

Board of Commissioners of Public Utilities

**Newfoundland Power Inc. - 2025/2026 General Rate
Application**

Supplemental Report

Report date: May 1, 2024

Table of contents

1. Executive summary	1
2. Operating expenses	3
3. Return on rate base	17
Appendix A - Glossary of terms	21

1. Executive summary

1.1. Overview

Grant Thornton LLP (“we”, “us”, “our” or “Grant Thornton”) has been engaged by the Newfoundland and Labrador Board of Commissioners of Public Utilities (the “Board”) to review the Newfoundland Power Inc. (the “Company” or “Newfoundland Power”) 2025/2026 General Rate Application (the “2025/2026 GRA” or the “Application”), dated December 12, 2023.

The purpose of this Supplementary Report is to provide additional commentary with respect to two topics for which our work was still ongoing at the time of our report dated April 24, 2024 (our “Initial Report”) was released.¹ Given our work was still ongoing, we were unable to conclude on the following topics in our Initial Report:

- Operating expenses; and,
- Return on rate base.

Our work has been completed. Therefore, any further commentary and conclusions on the above noted topics have been reflected this report.

1.2. Restrictions and limitations

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. 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, Grant Thornton LLP has relied on information provided by the Company, the Board’s website and third-party sources in preparing this report, whom 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 Grant Thornton LLP as of this report’s date.

¹ Board of Commissioners of Public Utilities, Newfoundland Power Inc. – 2025/2026 General Rate Application, Grant Thornton LLP, April 24, 2024

1 1.3. Summary of findings, observations and conclusions

2
 3 The following represents a summary of our findings and recommendations as detailed
 4 throughout this report:

5 *Figure 1 – Summary of findings, observations and conclusions*

6

#	Report section	Findings, observations, and conclusions
2.	Operating expenses	We have reviewed the Company’s operating expense forecast including the methodology, supporting documentation for key assumptions, responses to inquiries, and performed trend analysis to identify irregularities or inconsistencies. Based on this review, we have not identified any irregularities or inconsistencies to report.
3.	Return on rate base	<p>We have concluded our review of the rate of return on rate base and have noted the following observations and recommendations for the Board’s consideration:</p> <ul style="list-style-type: none"> • We can confirm that our additional work on this matter continues to support the findings observations and conclusions in our Initial Report. • Under the Asset Rate Base Method (“ARBM”), differences in invested capital and rate base exist. These differences pertain to the construction work in progress, materials and supplies, and cash working capital amounts. • We have noted that in the 2022/2023 GRA, the Company partially offset those differences by excluding the energy supply cost variance account and the rate stabilization account in the calculation of the cash working capital variance. In the 2025/2026 GRA the Company has also included offsetting adjustments to the cash working capital variance in relation to the energy supply cost variance account and the rate stabilization account in its calculation of the cash working capital variance. • An alternative approach to addressing variances in the cash working capital amount is to consider if the methodology used to calculate the allowance that is included in average rate base requires a revision. We discussed this with the Company and understand that their preference is to monitor the progress towards resolving the large differences through the adoption of the new wholesale rate. If the matter is still an issue after the wholesale rate has been established, that would be a better time to review the methodology for determining the allowance. We agree that reviewing the methodology for calculating an allowance would be more effective if it were performed after the wholesale rate has been determined.

2. Operating expenses

The Company provided a breakdown of the proposed customer rate increase in its response to PUB-NP-002. The breakdown included an increase in operating costs of \$13,400,000 or 1.6% of the 5.5% increase to customer rates. Based on this information, we identified areas of operating expenses that warranted additional analysis. Our analysis compared the 2023 test year to 2024 forecast, 2025 proposed, and 2026 proposed amounts to identify the most significant contributors to the increase. The following figure summarizes this analysis:

Figure 2 – Operating costs by breakdown 2023TY-2026

(000s)	2023TY	2024F	2024F vs 2023TY	% change	2025P	2025P vs 2024F	% change	2026P	2026P vs 2025P	% change	2026P vs 2023TY	% change
Regular and standby	\$ 33,148	\$ 36,099	\$ 2,951	9%	\$ 37,557	\$ 1,458	4%	\$ 39,156	\$ 1,599	4%	\$ 6,008	18%
Temporary	2,108	691	(1,417)	-67%	721	30	4%	754	33	5%	(1,354)	-64%
Overtime	3,537	3,639	102	3%	3,801	162	4%	3,972	171	4%	435	12%
Total labour	38,793	40,429	1,636	4%	42,079	1,650	4%	43,882	1,803	4%	5,089	13%
Vehicle expenses	1,730	2,142	412	24%	2,177	35	2%	2,212	35	2%	482	28%
Operating materials	1,287	1,290	3	0%	1,311	21	2%	1,332	21	2%	45	3%
Inter-company charges	28	28	-	0%	28	-	0%	29	1	4%	1	4%
Plants, subs, system, oper & bldgs	3,492	3,823	331	9%	3,885	62	2%	3,948	63	2%	456	13%
Travel	891	1,179	288	32%	1,198	19	2%	1,217	19	2%	326	37%
Tools and clothing allowance	1,265	1,411	146	12%	1,434	23	2%	1,458	24	2%	193	15%
Miscellaneous	1,595	1,640	45	3%	1,663	23	1%	1,691	28	2%	96	6%
Taxes and assessments	1,181	1,428	247	21%	1,451	23	2%	1,475	24	2%	294	25%
Uncollectible bills	2,208	2,186	(22)	-1%	2,222	36	2%	2,258	36	2%	50	2%
Insurance	2,345	2,621	276	12%	2,773	152	6%	2,932	159	6%	587	25%
Severance & other employee cost	133	160	27	20%	163	3	2%	166	3	2%	33	25%
Education, training, employee fees	354	512	158	45%	520	8	2%	528	8	2%	174	49%
Trustee and directors' fees	712	760	48	7%	772	12	2%	785	13	2%	73	10%
Other company fees	2,574	5,131	2,557	99%	4,771	(360)	-7%	4,672	(99)	-2%	2,098	82%
Stationery & copying	260	247	(13)	-5%	251	4	2%	255	4	2%	(5)	-2%
Equipment rental/ maintenance	897	690	(207)	-23%	702	12	2%	713	11	2%	(184)	-21%
Telecommunications	1,588	1,748	160	10%	1,775	27	2%	1,791	16	1%	203	13%
Postage	1,202	1,209	7	1%	1,207	(2)	0%	1,203	(4)	0%	1	0%
Advertising	534	609	75	14%	622	13	2%	632	10	2%	98	18%
Vegetation management	2,441	3,323	882	36%	3,377	54	2%	3,432	55	2%	991	41%
Computing equipment & software	3,446	4,272	826	24%	4,702	430	10%	4,992	290	6%	1,546	45%
Total other	30,163	36,409	6,246	21%	37,004	595	2%	37,721	717	2%	7,558	25%
Gross operating	68,956	76,838	7,882	11%	79,083	2,245	3%	81,603	2,520	3%	12,647	18%
Amortization of hearing costs	-	-	-	0%	200	200	N/A	400	200	100%	400	0%
Amortization of CDM Costs	4,581	4,903	322	7%	5,345	442	9%	5,659	314	6%	1,078	24%
Amortizations of electrification costs	-	-	-	0%	309	309	N/A	384	75	24%	384	0%
Transfers to GEC	(2,812)	(2,966)	(154)	5%	(3,034)	(68)	2%	(3,106)	(72)	2%	(294)	10%
Regulated operating costs	70,725	78,775	8,050	11%	81,903	3,128	4%	84,940	3,037	4%	14,215	20%
Employee future benefits costs	2,771	3,010	239	9%	8,122	5,112	170%	1,812	(6,310)	-78%	(959)	-35%
Total of operating and employee future benefits costs	\$ 73,496	\$ 81,785	\$ 8,289	11%	\$ 90,025	\$ 8,240	10%	\$ 86,752	\$ (3,273)	-4%	\$ 13,256	18%

More specifically, we used the proposed 2026 total operating and employee future benefits costs increase of \$13,256,000 compared to the 2023 test year as a basis for selection of key costs to investigate further. The matters we identified that require additional analysis are as follows:

- Total labour;
- Vehicle expenses;
- Plants, substations, system operations and buildings;
- Insurance;
- Other company fees;

Newfoundland and Labrador – Board of Commissioners of Public Utilities
 Newfoundland Power Inc.
 2025/2026 General Rate Application – Supplemental Report

- Vegetation management;
- Computing equipment and software;
- Amortizations; and,
- Employee future benefits.

The selected costs represent \$12,152,000, or 92%, of the \$13,256,000 total proposed increase in operating costs. In our April 24, 2024 report we noted no further analysis was required for the amortizations and employee future benefits. For the remainder of the cost categories, we have provided additional analysis in the following sections of this report.

For each of the selected costs with the exception of total labour, we completed a cost trend analysis of the actual results over the past five years from 2019 to 2023 and a cost trend analysis from 2023 test year to proposed 2026. For labour we completed a trend analysis from 2022 to proposed 2026, including the 2023 test year.

2.1. Review of total labour

The year-over-year analysis for 2023 test year and actual, 2024 forecast, and 2025/2026 proposed is shown below:

Figure 3 – 2023-2026 Total labour

(000s)	2023TY	2023A	2023F	2024F	2025P	2026P	2026P vs 2023TY	Annual % Change
Regular and standby	\$ 33,148	\$ 34,952	\$ 34,820	\$ 36,099	\$ 37,557	\$ 39,156	\$ 6,008	5.7%
Temporary	2,108	697	665	691	721	754	(1,354)	-29.0%
Overtime	3,537	3,583	3,507	3,639	3,801	3,972	435	3.9%
Total Labour	38,793	39,232	38,992	40,429	42,079	43,882	5,089	4.2%
Year over year change (\$)		439	(240)	1,437	1,650	1,803		
Year over year change (%)		1.1%	-0.6%	3.7%	4.1%	4.3%		

Total labour for the period from actual 2023 to proposed 2026 has an effective annual rate increase of 3.8%, compared to effective annual rate increase from 2023 test year of 4.2% as shown in the figure above.

In response to NLH-NP-106, the Company has stated it forecasts temporary and overtime costs using a three-year average with adjustments for inflation. The 2023 forecast was based on a review of the actual operating costs for the period from 2020 to 2022. For the 2024 to 2026 period, the Company used the forecast labour inflation rate of 3.80%, 4.45% and 4.50% for 2024, 2025, and 2026, respectively.

The 2024F to 2026P labour forecast submitted with the 2025/2026 GRA provides the methodology for forecasting annual labour requirements, available internal labour, and the amount of contract labour necessary to meet the annual requirements.

The following figure provides the detailed breakdown of forecast labour expenses as per the Company's "Labour Forecast 2024-2026" report and provided in response to a request for information.² The figure summarizes the actual internal labour costs for 2022 and 2023 as well

² Newfoundland Power Inc. 2025-2026 General Rate Application, December 2023 - Response to Request for Information NLH-NP-94

Newfoundland and Labrador – Board of Commissioners of Public Utilities
 Newfoundland Power Inc.
 2025/2026 General Rate Application – Supplemental Report

1 as the forecasted costs of available internal labour for 2023 to 2026 based on the forecasted
 2 FTE's.

3 **Figure 4 - Internal labour forecast 2022-2026**

4

(000s)	2022A	2023A	2023F	2024F	2025P	2026P	Effective Annual % Change (2026-2022)
Operating	\$ 35,335	\$ 35,649	\$ 35,485	\$ 36,790	\$ 38,278	\$ 39,910	3.09%
Capital	25,048	30,057	30,019	28,368	29,576	30,873	5.37%
Rechargeable & Recoverable	8,984	9,753	9,852	10,306	10,674	11,078	5.38%
Internal labour¹	\$ 69,367	\$ 75,459	\$ 75,356	\$ 75,464	\$ 78,528	\$ 81,861	4.23%
Labour requirement			91,900	92,400	95,700	99,300	2.62%
Labour shortfall			\$ (16,544)	\$ (16,936)	\$ (17,172)	\$ (17,439)	

¹ The Internal Labour Forecast totals presented above and the internal labour figure presented in the below table "Salary Costs by Function" are different due to the inclusion of the non-regulated labour, CDM program labour, electrification program labour, and pension and OPEB current service costs.

5
 6
 7 The forecasted annual labour requirements, as stated in the "Labour Forecast 2024-2026"
 8 report, are presented above and are used to calculate the annual labour shortfall for the 2023F
 9 to 2026P period. The Company has stated that the shortfall for any given year will be addressed
 10 using contract labour, which is presented below in the summary of total labour costs.

11
 12 An analysis of salaries and wages by type of labour and by function within the Company is as
 13 follows:

14 **Figure 5 – Salary costs by function 2022-2026**

15
 16

(000s)	2022A	2023A	2023F	2024F	2025P	2026P	Effective Annual % Change (2026-2022)
Type							
Internal labour	\$ 72,915	\$ 81,324	\$ 81,719	\$ 81,767	\$ 84,974	\$ 88,610	4.99%
Overtime	7,251	7,116	6,591	6,841	7,146	7,467	0.74%
	80,166	88,440	88,310	88,608	92,120	96,077	4.63%
Contractors	16,446	21,912	16,502	16,923	17,164	17,433	1.47%
Total	\$ 96,612	\$ 110,352	\$ 104,812	\$ 105,532	\$ 109,283	\$ 113,510	4.11%
Function							
Operating ¹	42,605	45,138	45,402	46,778	48,570	50,676	4.43%
Capital miscellaneous	54,007	65,214	59,410	58,754	60,713	62,834	3.86%
Total	\$ 96,612	\$ 110,352	\$ 104,812	\$ 105,532	\$ 109,283	\$ 113,510	4.11%

¹ The operating labour figures provided in Exhibit 2 of the 2025/2026 GRA for 2022 to 2026 forecast exclude non-regulated expenses, CDM program labour, electrification program labour, and Pension and OPEB current service costs. A reconciliation between above table for operating and Exhibit 2 of the 2025/2026 GRA as provided by the Company is as

17

Operating Labour, Exhibit 2	\$ 39,037	\$ 39,232	\$ 38,992	\$ 40,429	\$ 42,079	\$ 43,882	2.97%
Non-regulated labour	1,016	923	1,163	1,265	1,253	1,320	
CDM program labour	1,102	1,287	1,452	1,419	1,439	1,489	
Electrification program labour	18	17	97	103	105	109	
OPEB current service costs	1,432	759	758	788	820	853	
Pension current service costs	-	2,920	2,940	2,774	2,874	3,024	
Operating labour, above	\$ 42,605	\$ 45,138	\$ 45,402	\$ 46,778	\$ 48,570	\$ 50,676	4.43%

1 According to the Company, operating labour costs presented in Exhibit 2 from the 2025/2026
 2 GRA are forecast to increase by \$4,800,000, or 12.4%, from 2022 to 2026, which is a 3.1%
 3 increase annually [12.4% / 4 years = 3.1%]. We have calculated an effective annual rate
 4 increase of 2.97%. The Company added that this represents a 1% efficiency compared to
 5 increasing the 2022 costs using the Company’s weighted labour rate for 2023 to 2026, as this
 6 would result in a total increase of \$6,407,000 or 16.4%, which is an increase of 4.1% annually.
 7

8 2.2. Review of vehicle expenses

9 Vehicle expenses are primarily related to the amount of fuel and maintenance costs required to
 10 perform the necessary day to day operations. As a result, fluctuations in fuel prices, age of
 11 vehicles, and the actual usage have a direct impact on the annual cost. This can be seen in the
 12 actual results presented in the following figure:
 13

14 **Figure 6 – 2019-2023 Actual vehicle expenses**

(000s)	2019A	2020A	2021A	2022A	2023A	2023A vs 2019A	% change	Annual % Change
Vehicle expenses	\$ 1,681	\$ 1,725	\$ 1,813	\$ 2,184	\$ 1,940	\$ 259	15%	3.65%
<i>Year over year change (\$)</i>		44	88	371	(244)			
<i>Year over year change (%)</i>		2.6%	5.1%	20.5%	-11.2%			

16
 17
 18 Overall, the actual vehicle expenses incurred in 2023 were \$259,000 greater than in 2019,
 19 which equates to an effective annual increase of 3.65% each year. However, the Company’s
 20 vehicle expense can change from year to year as these costs are largely driven by fluctuations
 21 in fuel prices and the amount of maintenance required annually. For example, the Company’s
 22 expense in 2022 increased by 20.5% over 2021, while it experienced an 11.2% decrease in
 23 2023 compared to 2022. According to the Company, 2022 was higher than 2021 primarily due
 24 to increased fuel prices and maintenance and was lower in 2023 compared to 2022 primarily
 25 due to lower fuel and maintenance costs as a result of lower operating work requirements.
 26

27 The year-over-year analysis of vehicle expenses for 2023 test year and actual, 2024 forecast,
 28 and 2025/2026 proposed is shown below:
 29

30 **Figure 7 – 2023-2026 Vehicle expenses**

(000s)	2023TY	2023A	2024F	2025P	2026P	2026P vs 2023TY	% change	Annual % Change
Vehicle expenses	\$ 1,730	\$ 1,940	\$ 2,142	\$ 2,177	\$ 2,212	\$ 482	28%	8.54%
<i>Year over year change (\$)</i>		210	202	35	35			
<i>Year over year change (%)</i>		12.1%	10.4%	1.6%	1.6%			

32
 33
 34 Actual vehicle expenses for 2023 were \$210,000 greater than the 2023 test year. In response to
 35 PUB-NP-018, the Company has stated this increase is due to higher fuel prices and increased
 36 maintenance costs, including inflationary increases. According to the Company, the increase
 37 can be explained by the following:

- 38 • Fuel costs in 2023 compared to the 2023 test year were \$77,000 higher due to higher
 39 fuel prices, where the 2023 test year was based on 2020 fuel prices which averaged 107
 40 cents per litre, compared to 2023 actual fuel prices averaging 172 cents per litre.

- Maintenance costs in 2023 compared to the 2023 test year were \$96,000 higher due to inflationary increases as well as higher work requirements. The 2023 test year was based on 2020 maintenance costs which were impacted by COVID-19 work restrictions. In addition, inflation anticipated in 2023 used a GDP deflator of 2.32% and 1.75%, while actual increases in GDP deflator were 8.18% and 7.21% for 2021 and 2022, respectively.
- Other costs increased by \$37,000 due to inflationary pressure experienced in 2023 compared to 2023 test year estimates.

Forecast vehicle expenses for 2024 are \$202,000, or 10.4% greater than actual 2023. The increase by fuel, maintenance and other cost categories were \$121,000, \$60,000 and \$21,000 respectively. According to the Company, the 2024 forecast was based on 2022 actuals adjusted downward for fuel prices experienced in the first six months of 2023 while the maintenance and other costs were based on 2022 actuals adjusted for inflation expected over the 2023 and 2024 years.

Both 2025 and 2026 proposed increases are based on the GDP deflator of 1.6%.

2.3. Review of plants, substations, system operations & buildings

The year-over-year changes in plants, substations, system operations, & building costs are summarized below:

Figure 8 – 2019-2023 Actual plants, substations, system operations & buildings

(000s)	2019A	2020A	2021A	2022A	2023A	2023A vs 2019A	% change	Annual % Change
Plants, subs, system oper & bldgs	\$ 3,267	\$ 3,484	\$ 3,495	\$ 3,716	\$ 3,672	\$ 405	12%	2.96%
<i>Year over year change (\$)</i>		217	11	221	(44)			
<i>Year over year change (%)</i>		6.6%	0.3%	6.3%	-1.2%			

As shown above, in 2020 and 2022 there were significant increases of \$217,000 and \$221,000 respectively. The Company has indicated the following causes of the increases:

- Costs for 2020 were higher than 2019 due to increased cleaning costs due to COVID-19, increased snow-clearing costs, and higher generation taxes.
- Costs for 2022 were higher than 2021 primarily due to higher generation taxes and increased snow clearing.

Although the 2023 actual costs decreased by \$44,000 compared to 2022, these costs were still \$405,000 greater than in 2019, which is an effective annual increase of 2.96% each year.

The year-over-year analysis for 2023 test year and actual, 2024 forecast, and 2025/2026 proposed is shown on the next page:

Figure 9 – 2023-2026 Plants, substations, system operations & buildings

(000s)	2023TY	2023A	2024F	2025P	2026P	2026P vs 2023TY	% change	Annual % Change
Plants, subs, system oper & bldgs	\$ 3,492	\$ 3,672	\$ 3,823	\$ 3,885	\$ 3,948	\$ 456	13%	4.18%
Year over year change (\$)		180	151	62	63			
Year over year change (%)		5.2%	4.1%	1.6%	1.6%			

The 2023 actual costs incurred were \$180,000, or 5.2% higher compared to the 2023 test year. The Company explained that this increase is primarily due to higher costs for building maintenance and snow clearing services, partially offset by lower generation taxes. Building maintenance costs for 2023 were \$187,000 higher than 2023 test year primarily reflecting higher inflation than was forecasted in the 2022/2023 GRA as explained previously. Snow clearing costs for 2023 were \$132,000 higher than test year primarily reflecting higher contract costs. According to the Company, contractor pricing for snow clearing services increased by 21% since 2021.

The 2024 costs are forecast to increase by \$151,000 from the 2023 actuals. The 2024 forecast is based on 2022 actuals adjusted for inflation expected over the 2023 and 2024 years.

Both 2025 and 2026 proposed increases are based on the GDP deflator of 1.6%.

2.4. Review of insurance

As shown below, insurance costs have increased over the 2019 to 2023 period, however, there has been a downward trend in these annual dollar increases thereafter.

Figure 10 – 2019-2023 Actual insurance

(000s)	2019A	2020A	2021A	2022A	2023A	2023A vs 2019A	% change	Annual % Change
Insurance	\$ 1,397	\$ 1,698	\$ 1,995	\$ 2,214	\$ 2,425	\$ 1,028	74%	14.78%
Year over year change (\$)		301	297	219	211			
Year over year change (%)		21.5%	17.5%	11.0%	9.5%			

After the increases of \$301,000 in 2020 and \$297,000 in 2021, there was a reduction in the rate of change for 2022 and 2023. The 2020, 2021 and 2022 year over year increase was primarily due to higher premium rates for property insurance.

The downward trend in annual increases is forecast to continue over the 2024 to 2026 period as follows:

Figure 11 – 2023-2026 Insurance

(000s)	2023TY	2023A	2024F	2025P	2026P	2026P vs 2023TY	% change	Annual % Change
Insurance	\$ 2,345	\$ 2,425	\$ 2,621	\$ 2,773	\$ 2,932	\$ 587	25%	7.73%
Year over year change (\$)		80	196	152	159			
Year over year change (%)		3.4%	8.1%	5.8%	5.7%			

Newfoundland and Labrador – Board of Commissioners of Public Utilities
 Newfoundland Power Inc.
 2025/2026 General Rate Application – Supplemental Report

The insurance costs for 2025 and 2026 are forecasted to increase by 5.8% and 5.7%, respectively. According to the Company, these increases are based on consideration of actual premium increases over the last three years of approximately 10% and the forecast annual average GDP deflator for 2024 to 2026 of 1.7% $[(10\% + 1.7\%)/2 = 5.9\%]$. This results in a forecasted increase for the proposed 2026 costs of \$587,000 compared to the 2023 test year, which equates to an effective annual increase of 7.73% for each year from 2023 test year to proposed 2026. This is a reduction of 7.05% in the annual increase, compared to the actual effective annual increase for the 2019 to 2023 period of 14.78%. According to the Company, the increase in insurance costs is mostly due to higher property insurance premiums, foreign exchange fluctuations, as well as rate pressure for casualty and cyber liability. Aon Reed Stenhouse Inc., the Company’s insurance broker, has confirmed to Newfoundland Power that the rates and coverage for the 2023 to 2024 insurance period term are the best available given the current market conditions.³

2.5. Review of other company fees

Other company fees primarily include professional fees including engineering studies, external audit, regulatory and legal fees, Canadian Electricity Association fees, and other consulting fees.⁴ Due to the nature of these fees, there is typically fluctuations for any given year depending on the timing of the related work. The below figures address the trend, reasons for significant changes and a detailed breakdown of the forecasted costs.

Figure 12 – 2019-2023 Actual other company fees

(000s)	2019A	2020A	2021A ¹	2022A	2023A	2023A vs 2019A	% change	Annual % Change
Other company fees	\$ 2,428	\$ 2,131		\$ 2,945	\$ 3,544	\$ 1,116	46%	9.92%
Year over year change (\$)		(297)			599			
Year over year change (%)		-12.2%			20.3%			

Note 1: 2021 actual regulated other company fees was not available to Grant Thornton.

After a significant decrease in 2020 of \$297,000, other company fees increased by \$1,116,000 in 2023 compared to 2019. Over the 2019 to 2023 period, other company fees have increased at an actual effective annual rate of 9.92%. A component of other company fees relates to regulatory proceedings for both the Company and Newfoundland and Labrador Hydro (“NL Hydro”). These costs are typically higher in years that include a GRA.

The year-over-year analysis for 2023 test year and actual, 2024 forecast, and 2025/2026 proposed is shown below:

Figure 13 – 2023-2026 Other company fees

(000s)	2023TY	2023A	2024F	2025P	2026P	2026P vs 2023TY	% change	Annual % Change
Other company fees	\$ 2,574	\$ 3,544	\$ 5,131	\$ 4,771	\$ 4,672	\$ 2,098	82%	21.98%
Year over year change (\$)		970	1,587	(360)	(99)			
Year over year change (%)		37.7%	44.8%	-7.0%	-2.1%			

³ Newfoundland Power Inc. 2025-2026 General Rate Application, December 2023 - Response to Request for Information NLH-NP-021.

⁴ Newfoundland Power Inc. 2025-2026 General Rate Application, December 2023 - Response to Request for Information NLH-NP-036.

Newfoundland and Labrador – Board of Commissioners of Public Utilities
 Newfoundland Power Inc.
 2025/2026 General Rate Application – Supplemental Report

The actual costs incurred in 2023 were \$970,000, or 37.7% higher compared to the 2023 test year. In response to NLH-NP-036, the Company stated that 2023 actual costs were higher than test year due to increased costs associated with regulatory proceedings, higher external consultant costs in technology including cybersecurity and higher external consultant costs in finance. In response to PUB-NP-141, the Company provides additional details on the increase in other company fees in 2023 forecast compared to 2023 test year.

Other company fees are forecast to increase by \$1,587,000 in 2024 compared to 2023 actual primarily due to additional costs of \$1,175,000 related to the planned IFRS assessment.

The proposed costs for 2025 and 2026 are forecasted to decrease year over year in comparison to 2024, as costs related to the IFRS assessment decline. The Company has provided a more detailed breakdown of the costs included in other company fees as follows:

Figure 14 – 2023-2026 Other company fees breakdown

(000s)	2023TY	2023F ¹	2024F	2025P	2026P	2026P vs 2023TY
Newfoundland Power	\$ 84	\$ 574	\$ 644	\$ 284	\$ 664	\$ 580
NL Hydro	400	75	300	400	325	(75)
Regulatory proceedings (note 1)	484	649	944	684	989	505
Year over year change (\$)		165	295	(260)	305	
Year over year change (%)		34.1%	45.5%	-27.5%	44.6%	
Cyber security	75	100	302	307	312	237
Other related costs	236	490	625	630	635	399
Information technology (note 2)	311	590	927	937	947	636
Year over year change (\$)		279	337	10	10	
Year over year change (%)		89.7%	57.1%	1.1%	1.1%	
IFRS assesment (note 3)	-	-	1,175	995	495	495
Year over year change (\$)		-	1,175	(180)	(500)	
Year over year change (%)		-	N/A	-15.3%	-50.3%	
Other (note 4)	1,779	2,333	2,085	2,155	2,241	462
Year over year change (\$)		554	(248)	70	86	
Year over year change (%)		31.1%	-10.6%	3.4%	4.0%	
Total other company fees	\$ 2,574	\$ 3,572	\$ 5,131	\$ 4,771	\$ 4,672	\$ 2,098

¹ For 2023, the Company provided forecast figures for purposes of this analysis, instead of actual. The difference between actual and forecast was \$28,000.

Note 1: Regulatory proceedings:

These costs tend to fluctuate based on GRA activity for a given year and include other items such as capital budget applications.

The Company has indicated that costs associated with Newfoundland Power proceedings are higher in 2023, 2024 and 2026 in relation to expected GRA activity. Similarly, costs associated with NL Hydro are higher in 2024 to 2026 in relation to their upcoming GRA and the Reliability and Resource Adequacy Study Review. In 2023, NL Hydro related regulatory costs were lower than expected primarily due to the delay in NL Hydro's GRA filing.

Newfoundland and Labrador – Board of Commissioners of Public Utilities
Newfoundland Power Inc.
2025/2026 General Rate Application – Supplemental Report

1 The proposed costs for 2026 are forecasted to be \$505,000 higher than the 2023 test
2 year. This represents 24% of the total increase of \$2,098,000 in other company fees
3 from 2023 test year to 2026.

4
5 **Note 2: Information technology:**

6 Cyber security related fees include fees for annual penetration testing, incident response
7 support and risk management assessments. The cost increase in 2024 reflects the
8 introduction of the Security Information and Event Management service, in which a third
9 party will monitor the Company’s systems 24/7 to reduce cyber security risk.

10
11 Other IT related fees increase in 2023 and 2024 in relation to the assessment of a new
12 asset management system, as well as application support services associated with the
13 Customer Information System.

14
15 Both costs increase for a combined total of \$636,000 by 2026 compared to the 2023 test
16 year. This represents 30% of the total increase of \$2,098,000 in other company fees
17 from 2023 test year to 2026.

18
19 **Note 3: IFRS assessment:**

20 The IFRS assessment is a one-time engagement which results in a significant increase
21 of costs for the 2024 to 2026 period. As there is no inclusion for these costs in the 2023
22 test year, the 2026 forecast of \$495,000, accounts for 24% of the total increase of
23 \$2,098,000 in other company fees from 2023 test year to 2026. In response to PUB-NP-
24 022 the Company explained that its estimate of IFRS assessment costs is based on the
25 estimated costs of engaging consultants, such as for additional auditing services where
26 audit fees were based on discussion with the Company’s external auditor and engaging
27 financial consultants with expertise in IFRS to assist with the conversion to IFRS. In
28 response to PUB-NP-142, when asked whether it would be appropriate to recover the
29 costs associated with converting to IFRS over a longer period, the Company stated that:

30
31 *“In the 2025/2026 General Rate Application, the Company has included costs*
32 *associated with the change in accounting standards in its 2025 and 2026 test*
33 *years in accordance with the timeframe they are expected to be incurred. A*
34 *reasonable alternative to the Company’s proposed approach of including the*
35 *conversion costs in its 2025 and 2026 test years could be to establish a deferral*
36 *account for these costs for amortization and recovery from customers over a*
37 *reasonable time period.”⁵*

38
39 **Note 4: Other:**

40 The increase in 2023 forecast over the 2023 test year is \$554,000 primarily relating to
41 higher audit fees associated with the implementation of the Company’s Customer
42 Information System, higher engineering consultant costs for asset management and
43 maturity assessments, greater legal fees, and costs associated with a customer survey
44 completed in 2023. This is followed by a forecasted decrease in 2024 of \$248,000
45 compared to 2023 which related to no similar 2023 work being carried out in 2024,
46 partially offset by inflationary increases. The proposed 2025 and 2026 costs are forecast
47 to increase by 3.4% and 4.0%, respectively.

⁵ Newfoundland Power Inc. 2025-2026 General Rate Application, December 2023 - Response to Request for Information PUB-NP-142.

2.6. Review of vegetation management

The following presents the 2019 to 2023 actual costs for vegetation management:

Figure 15 – 2019-2023 Actual vegetation management

(000s)	2019A	2020A	2021A	2022A	2023A	2023A vs 2019A	% change	Annual % Change
Vegetation management	\$ 2,042	\$ 2,306	\$ 2,524	\$ 3,230	\$ 3,328	\$ 1,286	63%	12.99%
Year over year change (\$)		264	218	706	98			
Year over year change (%)		12.9%	9.5%	28.0%	3.0%			

In response to PUB-NP-141, the Company stated that operating costs related to vegetation management are the result of three main drivers: (i) planned tree trimming and brush clearing work identified as part of distribution and transmission inspections, (ii) customer requests for tree trimming near power lines and, (iii) response to unplanned customer outages caused by trees.

Planned tree trimming and brush clearing requirements that are completed as part of the Company's inspection program have increased compared to prior years. According to the Company, the average number of work orders completed in the three years from 2018 to 2020 was 400, compared to 578 in the three years from 2021 to 2023; a 45% increase.

The Company also completes tree trimming near power lines resulting from customer requests. According to the Company, on average, 1,589 work orders were completed annually between 2018 and 2020, as compared to an average of 1,770 between 2021 and 2023; an 11% increase.

In addition to planned work resulting from inspections and customer requests, operating costs related to vegetation management are also driven by unplanned customer outages caused by trees. This is reflected in outage minutes related to tree contacts and indicate broader vegetation conditions across the Company's service territory. According to the Company, the percentage of outage minutes related to tree contacts has increased steadily over the 2020 to 2023 timeframe from 16% to 21%.

As a result of the described increases in each type of work performed, there has been an actual increase in costs of \$1,286,000 for 2023 compared to 2019. This resulted in an effective annual increase of 13% each year.

Figure 16 – 2023-2026 Vegetation management

(000s)	2023TY	2023A	2024F	2025P	2026P	2026P vs 2023TY	% change	Annual % Change
Vegetation management	\$ 2,441	\$ 3,328	\$ 3,323	\$ 3,377	\$ 3,432	\$ 991	41%	12.03%
Year over year change (\$)		887	(5)	54	55			
Year over year change (%)		36.3%	-0.2%	1.6%	1.6%			

As demonstrated in the above figure, the 2026 forecast costs are \$991,000 higher compared to the 2023 test year, with approximately \$887,000 of this increase being realized in the actual 2023 costs due to the increase in activity over the 2021 to 2023 period as explained above.

Newfoundland and Labrador – Board of Commissioners of Public Utilities
 Newfoundland Power Inc.
 2025/2026 General Rate Application – Supplemental Report

In response to PUB-NP-141 the Company stated that “the increase in vegetation management costs in 2023, as well as its 2025 and 2026 test year forecast are reflective of increased work requirements related to planned and customer driven work requirements experienced over the last three years.”

2.7. Review of computer equipment & software

The following presents the 2019 to 2023 actual costs for computer equipment & software:

Figure 17 – 2019-2023 Actual computing equipment & software

(000s)	2019A	2020A	2021A	2022A	2023A	2023A vs 2019A	% change	Annual % Change
Computing equipment & software	\$ 1,830	\$ 2,199	\$ 2,461	\$ 2,879	\$ 3,697	\$ 1,867	102%	19.22%
Year over year change (\$)		369	262	418	818			
Year over year change (%)		20.2%	11.9%	17.0%	28.4%			

In 2023, the Company has increased spending related to computing equipment and software by \$1,867,000 compared to 2019, which equates to an actual effective annual rate increase of 19.22% over the 2019 to 2023 period.

The Company has provided a breakdown of computing equipment and software by its major components for 2023 test year to 2026 as follows:

Figure 18 – 2026P vs 2023TY Computing equipment & software

(000s)	2023TY	2023A	2024F	2025P	2026P	2026P vs 2023TY	Annual % Change
Infrastructure and network management (1)	\$ 433	\$ 369	\$ 777	\$ 846	\$ 857	\$ 424	25.6%
Cyber security management (2)	503	484	665	704	704	201	11.9%
Customer service software (3)	970	1,045	851	937	952	(18)	-0.6%
Business backoffice software (4)	317	433	457	498	504	187	16.7%
Operations and engineering software (5)	1,223	1,366	1,522	1,717	1,975	752	17.3%
Computing equipment & software	\$ 3,446	\$ 3,697	\$ 4,272	\$ 4,702	\$ 4,992	\$ 1,546	13.1%
Year over year change (\$)		251	575	430	290		
Year over year change (%)		7.3%	15.6%	10.1%	6.2%		

The Company has provided an explanation for each of its categories and increase in costs over the period from 2022 to 2026 in response to PUB-NP-140:

- Infrastructure and Network Management** – the increase in Infrastructure and Network Management costs relates to the implementation of a modern technology management solution, as well as increased licensing and support costs associated with its servers and databases.
- Cybersecurity Management** – the increase in Cybersecurity Management costs relates to new firewall support and maintenance and functionality associated with security monitoring and identifying system threats.
- Customer Service Software** – the increase in Customer Service Software costs relates to the implementation of the Company's new Customer Information System.
- Business Backoffice Software** – the increase in Business Backoffice Software costs relates to upgrades to Newfoundland Power's financial management and human resources management systems.

Newfoundland and Labrador – Board of Commissioners of Public Utilities
Newfoundland Power Inc.
2025/2026 General Rate Application – Supplemental Report

1 5. **Operations and Engineering Software** – the increase in Operations and Engineering
2 Software relates to costs required to maintain Newfoundland Power's core operation
3 technologies: the Workforce Management System, the Outage Management System,
4 the Geographic Information System, and the Asset Management System.

5
6 When compared to the 2023 test year, the actual computing equipment and software costs for
7 2023 were \$251,000 higher, which according to the Company was caused by higher software
8 costs related to cyber security, customer service, business back office, and operations and
9 engineering.

10 There is an additional increase forecasted in 2024 of \$575,000 compared to the 2023 actual
11 costs, primarily due to increases of \$408,000 for infrastructure, \$181,000 for cyber security, and
12 \$156,000 for operations and engineering, partially offset by a decrease of \$194,000 in customer
13 service.

14
15 The proposed costs for 2025 and 2026 are forecast to increase by \$430,000 and \$290,000 year
16 over year, respectively. By 2026, costs will be \$1,546,000 greater than the 2023 test year, which
17 is an effective annual increase of 13.1% each year for the 2024 to 2026 period. \$1,177,000 of
18 the total increase in 2026 costs relates to 'infrastructure and network management' and
19 'operations and engineering'.

20
21 The nature of these costs involves the addition of new software and replacement of existing
22 software. Based on the information provided by the Company, similar to the information
23 included in PUB-NP-140, we compiled costs into categories provided by the Company under the
24 following:

- 25
26 (1) **Ongoing/retirement software** – Includes any software that incurred costs in 2022 and
27 is forecast to either be replaced or remain in use to 2026;
28 (2) **New software** – Is new software and has no costs in 2022;
29 (3) **Replacement software** – Is software that has costs in 2022 or later and is replacement
30 software;
31 (4) **Software less than \$50,000** – The Company also tracks any software that costs
32 \$50,000 or less as a separate category.

33
34 In the following figures we present these costs for the period from 2022 to 2026 both by each
35 major software category and by its software stage (1) to (4) discussed above:

Newfoundland and Labrador – Board of Commissioners of Public Utilities
 Newfoundland Power Inc.
 2025/2026 General Rate Application – Supplemental Report

Figure 19 – 2022 to 2026P Computing equipment & software by major software category (Note 1)

(000s)	2022A	2023TY	2023A	2024F	2025P	2026P	2026P vs 2023TY	Annual % Change from 2023TY	2026P vs 2022A	Annual % Change from 2022A
Infrastructure and Network										
Ongoing/Retirement	\$ 232,238	\$ 161,413	\$ 127,395	\$ 244,000	\$ 247,000	\$ 250,000	\$ 88,587		\$ 17,762	
New	-	20,000	-	158,000	245,000	250,000	230,000		250,000	
Replacement	-	-	-	50,000	50,000	50,000	50,000		50,000	
Less than \$50,000	216,181	251,482	242,006	324,500	303,500	306,500	55,018		90,319	
	448,419	432,895	369,401	776,500	845,500	856,500	423,605	25.5%	408,081	17.6%
Cyber Security										
Ongoing/Retirement	\$ 129,000	\$ 133,449	\$ 75,000	\$ 75,000	\$ 75,000	\$ 75,000	\$ (58,449)		\$ (54,000)	
New	-	103,000	120,000	125,000	160,000	160,000	57,000		160,000	
Replacement	2,088	71,169	2,500	163,500	163,500	163,500	92,331		161,412	
Less than \$50,000	194,183	195,715	286,248	301,700	305,200	305,200	109,485		111,017	
	325,271	503,333	483,748	665,200	703,700	703,700	200,367	11.8%	378,429	21.3%
Customer Service										
Ongoing/Retirement	\$ 462,390	\$ 450,273	\$ 485,147	\$ 250,000	\$ 255,000	\$ 160,000	\$ (290,273)		\$ (302,390)	
New	-	-	-	-	50,000	50,000	50,000		50,000	
Replacement	236,585	315,000	385,000	394,500	409,500	550,000	235,000		313,415	
Less than \$50,000	146,078	204,448	174,626	206,250	222,000	192,000	(12,448)		45,922	
	845,053	969,721	1,044,773	850,750	936,500	952,000	(17,721)	-0.6%	106,947	3.0%
Business Backoffice										
Ongoing/Retirement	\$ 178,859	\$ 164,677	\$ 186,000	\$ 202,000	\$ 230,000	\$ 230,000	\$ 65,323		\$ 51,141	
New	-	-	36,000	36,000	40,000	40,000	40,000		40,000	
Replacement	-	-	-	-	-	-	-		-	
Less than \$50,000	174,300	151,948	210,532	219,032	228,000	233,500	81,552		59,200	
	353,159	316,625	432,532	457,032	498,000	503,500	186,875	16.7%	150,341	9.3%
Operations and engineering										
Ongoing/Retirement	\$ 627,790	\$ 944,563	\$ 334,814	\$ 338,000	\$ 370,000	\$ 375,000	\$ (569,563)		\$ (252,790)	
New	-	-	-	-	50,000	50,000	50,000		50,000	
Replacement	166,411	126,725	847,940	998,750	1,076,000	1,326,000	1,199,275		1,159,589	
Less than \$50,000	113,085	152,167	183,026	185,300	222,000	225,000	72,833		111,915	
	907,286	1,223,455	1,365,780	1,522,050	1,718,000	1,976,000	752,545	17.3%	1,068,714	21.5%
Total	\$ 2,879,188	\$ 3,446,029	\$ 3,696,234	\$ 4,271,532	\$ 4,701,700	\$ 4,991,700	\$ 1,545,671	13.1%	\$ 2,112,512	14.7%

Note 1 – The components of this table were compiled from the response to PUB-NP-140 as well as additional information provided to Grant Thornton by the Company. This data includes commercially sensitive information and as a result, has been presented in our report on a summary basis.

The operations and engineering category has the largest increase in 2026 from 2023 test year and 2022 with an increase over test year of \$752,545 and an increase over 2022 of \$1,068,714, as well as the largest effective annual increase change of 21.5% from 2022 to 2026. The major increase in this category is the replacement software in 2023 and increasing each year to 2026.

The next two largest increases from 2022 to 2026 are in the categories of Infrastructure and Network, and Cyber Security costs. Infrastructure and networks costs increase most significantly in the 2024 forecast year with a 110% increase from 2023 actual, mainly due to new and replacement software costs. Cyber Security costs are forecasted to increase by \$378,429 from 2022 to 2026, which equates to a 21.3% effective annual increase, mainly due to replacement software costs in 2024.

Newfoundland and Labrador – Board of Commissioners of Public Utilities
 Newfoundland Power Inc.
 2025/2026 General Rate Application – Supplemental Report

Figure 20 – 2022 to 2026P Computing equipment & software by its software stage (Note 1)

	2022A	2023TY	2023A	2024F	2025P	2026P	2026P vs 2023TY	% change	Annual % Change	2026P vs 2022	% change	Annual % Chang
Ongoing/Retirement software												
Infrastructure and network management	\$ 232,238	\$ 161,413	\$ 127,395	\$ 244,000	\$ 247,000	\$ 250,000	\$ 88,587			\$ 17,762		
Cyber security management	129,000	133,449	75,000	75,000	75,000	75,000	(58,449)			(54,000)		
Customer service software	462,390	450,273	485,147	250,000	255,000	160,000	(290,273)			(302,390)		
Business backoffice software	178,859	164,677	186,000	202,000	230,000	230,000	65,323			51,141		
Operations and engineering software	627,790	944,563	334,814	338,000	370,000	375,000	(569,563)			(252,790)		
	1,630,277	1,854,375	1,208,356	1,109,000	1,177,000	1,090,000	(764,375)	-41.2%	-16.2%	(540,277)	-33.1%	-9.6%
Replacement software												
Infrastructure and network management	\$ -	\$ -	\$ -	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000			\$ 50,000		
Cyber security management	2,088	71,169	2,500	163,500	163,500	163,500	92,331			161,412		
Customer service software	236,585	315,000	385,000	394,500	409,500	550,000	235,000			313,415		
Business backoffice software	-	-	-	-	-	-	-			-		
Operations and engineering software	166,411	126,725	847,940	998,750	1,076,000	1,326,000	1,199,275			1,159,589		
	405,084	512,894	1,235,440	1,606,750	1,699,000	2,089,500	1,576,606	307.4%	59.7%	1,684,416	415.8%	50.7%
New software												
Infrastructure and network management	\$ -	\$ 20,000	\$ -	\$ 158,000	\$ 245,000	\$ 250,000	\$ 230,000			\$ 250,000		
Cyber security management	-	103,000	120,000	125,000	160,000	160,000	57,000			160,000		
Customer service software	-	-	-	-	50,000	50,000	50,000			50,000		
Business backoffice software	-	-	36,000	36,000	40,000	40,000	40,000			40,000		
Operations and engineering software	-	-	-	-	50,000	50,000	50,000			50,000		
	-	123,000	156,000	319,000	545,000	550,000	427,000	347.2%	64.7%	550,000	N/A	N/A
Software less than \$50,000												
Infrastructure and network management	\$ 216,181	\$ 251,482	\$ 242,006	\$ 324,500	\$ 303,500	\$ 306,500	\$ 55,018			\$ 90,319		
Cyber security management	194,183	195,715	286,248	301,700	305,200	305,200	109,485			111,017		
Customer service software	146,078	204,448	174,626	206,250	222,000	192,000	(12,448)			45,922		
Business backoffice software	174,300	151,948	210,532	219,032	228,000	233,500	81,552			59,200		
Operations and engineering software	113,085	152,167	183,026	185,300	222,000	225,000	72,833			111,915		
	843,827	955,760	1,096,438	1,236,782	1,280,700	1,262,200	306,440	32.1%	9.7%	418,373	49.6%	10.6%
	\$ 2,879,188	\$ 3,446,029	\$ 3,696,234	\$ 4,271,532	\$ 4,701,700	\$ 4,991,700	\$ 1,545,671	44.9%	13.1%	\$ 2,112,512	73.4%	14.7%

Note 1 – The components of this table were compiled from the response to PUB-NP-140 as well as additional information provided to Grant Thornton by the Company. This data includes commercially sensitive information and as a result, has been presented in our report on a summary basis.

Ongoing/Retirement software across each major software category is expected to decrease in the period from 2022 to 2026 except Infrastructure and Network, and Business Backoffice software. The overall decrease is expected to be \$540,277 from 2022 to 2026.

Other major software categories increase over the 2022 to 2026 period with replacement software increasing by \$1.7 million, new software increasing by 0.6 million and software less than \$50,000 increasing by \$0.4 million. Most of the new software was or will be purchased over the 2023 to 2025 period. By 2026, the annual cost of new software will be \$550,000. Most of the replacement software was or will be purchased over the 2023 to 2026 period. By 2026, the annual cost of replacement software will be \$2,089,500.

The effective annual increase for total Computing Equipment and Software costs over the period from 2022 to 2026 is 14.7%.

2.8. Conclusion

We have reviewed the Company's operating expense forecast including the methodology, supporting documentation for key assumptions, responses to inquiries, and performed trend analysis to identify irregularities or inconsistencies. Based on this review, we have not identified any irregularities or inconsistencies to report.

3. Return on rate base

In our report dated April 24, 2024 (“Initial Report”), we noted that during our review, the weighted average cost of capital (“WACC”) and the rate of return on rate base (“RORB”) did not agree. At the time of our Initial Report, we had not fully assessed this issue. Subsequently, we will provide our additional observations and recommendations regarding this issue throughout this section of our report.

3.1. Procedures

To complete our review of this specific issue, we performed the following additional procedures:

- Revisited the Company’s responses to our queries and all requests for information for the 2025/2026 GRA which pertain to the matter; and,
- Participated in follow-up conversations with the Company to clarify and further our understanding of the root cause of the difference between WACC and rate of RORB in the 2025/2026 GRA.

3.2. Return on rate base calculation

In response to PUB-NP-017 of the 2024 Rate of RORB Application, the Company explains that their “return on rate base has been determined by adding the Company’s return on debt, return on common equity and return on preferred equity together in its general rate applications and rate of return on rate base applications since 2008”.⁶

The following table shows a comparison of the Company’s 2023 test year, 2024 regulated, 2025 proposed and 2026 proposed return on rate base (\$) and regulated rate of return on rate base (%):

Figure 21 – 2023TY-2026 return on rate base

000's		2023 TY (1)	2024 regulated RORB(2)	2025P (3)	2026P (3)
Regulated return on equity	A	49,202	51,498	63,047	63,651
Finance charges					
Interest on long-term debt		34,945	39,053	38,600	40,860
Other interest		909	3,635	3,531	1,635
Amortization of bond issue expenses		183	225	221	217
AFUDC		(2,964)	(1,285)	(1,350)	(1,696)
Total finance charges	B	33,073	41,628	41,002	41,016
Return on rate base	C=A+B	82,275	93,126	104,049	104,667
Average rate base	D	1,287,450	1,360,058	1,406,816	1,451,200
Rate of return on rate base (%)	E=C/D	6.39%	6.85%	7.40%	7.21%

(1) 2023 test year figures were proposed in the 2022-2023 GRA – Amended Application and approved in Order No. P.U.3 (2022) – Amended No. 2.

⁶ Newfoundland Power Inc. 2024 Rate of Return on Rate Base Application, November 2023 - Response to Request for Information PUB-NP-017

Newfoundland and Labrador – Board of Commissioners of Public Utilities
 Newfoundland Power Inc.
 2025/2026 General Rate Application – Supplemental Report

(2) The 2024 regulated return on rate base is calculated in Appendix B of the 2024 Rate of RORB Application with the breakdown of finance charges displayed in Appendix D (pg.3).

(3) The 2025P and 2026P return on rate base is calculated in Exhibit 5 of the 2025/2026 GRA.

In their response to PUB-NP-017 of the 2024 Rate of RORB Application, the Company stated that:

“The Company’s 2008 test year return on rate base was calculated by adding its return on debt, return on common equity and return on preferred equity together as opposed to the formula of rate base x WACC. Newfoundland Power has calculated its forecast return on rate base for 2024 by adding together its return on debt and return on common equity for 2024. This is consistent with the Company’s approach in its 2015, 2018 and 2021 rate of return on rate base applications, each of which were approved by the Board as filed.”⁷

As shown in Figure 21, the Company applies this method of calculating return on rate base (\$) and the implied rate of return on rate base (%) for 2025P and 2026P.

3.3. Review of WACC vs. rate of RORB variance

We compared the WACC to the rate of RORB from 2021 to 2026 as follows:

Figure 22 – 2021-2026 WACC vs rate of RORB

(%)	2021F (1)	2022 TY (2)	2023 TY (2)	2024F (3)	2025P (4)	2026P (4)
Note 1	RRORB	GRA	GRA	RRORB	GRA	GRA
Rate of return on rate base	6.65%	6.61%	6.39%	6.85%	7.40%	7.21%
Weighted average cost of capital	6.67%	6.61%	6.39%	6.67%	7.29%	7.28%
Difference	0.02%	0.00%	0.00%	(0.18%)	(0.11%)	0.07%

Note 1 - For clarity we have indicated above whether each year contained a General Rate Application (GRA) or a specific Rate of Return on Rate Base Application (RRORB).

(1) Newfoundland Power 2021 Rate of RORB Application

(2) Newfoundland Power 2022/2023 General Rate Application

(3) Newfoundland Power 2024 Rate of RORB Application

(4) Newfoundland Power 2025/2026 General Rate Application

In the 2022/2023 GRA WACC appeared to equal the rate of RORB. Therefore, we expected this to be the case in the 2025/2026 GRA. The Company addresses this issue in their responses to PUB-NP-076, PUB-NP-153 and in their response to our direct inquiries.

As presented in our Initial Report, there are several reconciling items between invested capital and rate base. These reconciling items are summarized on the next page.

⁷ Newfoundland Power Inc. 2024 Rate of Return on Rate Base Application, November 2023 - Response to Request for Information PUB-NP-017

Figure 23 – Average rate base vs. average invested capital

(\$millions)	2022TY	2023TY	2024F	2025E	2026E	2025P	2026P
	[1]	[1]	[1]	[2]	[2]	[3]	[3]
Average rate base (A)	1,239.0	1,288.0	1,360.0	1,407.7	1,450.7	1,406.8	1,451.2
Construction work in progress (CWIP)	21.0	16.0	8.0	4.6	7.5	4.6	7.5
Materials and supplies	2.0	2.0	4.0	3.7	3.8	2.7	2.8
Cash working capital	(24.0)	(19.0)	21.0	48.4	56.3	12.8	(23.6)
Average invested capital (B)	1,238.0	1,287.0	1,393.0	1,464.4	1,518.3	1,426.9	1,437.9
Difference (B-A)	(1.0)	(1.0)	33.0	56.7	67.6	20.1	(13.3)
Difference (WACC less rate of RORB)	-	-	(0.18%)	(0.24%)	(0.25%)	(0.11%)	0.07%

[1] The 2022TY, 2023TY, and 2024F reconciliation was provided in response to our inquiry to the Company regarding the Newfoundland Power Inc. 2024 Rate of Return on Rate Base Application.

[2] The 2025E and 2026E reconciliation was provided in response to our inquiry to the Company regarding the Newfoundland Power Inc. 2025-2026 General Rate Application.

[3] The 2025P and 2026P reconciliation was provided in Response to Request for Information PUB-NP-076 of the Newfoundland Power Inc. 2025-2026 General Rate Application.

The above shows that differences between invested capital and rate base existed in the 2022/2023 GRA. However, the reconciling items happened to offset each other in those periods. In the Company's response to PUB-NP-076, they explained that the primary reason for the differences relates to average cash working capital. In considering the cash working capital reconciling item, we reviewed the components of the calculation as summarized below.

Figure 24 – Total average cash working capital difference

(\$millions)	2024F (Note 2)	2025E	2026E	2025P	2026P
Accounts receivable, prepaids and accounts payable	(28.8)	(28.2)	(29.5)	(25.9)	(24.5)
2025 Energy Supply Cost Variance Account ("ESCV") - Note 1	18.2	39.2	41.6	12.2	-
Rate Stabilization Account ("RSA") excluding ESCV - Note 1	39.8	42.9	49.1	25.7	-
Deferral accounts and other	(0.5)	2.4	2.9	2.3	2.6
Rate base allowance	(7.7)	(7.9)	(7.8)	(1.5)	(1.7)
Total average cash working capital difference	21.0	48.4	56.3	12.8	(23.6)

Note 1 – When determining its 2025 and 2026 test year revenue requirements, the Company removed RSA balances and interest from its test year forecast effective July 1, 2025. These adjustments reduce the difference between average invested capital and average rate base for 2025 and 2026, as well as the forecasted WACC and rate of return on rate base. Similar adjustments were completed for the 2022 and 2023 test years.

Note 2 – 2024F figures were provided by the Company during Grant Thornton's review of the 2024 Rate of Return on Rate Base Application.

The Company provided the following summary regarding the variances:

"Overall, the variances in each year reflect forecast working capital versus the cash working capital allowance in rate base. In the 2025 test year, the ESCV and RSA

1 *differences are driven by higher purchased power costs and in particular, variances in*
2 *cash flows driven by the current wholesale rate.*

3
4 *Newfoundland Power has removed RSA balances and interest effective July 1, 2025*
5 *(i.e. the effective date of the proposed customer rate change). These adjustments serve*
6 *to align average invested capital and average rate base for 2025 and 2026, as well as*
7 *forecast WACC and rate of return on rate base. Similar adjustments were completed for*
8 *the 2022 and 2023 test years to lessen the impact of the volatility of power supply cash*
9 *flow effects on the Company’s test year forecasts, which have occurred since the current*
10 *wholesale rate was implemented in 2019.*

11
12 *Newfoundland Power anticipates the volatility associated with power supply costs to be*
13 *significantly reduced upon implementation of a new wholesale rate.”⁸*

14
15 The three differences between invested capital and rate base have existed since the ARBM was
16 fully adopted by the Company.

17 3.4. Conclusion

18 **We have concluded our review of the rate of return on rate base and have noted the**
19 **following observations and recommendations for the Board’s consideration:**

- 20
21 • **We can confirm that our additional work on this matter continues to support**
22 **the findings observations and conclusions in our Initial Report.**
- 23 • **Under the ARBM , differences in invested capital and rate base exist. These**
24 **differences pertain to the construction work in progress, materials and**
25 **supplies, and cash working capital amounts.**
- 26 • **We have noted that in the 2022/2023 GRA, the Company partially offset those**
27 **differences by excluding the energy supply cost variance account and the rate**
28 **stabilization account in the calculation of the cash working capital variance. In**
29 **the 2025/2026 GRA the Company has also included offsetting adjustments to**
30 **the cash working capital variance in relation to the energy supply cost**
31 **variance account and the rate stabilization account in its calculation of the**
32 **cash working capital variance.**
- 33 • **An alternative approach to addressing variances in the cash working capital**
34 **amount is to consider if the methodology used to calculate the allowance that**
35 **is included in average rate base requires a revision. We discussed this with**
36 **the Company and understand that their preference is to monitor the progress**
37 **towards resolving the large differences through the adoption of the new**
38 **wholesale rate. If the matter is still an issue after the wholesale rate has been**
39 **established, that would be a better time to review the methodology for**
40 **determining the allowance. We agree that reviewing the methodology for**
41 **calculating an allowance would be more effective if it were performed after the**
42 **wholesale rate has been determined.**

⁸ Newfoundland Power Inc. 2025-2026 General Rate Application, December 2023 - Response to Request for Information PUB-NP-076

Appendix A - Glossary of terms

2025/2026 GRA, Application	2025/2026 General Rate Application as filed by Newfoundland Power Inc. dated December 12, 2023
A	Actual
ARBM	Asset Rate Base Method
Board	Board of Commissioners of Public Utilities
Company, Newfoundland Power	Newfoundland Power Inc.
CWIP	Construction work in progress
ESCV	Energy Supply Cost Variance
F	Forecast
GDP	Gross Domestic Product
GRA	General Rate Application
IFRS	International Financial Reporting Standards
Initial Report	Board of Commissioners of Public Utilities – Newfoundland Power Inc. – 2025/2026 General Rate Application report released by Grant Thornton LLP on April 24, 2024
NL Hydro	Newfoundland and Labrador Hydro
P	Proposed
PF	Pro Forma
Prior GRA, 2022/2023 GRA	2022/2023 General Rate Application as filed by Newfoundland Power Inc. dated May 27, 2021
RORB	Return on rate base
RSA	Rate Stabilization Account
TY	Test year
WACC	Weighted average cost of capital
We, us, our, Grant Thornton	Grant Thornton LLP



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