

Undertaking: Newfoundland Power

- 1 **Q. Reference: NP GRA Hearing, Maureen Greene, June 13, 2024**
2
3 **Newfoundland Power will file a revised Exhibit 3 to the Application which will show**
4 **the actuals for 2023, in addition to the 2023F.**
5
6 **A. Attachment A provides a revised Exhibit 3 to the Application showing actuals for 2023.**

Exhibit 3 with 2023 Actuals
Financial Performance 2022 to 2026E

Newfoundland Power Inc.

Financial Performance
2022 to 2026E
Statements of Income
(\$000s)

	Actual	Actual	Forecast ¹			
	2022	2023	2023	2024E	2025E	2026E
1 Revenue from rates	715,444	731,064	732,809	740,817	751,315	750,723
2 Transfers from the RSA	6,691	33,705	36,918	41,533	52,520	45,409
3 Excess Earnings Account	-	(5,305)	(5,094)	-	-	-
4	722,135	759,464	764,633	782,350	803,835	796,132
5						
6 Purchased power expense	479,373	513,381	517,940	522,821	533,716	531,779
7 Demand management incentive account adjustments	153	(1,398)	(1,000)	-	-	-
8	479,526	511,983	516,940	522,821	533,716	531,779
9						
10 Contribution	242,609	247,481	247,693	259,529	270,119	264,353
11						
12 Other revenue ²	6,120	7,976	7,422	10,026	11,019	11,646
13						
14 Other expenses:						
15 Operating expenses ³	68,869	73,912	73,473	78,775	81,394	84,156
16 Employee future benefit costs ⁴	7,652	2,735	2,763	3,010	8,122	1,812
17 Deferred cost recoveries and amortizations	(656)	(814)	(816)	(6,962)	492	492
18 Depreciation ⁵	70,662	74,536	74,869	79,557	83,143	86,691
19 Finance charges ⁶	34,790	36,842	37,313	41,607	42,240	43,427
20	181,317	187,211	187,602	195,987	215,391	216,578
21						
22 Income before income taxes	67,412	68,246	67,513	73,568	65,747	59,421
23 Income taxes ⁷	19,498	20,159	20,020	22,399	20,037	18,010
24						
25 Earnings applicable to common shares ⁷	47,914	48,087	47,493	51,169	45,710	41,411
26						
27 Rate of Return and Credit Metrics						
28 Rate of Return on Rate Base (%)	6.72	6.87	6.85	6.82	6.24	5.84
29 Regulated Return on Book Equity (%)	8.95	8.54	8.44	8.44	7.16	6.38
30 Interest Coverage (times)	2.5	2.4	2.4	2.4	2.2	2.0
31 CFO Pre-W/C + Interest / Interest (times)	4.4	3.6	3.6	2.9	2.9	2.8
32 CFO Pre-W/C / Debt (%)	17.4	12.7	12.9	10.2	9.6	9.0

¹ The 2024 through 2026 forecasts include the impact of the proposals in the 2024 Rate of Return on Rate Base Application filed with the Board on November 23, 2023.

² Shown after reclassification of other contract costs and equity portion of AFUDC.

³ Shown after adjustment for non-regulated expenses and reclassification of other contract costs and current portion of employee future benefit costs.

⁴ Shown after reclassification of current portion of employee future benefit costs.

⁵ Shown after reclassification of tax on cost of removal.

⁶ Shown after reclassification of equity portion of AFUDC.

⁷ Shown after adjustment for non-regulated expenses and reclassification of tax on cost of removal.

Newfoundland Power Inc.
Financial Performance
2022 to 2026E
Statements of Retained Earnings
(\$000s)

	<u>Actual</u>	<u>Actual</u>	<u>Forecast</u>			
	<u>2022</u>	<u>2023</u>	<u>2023</u>	<u>2024E</u>	<u>2025E</u>	<u>2026E</u>
1 Balance - Beginning	456,123	473,611	473,611	511,425	560,890	574,736
2 Net income for the period	45,650	45,996	45,141	48,713	43,229	38,827
3 Allocation of Part VI.1 tax	735	-	-	752	752	752
4	<u>502,508</u>	<u>519,607</u>	<u>518,752</u>	<u>560,890</u>	<u>604,871</u>	<u>614,315</u>
5						
6 Dividends						
7 Common shares	<u>28,897</u>	<u>7,327</u>	<u>7,327</u>	<u>-</u>	<u>30,135</u>	<u>30,548</u>
8						
9 Balance - End of Period	<u>473,611</u>	<u>512,280</u>	<u>511,425</u>	<u>560,890</u>	<u>574,736</u>	<u>583,767</u>

Newfoundland Power Inc.

**Financial Performance
2022 to 2026E
Balance Sheets
(\$000s)**

	Actual		Forecast			
	2022	2023	2023	2024E	2025E	2026E
1 Assets						
2 Current Assets						
2 Cash	-	3,126	-	-	-	-
3 Accounts receivable	69,551	82,736	79,246	73,504	73,612	72,720
3 Income taxes receivable	392	3,574	-	-	-	-
4 Materials and supplies	2,896	3,408	2,930	2,995	3,043	3,091
4 Prepaid expenses	3,738	4,398	3,782	3,866	3,928	3,990
5 Regulatory assets	5,439	28,032	31,584	56,460	58,628	61,196
5	<u>82,016</u>	<u>125,274</u>	<u>117,542</u>	<u>136,825</u>	<u>139,211</u>	<u>140,997</u>
6						
6 Property, plant and equipment	1,332,577	1,389,378	1,398,400	1,452,127	1,504,131	1,564,046
7 Intangible assets	48,221	66,182	65,676	63,516	66,020	66,506
7 Regulatory assets	309,124	320,550	319,879	337,783	342,197	343,563
8 Defined benefit pension plans	40,435	47,509	53,144	58,969	65,143	71,653
8 Other assets	1,573	1,307	1,522	1,501	1,484	1,474
9	<u>1,813,946</u>	<u>1,950,200</u>	<u>1,956,163</u>	<u>2,050,721</u>	<u>2,118,186</u>	<u>2,188,239</u>
9						
10						
10 Liabilities and shareholder's equity						
11 Current Liabilities						
11 Short-term borrowings	1,361	-	-	-	-	-
12 Accounts payable and accrued charges	96,022	103,197	103,034	97,003	97,946	97,748
12 Interest payable	6,856	8,534	8,478	8,271	8,176	9,304
13 Defined benefit pension plans	277	264	276	265	273	287
13 Other post-employment benefits	3,922	3,035	4,174	4,371	4,579	4,518
14 Regulatory liabilities	15,196	-	(1,768)	-	-	-
14 Current instalments of long-term debt	27,550	8,450	8,450	8,450	36,885	9,050
15	<u>151,184</u>	<u>123,480</u>	<u>122,644</u>	<u>118,360</u>	<u>147,859</u>	<u>120,907</u>
15						
16 Regulatory liabilities	205,003	214,027	213,716	227,876	243,992	259,648
16 Defined benefit pension plans	5,074	5,128	5,228	5,402	5,574	5,738
17 Other post-employment benefits	62,594	43,629	63,356	64,029	64,598	65,330
17 Other liabilities	1,270	945	1,562	1,544	1,526	1,508
18 Deferred income taxes	189,292	212,440	204,333	203,969	200,486	198,395
18 Long-term debt	655,597	767,950	763,578	798,330	809,094	882,625
19						
19						
20						
20 Shareholder's equity						
21 Common shares	70,321	70,321	70,321	70,321	70,321	70,321
21 Retained earnings	473,611	512,280	511,425	560,890	574,736	583,767
22	<u>543,932</u>	<u>582,601</u>	<u>581,746</u>	<u>631,211</u>	<u>645,057</u>	<u>654,088</u>
22	<u>1,813,946</u>	<u>1,950,200</u>	<u>1,956,163</u>	<u>2,050,721</u>	<u>2,118,186</u>	<u>2,188,239</u>

Newfoundland Power Inc.

Financial Performance
2022 to 2026E
Statements of Cash Flows
(\$000s)

	Actual	Actual	Forecast			
	2022	2023	2023	2024E	2025E	2026E
1 Operating Activities						
2 Net Earnings	45,650	45,996	45,141	48,713	43,229	38,827
3						
4 Items Not Affecting Cash:						
5 Depreciation of property, plant and equipment	73,712	76,945	76,456	81,351	84,988	88,568
6 Amortization of intangible assets and other	4,690	5,679	6,515	6,724	7,070	7,427
7 Change in long-term regulatory assets and liabilities	2,880	(37,306)	(33,891)	(46,611)	(47,556)	(46,530)
8 Deferred income taxes	(3,053)	14,656	14,082	(364)	(3,483)	(2,091)
9 Employee future benefits	(3,818)	(6,361)	(6,906)	(7,220)	(2,418)	(5,576)
10 Other	60	(909)	(1,077)	174	145	(11)
11	<u>120,121</u>	<u>98,700</u>	<u>100,320</u>	<u>82,767</u>	<u>81,975</u>	<u>80,614</u>
12						
13 Change in working capital	(12,080)	(34,922)	(26,603)	10,005	38,770	44,189
14	<u>108,041</u>	<u>63,778</u>	<u>73,717</u>	<u>92,772</u>	<u>120,745</u>	<u>124,803</u>
15						
16 Investing Activities						
17 Capital expenditures	(110,218)	(126,767)	(133,812)	(125,493)	(122,769)	(134,564)
18 Intangible asset expenditures	(16,774)	(23,422)	(23,752)	(4,339)	(9,353)	(7,695)
19 Contribution from customers and security deposits	2,773	5,197	3,500	2,500	2,500	2,500
20 Other	-	-	380	-	-	-
21	<u>(124,219)</u>	<u>(144,992)</u>	<u>(153,684)</u>	<u>(127,332)</u>	<u>(129,622)</u>	<u>(139,759)</u>
22						
23 Financing Activities						
24 Change in short-term borrowings	(13,459)	(1,361)	(1,361)	-	-	-
25 Net proceeds (repayment) of committed credit facility	20,000	12,000	7,634	43,010	47,462	(16,511)
26 Proceeds from long-term debt	75,000	90,000	90,000	-	-	100,000
27 Repayment of long-term debt	(35,950)	(8,450)	(8,450)	(8,450)	(8,450)	(37,485)
28 Payment of debt financing costs	(516)	(522)	(529)	-	-	(500)
29 Dividends on Common Shares	(28,897)	(7,327)	(7,327)	-	(30,135)	(30,548)
30	<u>16,178</u>	<u>84,340</u>	<u>79,967</u>	<u>34,560</u>	<u>8,877</u>	<u>14,956</u>
31						
32 Change in Cash	-	3,126	-	-	-	-
33 Cash, Beginning of Year	-	-	-	-	-	-
34 Cash, End of Year	<u>-</u>	<u>3,126</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Newfoundland Power Inc.

Financial Performance
2022 to 2026EAverage Rate Base¹
(\$000s)

	Actual	Actual	Forecast			
	2022	2023	2023	2024E	2025E	2026E
1 Plant Investment	1,204,059	1,262,023	1,264,037	1,334,567	1,381,842	1,425,802
2						
3 Additions to Rate Base						
4 Defined Benefit Pension Costs	91,992	98,263	98,264	104,719	108,876	112,167
5 Deferred Credit Facility Costs	92	96	96	90	59	31
6 Cost Recovery Deferral - Conservation	17,890	20,034	20,223	21,473	22,010	22,242
7 Cost Recovery Deferral - 2022 Revenue Shortfall	230	344	344	115	-	-
8 Cost Recovery Deferral - 2024 Revenue Shortfall	-	-	-	2,353	4,706	4,706
9 Cost Recovery Deferral - Load Research and Retail Rate Design	10	105	174	513	800	902
10 Cost Recovery Deferral - Pension Capitalization	-	400	400	997	1,020	672
11 Demand Management Incentive Account	617	436	297	350	-	-
12 Customer Finance Programs	1,614	1,336	1,443	1,421	1,435	1,450
13	<u>112,445</u>	<u>121,014</u>	<u>121,241</u>	<u>132,031</u>	<u>138,906</u>	<u>142,170</u>
14						
15 Deductions from Rate Base						
16 Weather Normalization Reserve	4,298	128	2,091	(1,198)	-	-
17 Other Post-Employment Benefits	76,859	82,254	81,955	85,517	89,012	90,703
18 Customer Security Deposits	1,336	962	1,270	1,270	1,270	1,270
19 Accrued Pension Obligation	5,234	5,349	5,377	5,535	5,706	5,885
20 Accumulated Deferred Income Taxes	17,026	24,342	25,045	33,177	35,249	37,782
21 Excess Earnings Account	-	1,858	1,783	3,566	3,566	3,566
22 Refundable Investment Tax Credits	-	147	146	283	265	247
23	<u>104,753</u>	<u>115,040</u>	<u>117,667</u>	<u>128,150</u>	<u>135,068</u>	<u>139,453</u>
24						
25 Average Rate Base Before Allowances	1,211,751	1,267,997	1,267,611	1,338,448	1,385,680	1,428,519
26						
27 Cash Working Capital Allowance	6,705	7,304	7,419	7,705	7,865	7,829
28						
29 Materials and Supplies Allowance	11,978	14,778	14,676	13,905	14,164	14,389
30						
31 Average Rate Base at Year End	<u>1,230,434</u>	<u>1,290,079</u>	<u>1,289,706</u>	<u>1,360,058</u>	<u>1,407,709</u>	<u>1,450,737</u>

¹ All amounts shown are averages.

Newfoundland Power Inc.

Financial Performance
2022 to 2026E
Weighted Average Cost of Capital
(\$000s)

	Actual	Actual	Forecast			
	2022	2023	2023	2024E	2025E	2026E
1 Average Capitalization						
2 Debt	661,762	728,787	728,164	789,314	826,322	868,798
3 Common Equity	535,188	563,267	562,839	606,479	638,134	649,573
4	<u>1,196,950</u>	<u>1,292,054</u>	<u>1,291,003</u>	<u>1,395,793</u>	<u>1,464,456</u>	<u>1,518,371</u>
5						
6 Average Capital Structure (%)						
7 Debt	55.29	56.41	56.40	56.55	56.43	57.22
8 Common Equity	44.71	43.59	43.60	43.45	43.57	42.78
9	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>
10						
11 Cost of Capital (%)						
12 Debt ¹	5.25	5.04	5.11	5.26	5.10	4.99
13 Common Equity	8.95	8.54	8.44	8.44	7.16	6.38
14						
15						
16 Weighted Average Cost of Capital (%)						
17 Debt	2.90	2.85	2.88	2.98	2.88	2.86
18 Common Equity	4.00	3.72	3.68	3.67	3.12	2.73
19	<u>6.90</u>	<u>6.57</u>	<u>6.56</u>	<u>6.65</u>	<u>6.00</u>	<u>5.59</u>

¹ Cost of debt is shown net of AFUDC. This is consistent with the cost of debt used in the calculation of return on rate base. For regulatory reporting purposes, the embedded cost of debt shown in Return 25 of the 2022 Annual Reports to the Board can be reconciled to the reported cost of debt above as follows:

	2022
Cost of Debt (Line 14) (%)	5.25
AFUDC (%)	0.23
Cost of Debt - Return 25 (%)	<u>5.48</u>

Newfoundland Power Inc.

Financial Performance
2022 to 2026E
Rate of Return on Rate Base
(\$000s)

	Actual	Actual	Forecast			
	2022	2023	2023	2024E	2025E	2026E
1 Regulated Return on Equity	47,914	48,087	47,493	51,169	45,710	41,411
2 Excess Earnings Account	-	3,714	3,566	-	-	-
3	47,914	51,801	51,059	51,169	45,710	41,411
4						
5 Finance Charges						
6 Interest on Long-Term Debt	35,597	36,673	36,677	39,053	38,600	40,860
7 Other Interest	453	2,543	2,736	3,541	4,695	3,972
8 Amortization of Bond Issue Expenses	215	218	221	225	221	217
9 AFUDC	(1,498)	(2,669)	(2,393)	(1,285)	(1,350)	(1,696)
10	34,767	36,765	37,241	41,534	42,166	43,353
11						
12 Return on Rate Base	82,681	88,566	88,300	92,703	87,876	84,764
13						
14 Average Rate Base	1,230,434	1,290,079	1,289,706	1,360,058	1,407,709	1,450,737
15						
16 Rate of Return on Rate Base (%)	6.72	6.87	6.85	6.82	6.24	5.84

Newfoundland Power Inc.

**Financial Performance
2022 to 2026E
Inputs and Assumptions**

1	Energy Forecasts:	Energy forecasts are based on economic indicators taken from the Conference Board of
2		Canada Economic Forecast, dated August 2, 2023.
3		
4	Revenue Forecast:	The revenue forecast is based on the Customer, Energy and Demand forecast dated September 14, 2023.
5		
6		Revenue for 2022 through 2024 forecast reflects: (i) recovery through the RSA of amounts associated
7		with the Energy Supply Cost Variance Adjustment Clause; (ii) recovery through the RSA of amounts
8		associated with variances in employee future benefit costs; (iii) recovery through the RSA of amounts
9		associated with the Weather Normalization reserve; and (v) recovery through the RSA of certain
10		costs related to the implementation of the CDM program portfolio, all of which were approved by the
11		Board in Order Nos. P.U. 32 (2007), P.U. 43 (2009), P.U. 31 (2010), P.U. 8 (2011), P.U. 13 (2013),
12		P.U. 18 (2015), and P.U. 3 (2022).
13		
14	Purchased Power Expense:	Purchased power expense reflects Newfoundland & Labrador Hydro's rates approved by the Board
15		effective October 1, 2019 and the Customer, Energy and Demand Forecast dated September 14, 2023.
16		
17		Purchased power expense reflects the operation of the Demand Management Incentive Account
18		approved by the Board in Order No. P.U. 32 (2007). This mechanism provides for recovery of demand
19		costs that are in excess of unit demand costs included in the most recent test year.
20		
21	Employee Future Benefit Costs:	Pension funding is based on the actuarial valuation dated as at December 31, 2022.
22		
23		Pension discount rate is 3.20% for 2022, 5.30% for 2023 and 4.80% for 2024 through 2026.
24		2023A: End of year pension discount rate for 2023 was 4.60%.
25		
26		Expected return on pension plan assets is 4.50% for 2022 and 5.75% for 2023 through 2026.
27		
28		OPEBs discount rate is 3.20% for 2022 and 5.30% for 2023 through 2026.
29		2023A: End of year OPEBs discount rate for 2023 was 4.60%.
30		
31	Cost Recovery Deferrals:	The 2023 through 2026 forecasts include the deferred recovery over a 10-year period of certain
32		Conservation program costs.
33		
34		The 2023 and 2024 forecasts include the amortization over a 34-month period of a \$0.9 million
35		revenue shortfall beginning March 1, 2022 related to a March 1, 2022 rate implementation date.
36		
37		The 2023 through 2026 forecasts include deferral of Electrification costs, including applicable interest.
38		
39		The 2023 through 2026 forecasts include the deferral of costs related to the Load Research Study and
40		Retail Rate Design Review.
41		
42		The 2023 through 2026 forecasts include the deferral of \$5.1 million in revenue related to forecast Excess
43		Earnings in 2023.
44		
45		The 2024 through 2026 forecasts include the deferral of a \$6.7 million revenue shortfall related to a
46		July 1, 2024 rate implementation date proposed in the <i>2024 Rate of Return on Rate Base Application</i> filed with
47		the Board on November 23, 2023.

Newfoundland Power Inc.

Financial Performance
2022 to 2026E
Inputs and Assumptions

1	Cost Recovery Deferrals (cont'd):	The 2023 through 2026 forecasts include the amortization over a 60-month period of \$1.4 million in income tax impacts beginning on January 1, 2023 related to the change in pension capitalization approved in the 2022/2023 General Rate Application.
2		
3		
4		
5		The 2024 through 2026 forecasts include the amortization over a 60-month period of \$1.1 million in income tax impacts beginning on January 1, 2024 related to the change in pension capitalization approved in the 2022/2023 General Rate Application.
6		
7		
8		
9	Depreciation Rates:	Depreciation rates are based on the 2019 Depreciation Study.
10		
11	Operating Costs:	The operating forecast for 2023 reflects the most recent management estimates. Operating forecasts for 2024 through 2026 reflect projected labour increases of 3.80% in 2024, 4.45% in 2025 and 4.50% in 2026, and non-labour increases based upon the GDP deflator.
12		
13		
14		
15	Capital Expenditures:	Capital Expenditures for 2023 are based on the 2023 Capital Budget Application, adjusted for known carryovers, and the 2023 Supplemental Capital Expenditure Application.
16		Capital Expenditures for 2024 through 2026 are based on the 2024 Capital Budget Application and the 2023 Supplemental Capital Expenditure Application.
17		
18		
19		
20	Short-Term Interest Rates:	Average short-term interest rates are forecast to be 5.97% for 2023, 5.54% for 2024 and 4.75% for 2025 and 2026.
21		
		Actual simple average short-term interest rate in 2023 was 5.98%.
22		
23	Long-Term Debt:	A \$90.0 million long-term debt issue was completed in August 2023. The debt was issued for 30 years at a coupon rate of 5.122%. Debt repayments will be in accordance with the normal sinking fund provisions for existing outstanding debt.
24		
25		
26		
27		A \$100.0 million long-term debt issue is forecast to be completed in March 2026. The debt is forecast for 30 years at a coupon rate of 5.50%. Debt repayments will be in accordance with the normal sinking fund provisions for existing outstanding debt.
28		
29		
30		
31	Dividends:	Common share dividend payouts are forecast based on maintaining a target common equity component near 45%.
32		
33		
34	Income Tax:	Income tax expense reflects a statutory income tax rate of 30% for 2023 through 2026.