

1 **Section 2: Customer Operations/Operating Costs**
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3 **Q. Reference: “2025/2026 General Rate Application,” Newfoundland Power Inc.,**
4 **December 12, 2023, vol. 1, Exhibits, exh. 3, p. 5.**

5 **Please explain why the Forecast Average Rate Base for 2024, 2025, and 2026**
6 **Existing each contains an Excess Earnings Account deduction of \$3,566.**
7

8 A. In 2023, the Company’s rate of return on average rate base exceeded the 6.57%
9 maximum approved by the Board in the 2023 Test Year.¹ This was primarily due to the
10 impact of higher borrowings and short-term borrowing rates in 2023.²
11

12 The current definition on the Excess Earnings Account is prescribed in the Company’s
13 System of Accounts.³
14

15 *“3.05 Excess Earnings Account 284xx*

16 *This account shall be credited with any earnings in excess of the upper limit of the allowed*
17 *range of return on rate base as determined by the Board. The established range of return*
18 *on rate base is 36 basis points. For any year, all earnings in excess of 18 basis points above*
19 *the approved rate of return on rate base shall, unless otherwise ordered by the Board, be*
20 *credited to this account. Disposition of any balance in this account shall be as determined*
21 *by the Board.”*
22

23 The definition states that the disposition of any balance in this account shall be as
24 determined by the Board. As the disposition of the account has not yet been determined,
25 the Company has included the liability in its calculation of average rate base. The
26 inclusion of the Excess Earnings Account reduces average rate base by approximately
27 \$3.6 million in each of 2024, 2025 and 2026.
28

29 In addition, the inclusion of the Excess Earnings Account in average rate base is
30 consistent with the Asset Rate Base methodology approved by the Board in Order No.
31 P.U. 19 (2003).⁴

¹ In Order No. P.U. 3 (2022), the Board approved the Company’s rate of return on average rate base of 6.39% for 2023, in the range of 6.21% to 6.57%.

² Actual return on debt in 2023 was \$36,765,000 versus the 2023 Test Year return on debt of \$33,073,000, an increase of approximately \$3,692,000. Newfoundland Power’s borrowings in 2023 were materially impacted by higher purchased power costs. The balance of the Company’s Energy Supply Cost Variance account (the “ESCV”) at the end of 2023 was \$29,228,000. These costs were financed by the Company as incurred in 2023. The 2023 balance of the ESCV will be transferred to the Rate Stabilization Account on March 31st for recovery beginning on July 1, 2024.

³ The 2022 *System of Accounts* was filed on March 31, 2023 as a component of the *2022 Annual Report to the Board*.

⁴ See Order No. P.U. 19 (2003), page 71.