,994</u>
Total	6,290

General Rate Order:

The adjustment of \$3,436,000 related to the General Rate Order is to adjust the 2026 revenue requirement amount to \$12,752,000 for deferred cost recoveries and amortizations which includes amortization of \$498,000 associated with the Pension Capitalization Cost Deferral Account. The remaining amount of \$12,254,000 relates to the amortization of the 2025 revenue shortfall. A summary calculation of this adjustment is detailed below:

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	(000s)
Deferred cost recoveries and amortizations per 2025/2026 GRA	(9,888)
2025 revenue shortfall as detailed in Note 2 of Section 2.2.1 of this report	12,254
Adjustment per Order No. P.U.20 (2024)	(10)
Adjustment per Order No. P.U.2 (2025)	(6,290)
Pension Capitalization Cost Deferral Account amortization	498
Total	(3,436)

Note 4: These changes reflect the income tax impact associated with the noted revenue requirement changes. The \$3,243,000 adjustment relating to the General Rate Order is primarily resulting from the reduction in return on equity.

Note 5: Return on rate base has been adjusted to reflect the reduction in return on equity in accordance with the General Rate Order as well as the financing effects associated with the implementation of a new wholesale rate, effective January 1, 2025, as approved in Order No. P.U. 2 (2025).

Note 6: This change is related to the rebasing of power supply costs effective January 1, 2025 per the Wholesale Rate Settlement Agreement and Order No. P.U. 2 (2025).

2.2.2.3 2025 revenue shortfall

The 2025 revised revenue shortfall reflecting the General Rate Order is \$30,636,000 compared to the 2025 revenue shortfall originally proposed of \$16,761,000. In accordance with the General Rate Order, the 2025 revenue shortfall is amortized over 30 months commencing July 1, 2025, and ending December 31, 2027. The table below outlines the impact on revenue requirement for 2025, 2026, and 2027.

Figure 7 – 2025 Revenue shortfall impact on revenue requirement 2025-2027⁶

000s	2025	2026	2027
2025 Proposed revenue shortfall	(13,407)	6,707	6,707
2025 Revised revenue requirement	(24,509)	12,254	12,254
Revenue requirement impact	(11,102)	5,547	5,547

2.2.3 Customer rates

Schedule 1, Appendix E, of the Application calculates customer rates that reflect the current August 1, 2024 RSA adjustment and MTA factor (“Compliance Rates”).

⁶ Numbers in Figure 7 are from Schedule 1, Appendix D, of the Application.

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The Compliance Rates were computed by applying the current RSA adjustment and MTA factor to base rates. These base rates, when applied to the test year energy sales, recover the revised 2025 and 2026 test year revenue requirements outlined in [Section 2.2.2](#) of this report.

The customer rate impact associated with the Compliance Rates is an average overall increase in electricity rates of 8.5% for consumption on and after July 1, 2025, as outlined in Schedule 1, Appendix F, of the Application.

2.3 Conclusion

Based on our review of Schedule 1 of the Application and the completion of the procedures described in the scope of our report, we can advise that we did not note any discrepancies in the calculations or methodology and present the following findings for the Board's consideration:

- We have reviewed the forecast average rate base and return on common equity for 2025 and 2026 included in Schedule 1 of the Application and obtained appropriate evidence to support the revisions as a result of and in compliance with the Relevant Board Orders:
 - The revised forecast 2025 and 2026 average rate base of \$1,412,495,000 and \$1,458,577,000, respectively, appropriately incorporates the Board's direction; and,
 - The proposed revised rates of return on average rate base of 6.65% and 6.63% for 2025 and 2026, respectively, appropriately incorporates the Board's direction.
- We have reviewed the 2025 and 2026 revenue requirement included in Schedule 1 of the Application and obtained appropriate evidence to support the revisions as a result of, and in compliance with, the Relevant Board Orders:
 - The revised forecast revenue requirements from rates of \$769,532,000 and \$806,675,000 for 2025 and 2026, respectively, appropriately incorporates the Board's direction.
- We have reviewed the calculated Compliance Rates and Average Customer Billing Impacts included in Schedule 1 of the Application and obtained appropriate evidence to support the revisions as a result of, and in compliance with, the Relevant Board Orders:
 - The Compliance Rates, as calculated in Appendix E of Schedule 1 of the Application, and the Average Customer Billing Impacts, as calculated in Appendix F of Schedule 1 of the Application, appropriately incorporates the Company's base rates arrived at in this Application and applies the RSA and MTA factor as approved in Order No. P.U. 16 (2024).

3. Proposed customer rates, rules and regulations

3.1 Scope and procedures

We have completed our review of the Application, requesting approval of the RSA and MTA factor to be applied to the rates of the Company for the period July 1, 2025 to June 30, 2026 pursuant to Section 71 of the Public Utilities Act. We also reviewed the incorporation of the Utility rates proposed by Hydro in its application filed on April 15, 2025.

Our procedures were focused on ensuring the methodology and calculations relating to the RSA, the MTA and Utility rates were in accordance with Board Orders. More specifically, our procedures with respect to confirming the Company's calculations in Schedule 2 and its associated appendices of the Application included agreeing the various components to source data.

The scope of our review is as follows.

1. Confirmed the calculation, found in Schedule 2, Appendix A, of the MTA factor of 1.02458;
2. Confirmed the calculation, found in Schedule 2, Appendix C, of the RSA of 1.910 cents per kWh;
3. Reviewed the Company's rate smoothing approach;
4. Ensured the calculations included in Schedule 2, Appendices A and C, are in accordance with Board Orders;
5. Ensured the Company's schedule of rates, as set out in Schedule 2, Appendix F, incorporates the increase in the Utility rates proposed by Hydro on April 15, 2025, and the 2025 RSA and MTA adjustments included in the Application; and,
6. Ensured the Company's Rules and Regulations as set out in Schedule 2, Appendix H is in accordance with Board Orders.

3.2 Analysis

3.2.1 MTA factor

The Company's proposed change in the MTA factor is detailed in the table below.

Figure 8 – Proposed MTA

	Existing	Change	Proposed
Customer rates MTA Factor	1.02407	0.00051	1.02458

3.2.1 RSA and rate smoothing approach

Without the application of rate smoothing, customers would experience a significant rate increase in 2025 of approximately 15.3%, followed by decreases of (2.7%) and (0.5%) in 2026 and 2027, respectively. The table below details the pro forma ("PF") customer rate forecast for 2025-2027 before the consideration of customer rate smoothing for July 1, 2025.

Figure 9 – Pro forma customer rate increase (before smoothing for July 1, 2025)

%	2025PF	2026PF	2027PF
2025/2026 GRA Compliance	8.5	-	-
Hydro's Wholesale Rate Adjustments	2.3	2.3	2.3
RSA/MTA	4.5	(5.0)	(2.8)
Total	15.3	(2.7)	(0.5)

In Order No. P.U. 16 (2024), the Board directed Newfoundland Power to consider concerns in relation to rate shock, rate stability and the timely recovery of prudent costs. The Company considered three options for rate smoothing:

- The first alternative resulted in the overall customer rate increase for July 1, 2025 of 9.5%, followed by estimated overall average customer rate impacts of 6.5% and (1.5%) in 2026 and 2027, respectively. Limiting the overall customer rate increase to 9.5% for July 1, 2025 would result in an estimated unrecovered RSA balance as of March 31, 2025 of \$50 million. While the Company considered this a viable alternative, they did not proceed with this alternative due to the consideration of current customer rate pressures and the Board's decision regarding last year's July 1st rate adjustment.
- The second alternative considered how credits owing to Newfoundland Power from Hydro's Rural Rate Alteration and Hydraulic Resources Optimization deferral accounts could impact the Company's rates. While the Company views this as a reasonable alternative, it is not available at this time as the disposition of the deferral account credits are subject to Board direction.
- Ultimately, the Utility decided to propose a rate smoothing scenario which limits the overall customer rate increase to 7% while also ensuring no customer class experienced

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a rate increase of greater than 10%, which is consistent with the Board's previously approved August 1, 2024 rate increases. The proposed RSA as a result of this alternative is detailed in the table below.

Figure 10 – Proposed RSA

¢/kWh	Existing	Change	Proposed
Hydro's wholesale rate adjustments	1.578	0.326	1.904
March 31st RSA balance	0.554	(0.548)	0.006
Total RSA	2.132	(0.222)	1.910

The proposed rate smoothing approach results in essentially the full deferral of Newfoundland Power's RSA balance as of March 31, 2025 of approximately \$70 million to be maintained in the RSA for full recovery by June 30, 2027. The 2025 amount withheld is substantially larger than the 2024 amount of approximately \$18.8 million. Newfoundland Power obtained an updated credit opinion from Moody's Investor Services in October of 2024 which included an outlook change from stable to negative due to the delays in cost recovery. We understand that in determining the proposed RSA, Newfoundland Power considered the reasonable balance of customer rates and cost recovery in extraordinary circumstances, and the known recovery period for the RSA, as mitigating factors to its creditworthiness.

3.2.2 Rules and regulations

The proposed rules and regulations to be effective July 1, 2025, as outlined in Schedule 2 Appendix H of the Application, incorporates the following changes to the Rate Stabilization Clause.

Electrification Cost Deferral Account

In the General Rate Order, the Board approved the recommendation that Clause II.9 of the Rate Stabilization Clause should be amended to allow for recovery of costs charged annually to the Electrification Cost Deferral Account for costs incurred commencing January 1, 2021. The rules and regulations set out in Schedule 2, Appendix H of the Application includes the addition of paragraph II.9 pertaining to the Electrification Cost Deferral Account.

Energy Supply Cost Variance

In Order No. P.U. 1(2025), the Board approved the revised utility rate to include two second block energy rates (for winter and non-winter months) during a calendar year. The revisions in the Rate Stabilization Clause in paragraph II.5 provides the calculation of the Energy Supply Cost Variance on a monthly basis as opposed to an annual basis.

3.3 Conclusion

Based upon the results of our procedures we can advise that we did not note any discrepancies in the calculations or methodology and therefore we:

- Confirm that the Company's calculation in Schedule 2 Appendix A of the Application, which represents the MTA factor effective July 1, 2025 of 1.02458, is appropriate.
- Confirm that the Company's calculation in Schedule 2 Appendix C of the Application, which represents the RSA effective July 1, 2025, of 1.910 cents per kWh, is appropriately calculated.
- Confirm that the Company's proposed schedule of rates as set out in Schedule 2, Appendix F of the Application, incorporates the base rates arrived at in this Application, the Utility rates proposed by Hydro on April 15, 2025, and the 2025 RSA and MTA adjustments included in the Application.
- Confirm that the calculation of the proposed base rates recover the 2025 and 2026 test year revenue requirements from rates.
- Confirm that the Company's Rules and Regulations as set out in Schedule 2 Appendix H of the Application appropriately reflects the following modifications to the Rate Stabilization Clause:
 - The addition of paragraph II.9 to allow for recovery of costs charged annually to the Electrification Cost Deferral Account for costs incurred commencing January 1, 2021, as per the General Rate Order, and
 - The modification of paragraph II.5 to accommodate the revised Utility Rate which now has two second block energy rates during a calendar year, as approved by the Board in Order No. P.U. 1 (2025).
- We reviewed the Utility's proposed rate smoothing approach and have the following comments:
 - We recognize that the 7% increase proposed by the Utility is consistent with the August 1, 2024 rate increase while also ensuring no customer class experienced a rate increase of greater than 10%, which we would consider appropriate for rate smoothing.
 - Upon inquiry, the Utility presented us with the three options they considered for their rate smoothing approach, and the rationale for selecting the proposed

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- 1 approach. Based on our review, the proposed rate smoothing option presents a
- 2 balance between rate stability and cost recovery.

1

Appendix A - Glossary of terms

Abbreviation	Term
Board	The Board of Commissioners of Public Utilities
Application	Application for Approval of Compliance filed by Newfoundland Power Inc. with respect to Order No. P.U. 3 (2025) and the Customer Rates, Rules and Regulations, effective July 1, 2025
Doane Grant Thornton, we, us, our	Doane Grant Thornton LLP
General Rate Order	Order No. P.U.3 (2025)
Hydro	Newfoundland & Labrador Hydro
IFRS	International Financial Reporting Standards
MTA	Municipal Tax Adjustment
PF	Pro forma
RSA	Rate Stabilization Adjustment or Rate Stabilization Account
Relevant Board Orders	Order Nos. P.U. 16 (2024), P.U. 20 (2024), P.U. 2 (2025), and P.U. 3 (2025)
STI	Short-term incentive
Utility or the Company	Newfoundland Power Inc.

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Abbreviation	Term
WACC	Weighted Average Cost of Capital
Wholesale Application	Application filed by Newfoundland Power Inc. on September 16, 2024, prepared in accordance with the Wholesale Rate Settlement Agreement
2025/2026 GRA	2025/2026 General Rate Application filed by Newfoundland Power Inc. on December 12, 2023



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