

**ANNUAL REPORT
YEAR ENDING MARCH 31, 2020**

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Message from the Chair and Chief Executive Officer

I am pleased to present the annual performance report of the Board of Commissioners of Public Utilities (the “Board”) for the fiscal year ending March 31, 2020. This report was prepared under my direction and in accordance with the **Transparency and Accountability Act**. As Chair and Chief Executive Officer I am accountable for the results as outlined in the report.

The Board operates as an independent, quasi-judicial tribunal constituted under the **Public Utilities Act**. The regulatory mandate of the Board includes regulation and oversight of electric utilities, regulation of automobile insurance rates, setting maximum prices for petroleum products in the Province, as well as limited responsibilities in the areas of motor carrier operations and expropriations.

The Board is classified as a Category 3 Entity and is required to submit annual performance reports to the House of Assembly on its success in achieving the objectives and indicators as outlined in its multi-year performance-based activity plan. The Board’s strategic priorities for the last year of the 2017-2020 planning cycle are focused on improving the efficiency of its regulatory tools and streamlining its regulatory framework while ensuring appropriate resources are available to effectively deliver its mandated responsibilities.

This year saw changes in the Commissioner complement at the Board with the retirement of Commissioner James Oxford in June 2019 and the appointment of Christopher Pike, LL.B., in January 2020. I thank Commissioner Oxford for his service to the Board and welcome Commissioner Pike to his new role. I also extend my sincere appreciation to Vice Chair Newman, Commissioner O’Brien and Board staff for their continued commitment and contributions to the work of the Board during what has been a particularly busy and challenging year.



Darlene Whalen, P. Eng., FEC
Chair and Chief Executive Officer

Overview

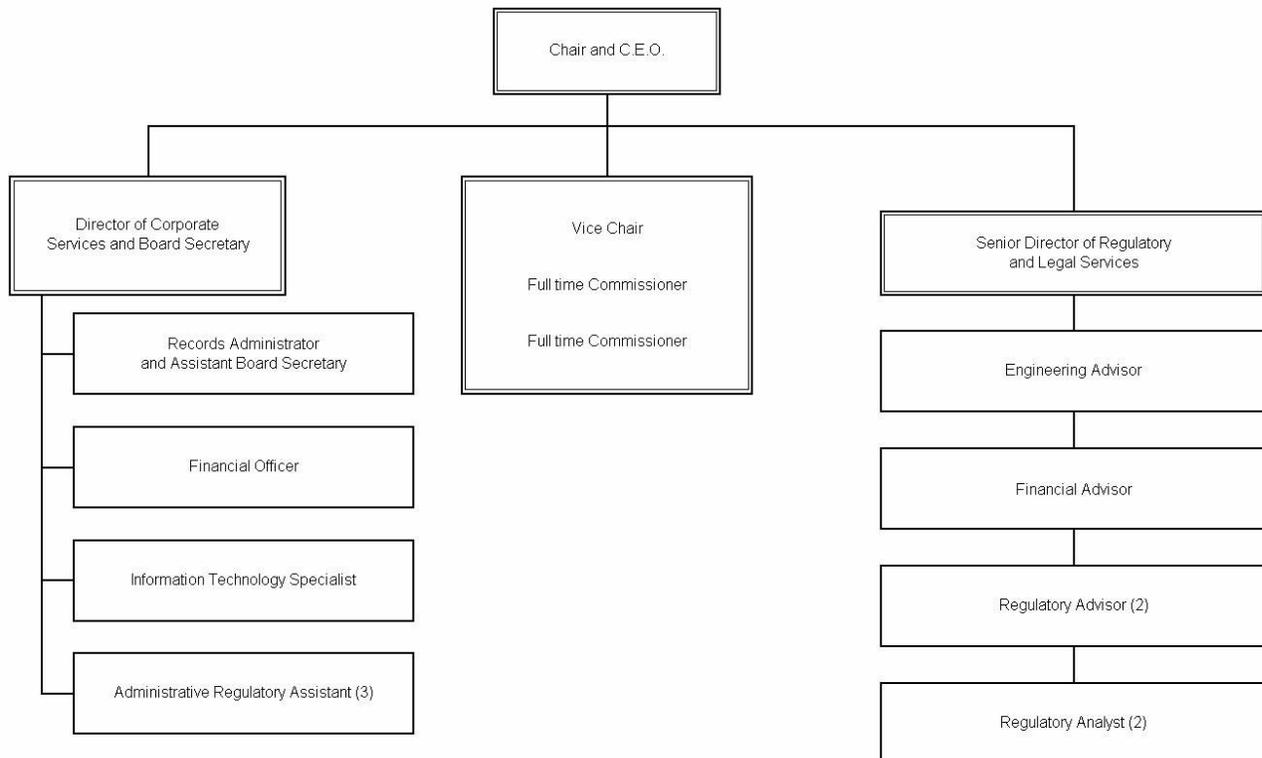
Organization

Created by statute in 1949 the Board is comprised of four full-time commissioners, appointed by the Lieutenant-Governor in Council, including the Chair and Chief Executive Officer and the Vice Chair. The **Public Utilities Act** gives the Chair and Chief Executive Officer the full authority for the overall operation, management and financial administration of the Board.

The Board has 14 permanent full-time staff located in St. John's.

The Board's functional organizational structure, shown in the Organizational Chart below, consists of Regulatory and Legal Services and Corporate Services. Regulatory and Legal Services oversees the Board's regulatory mandate with responsibility for coordination and management of applications, research, investigations, compliance monitoring, financial/technical reviews and customer complaints. Corporate Services is responsible for management of the administrative functions of the Board, including finance, communications, information technology and human resource services.

Board of Commissioners of Public Utilities
Organizational Chart
At March 31, 2020



Key Statistics

The work of the Board is diverse and has broad implications for most residents of Newfoundland and Labrador. The Board:

- is responsible for the regulation and general oversight of Newfoundland and Labrador Hydro (Hydro) and Newfoundland Power, with a combined customer base of approximately 308,000 residential and general service customers, and five industrial customers;
- regulates automobile insurance rates and underwriting guidelines for insurance companies operating in the Province, with total premiums of \$449 million for approximately 320,000 private passenger and 24,000 commercial vehicles;
- sets maximum prices for regulated petroleum products sold in the Province; and
- has 64 active ambulance certificates and 56 active bus service certificates.

Financial Information

The Board's operating expenses for 2019-20 were \$2,453,206. The comparative expenditures for the previous five-year period are shown below:

Board of Commissioners of Public Utilities					
Expenditures					
Year End-March 31					
	2016	2017	2018	2019	2020
Operating Total	\$2,496,125	\$2,356,425	\$2,525,431	\$3,046,568	\$2,453,206
Hearings - Board	\$1,997,267	\$1,109,651	\$468,204	\$2,159,879	\$5,373,499
Hearings - Consumer Advocate	\$879,694	\$968,982	\$1,291,763	\$440,715	\$525,615
Hearings - Total	\$2,876,961	\$2,078,633	\$1,759,967	\$2,600,594	\$5,899,114
Total Expenditures	\$5,373,086	\$4,435,058	\$4,285,398	\$5,647,162	\$8,352,320

The Board is funded through assessments charged to regulated industries/companies or on a cost recovery basis from applicants and/or parties involved in specific proceedings and/or investigations. In accordance with sections 13 and 14 of the **Public Utilities Act**, the Board levies an annual assessment to regulated entities to cover its estimated general operating expenses for that year. Assessments to each industry vary depending on the actual allocation of work performed by the Board in the year. For 2019-20 the Board assessed 74.5 per cent (\$1,991,028) of its annual operating budget to electrical utilities, 15.5 per cent (\$412,848) to automobile insurance companies and 10 per cent (\$269,862) to the petroleum products industry.

Public hearings and investigations are funded outside of normal budgeted activities on a cost recovery basis in accordance with applicable legislation. Section 90 of the **Public Utilities Act** details the costs which may be recovered incidental to a matter. During 2019-20 the Board's accumulated hearing costs totaled \$5,899,114 with a significant portion of these costs associated with the Board's review of electricity rate mitigation options and impacts in relation to the Muskrat Falls Project, and general rate applications for Hydro and Newfoundland Power. Further details regarding the Board's recoverable costs can be found in Note 5 to the Board's Financial Statements (Appendix I).

Highlights and Partnerships

The Board's primary focus is to ensure that it can effectively and efficiently respond to matters which arise in the context of its regulatory mandate. In addition to responding to applications from regulated entities, compliance monitoring and general regulatory oversight constitute a significant portion of the Board's ongoing regulatory activities, especially in the areas of public utility and automobile insurance rate regulation.

During 2019-2020 the Board issued 39 Orders under the **Public Utilities Act**, 31 Orders under the **Automobile Insurance Act** and four Orders under the **Motor Carrier Act**. A complete list of these Orders can be found on the Board's website (www.pub.nl.ca). The Board also ordered 52 adjustments to the maximum price of regulated petroleum products under the **Petroleum Products Act**. Adjustments to maximum pricing for each of the regulated petroleum products for 2019-2020 can also be found on the Board's website.

Highlights for 2019-2020 are as follows:

Public Utility Regulation

Thirty-nine orders were issued during 2019-20 under the Board's public utilities regulatory mandate. A summary of the major public utility decisions and on-going matters is outlined below.

- On October 31, 2018 Hydro submitted its Labrador Interconnected System Transmission Expansion Study (the "Study"). The Study acknowledged the limited available transfer capacity of the Labrador Interconnected system and identified a proposed expansion plan to deliver safe, reliable, least-cost service to customers in Labrador. To allow for the completion of the regulatory process various amendments to Regulation 17 were approved by the Board to extend the restriction on new load additions to include both Labrador East and Labrador West and to increase the threshold for the restriction from 100 kW to 200 kW. The Board is currently facilitating a review process for the Study concurrent with the Labrador Interconnected System Network Additions Policy review. Work continued during the 2019-2020 reporting period and may go beyond as well.
- On May 17, 2019, in Order No. P.U. 16(2019), the Board rendered its Decision and Order in the matter of Hydro's General Rate Application for 2018 and 2019 Test Years (the "2017 GRA Order"). On July 11, 2019 Hydro filed an application (the "Compliance Application") setting out revised proposals based on the findings of the Board in the 2017 GRA Order. The Compliance Application also included proposals to mitigate the rate impacts arising from the 2017 GRA Order. Without rate mitigation the wholesale rate charged by Hydro to Newfoundland Power would increase by approximately 16.2 percent, resulting in estimated average rate increases of approximately 10.7 percent for Newfoundland Power's customers and 16.3 percent for Island Industrial customers. To mitigate these rate increases the Compliance Application proposed to allocate an existing credit balance in the RSP Hydraulic Variation component to Newfoundland Power and the Island Industrial customers and apply these amounts to reduce the deferred supply costs to be recovered from

these customers and dispose of the projected outstanding amount in the Island Industrial Customer RSP Current Plan. On September 11, 2019 the Board, in Order No. P.U. 30(2019), rendered its Decision and Order in relation to the Compliance Application approving, among other things, Hydro's proposed rate mitigation plan. These approvals resulted in an average increase in rates of 6.4% for Newfoundland Power's customers and Hydro's rural customers and an increase in rates of 9.7% for Island Industrial Customers, effective October 1, 2019.

- On June 6, 2019, in Order No. P.U. 21(2019), the Board approved, among other things, Hydro's request for recovery of the 2018 balances in (i) the Isolated Systems Supply Cost Variance Deferral Account (\$1,089,319), (ii) the Energy Supply Cost Variance Deferral Account (\$16,546,319), and (iii) the Holyrood Conversion Rate Deferral Account (\$4,430,908).
- On November 15, 2018 Hydro filed an application for revisions to its cost of service methodology for use in the determination of test year class revenue requirements reflecting the inclusion of the Muskrat Falls Project costs upon full commissioning. As part of the review process the parties submitted a Settlement Agreement for Board consideration. On November 20, 2019, in Order No. P.U. 37(2019), the Board accepted the recommendations in the Settlement Agreement for use in the preparation of the cost of service study to be filed in Hydro's general rate application upon the commissioning of the Muskrat Falls Project.
- In November 2019 the Board commenced a review of its current Capital Budget Application Guidelines (the "Guidelines") used in the approval process of utility capital expenditures. Participants in this process include Newfoundland Power, Hydro, the Consumer Advocate and the Island Industrial Customer Group. An expert consultant was retained to perform a review of the existing Guidelines and provide recommended changes to help improve the overall efficiency and effectiveness of the annual Capital Budget Application processes required under legislation. An ongoing review process is being facilitated by the Board.
- In December 2019 the Board determined that Phase Two investigation into supply issues and power outages on the Island Interconnected System will be concluded and that any concerns in relation to adequacy and reliability of supply on the Island Interconnected system upon interconnection with the Muskrat Falls Project will be addressed in the Board's ongoing review of the Reliability and Resource Adequacy Study filed by Hydro on November 16, 2018.
- On September 5, 2018 Government issued a Reference directing the Board to review and report on options to reduce the impact of the Muskrat Falls Project costs on electricity rates up to the year 2030. The Reference set out three questions to be addressed by the Board. In answering the Reference Questions the Board was directed to consider the power policy of the Province as well as i) potential Nalcor income and other cost savings within Nalcor and its subsidiaries that could be used to reduce rates, ii) whether it is more advantageous to maximize domestic load or maximize exports sales and electrification and energy conservation options to facilitate each, iii) forward looking cost savings and opportunities for increased efficiency for operating and maintenance costs for the Muskrat Falls Project, and

iv) industry best practices related to external market purchases and sales of electricity. The Board was directed to provide its final report by January 31, 2020. This date was subsequently extended and the Board forwarded its final report to Government on February 7, 2020.

- On February 21, 2020, in Order No. P.U. 5(2020), the Board approved Newfoundland Power's 2020 Capital Budget of \$96,653,000 and fixed and determined the average rate base for the year ending December 31, 2018 at \$1,117,341,000.
- On February 21, 2020, in Order No. P.U. 6(2020), the Board approved Hydro's 2020 Capital Budget of \$107,576,100 and fixed and determined the average rate base for the year ending December 31, 2015 at \$1,747,245,000 and for the year ending December 31, 2016 at \$1,885,849,000.
- On February 24, 2020, in Order No. P.U. 7(2020), the Board approved an application from Hydro for capital expenditures of \$2,059,400 for the construction and installation of an electric vehicle fast charging network, including the installation of Level 3 direct current fast chargers and Level 2 chargers at 14 locations across the island.

The Board also issued a number of orders arising from supplementary applications for 2019-20 capital spending, contributions in aid of construction, and various other financial and accounting matters for both Hydro and Newfoundland Power. In addition, the Board continued to monitor Hydro's progress in addressing the concerns of both near-term and long-term reliability and supply adequacy for the Province's electrical system before and after the integration of the Muskrat Falls Project.

Automobile Insurance Regulation

In 2019-2020, following the completion of a review of the automobile insurance product in the Province, Government introduced reforms to the **Automobile Insurance Act**, the **Insurance Companies Act** and **Automobile Insurance Regulations**. Some of the key changes included:

- an increase in the deductible from \$2,500 to \$5,000 for bodily injury claims;
- introduction of Direct Compensation for Property Damage (DCPD) coverage;
- introduction of treatment protocols for common injuries;
- no access to the Uninsured Automobile Fund for losses by uninsured motorists;
- a requirement for insurance companies to notify the Registrar of Motor Vehicles of the cancellation or expiration of insurance policies; and
- introduction of mandatory discounts for winter tires.

The legislative amendments and introduction of **Automobile Insurance Regulations 56/19** (NLR 56/19) resulted in significant changes to the Board's regulatory mandate including new rate filing guidelines, a mandatory rate filing schedule, changes to the Board's review processes and new publication requirements. These changes were implemented by the Board in late 2019 and early 2020 and communicated to Industry through the following Board Directives:

- On October 3, 2019 the Board issued Directive A.I. 2019-04 which contained filing guidelines for the introduction of the new mandatory winter tire discount introduced as part of NLR 56/19. All insurers were directed to offer a reduction in the rate of insurance for any private passenger automobile equipped with winter tires for contracts issued or renewed on or after January 1, 2020. All such filings were accepted by the Board on a file and use basis prior to the January 1, 2020 implementation date.
- On November 5, 2019 the Board issued Directive A.I. 2019-06 which contained filing guidelines for the mandatory product reforms including the introduction of DCPD coverage and the increase in the deductible applicable to all pain and suffering awards from \$2,500 to \$5,000. These guidelines provide step-by-step procedures for insurers to adjust rates to reflect the reforms. All insurers were directed to file these changes with the Board by no later than July 15, 2020.
- On December 19, 2020 the Board issued Directive A.I. 2019-07 which contained filing guidelines for the Board's new rate setting processes and mandatory filing schedules developed in accordance with NLR 56/19. These guidelines included a Mandatory process directing insurers to file new rates at least one every three years, a Mandatory Simplified process for vehicle types with a limited amount of written premium, and an Expedited Approval process to allow for limited rate changes in the interim between full filings. Each set of guidelines also included new publication forms to be completed by insurers for posting to the Board's website to inform the public of changes made in filings. The new guidelines came into effect on January 1, 2020 and replaced the Board's prior rate setting processes.

From April 1, 2019 to December 31, 2019 rate filings were submitted by insurers pursuant to the former regulations, **Automobile Insurance Regulations 81/04**. During this period, the Board accepted 41 filings on a file and use basis for rate reductions or no changes in rate levels. The majority of these filings were in relation to updating vehicle rate group tables, revisions to underwriting guidelines and the introduction of the mandatory winter tire discount. The Board also issued 16 orders during this period for rate filings proposing new rates or rate increases.

Commencing on January 1, 2020, **Automobile Insurance Regulations 81/04** was repealed and rate filings were submitted pursuant to NLR 56/19. From January 1, 2020 to March 31, 2020 the Board received 12 rate filings and issued eight orders. The majority of these filings were proposals to reflect the mandatory reform changes.

The Board has established a compliance audit program whereby the rates and rating practices of automobile insurers are periodically reviewed on-site at the offices of insurers to ensure business is being written in compliance with the rating programs approved by the Board. One compliance audit was commenced and two compliance audits were completed in 2019-2020. One audit identified an error in a company's territorial and class rating which resulted in premium overcharges for approximately 212 risks. The total amount overcharged was approximately \$5,136 with an impact in the range of approximately \$13-\$70 per risk. The company subsequently provided an action plan to reimburse the insureds the overcharged amounts.

There were no significant changes in the automobile insurance market composition in 2019-2020. Based on the most recently available market information (2018), 44 automobile insurers reported direct premiums written of \$448,754,000 in the Province, compared to \$435,438,000 in 2017. The market continues to show a high level of concentration, with 15 insurers writing approximately 97% of all the automobile insurance business in the Province. When common ownership among companies is considered four companies write approximately 84% of the automobile insurance business.

Petroleum Products Pricing Regulation

There were 52 maximum price adjustments¹ to various regulated fuel products for the period April 1, 2019 to March 31, 2020. A summary of these price adjustments is provided in the table below:

Summary of Maximum Price Adjustments²		
Fuel Product	Change in Maximum Price	Maximum Price Range (cents per litre)
Gasoline Motor Fuel	24 Increases, 28 Decreases	82.7 – 140.0
Diesel Motor Fuel (Island)	25 Increases, 25 Decreases, 2 No Change	100.1 – 140.5
Diesel Motor Fuel (Labrador)	24 Increases, 26 Decreases, 2 No Change	106.8 – 151.3
Furnace Oil Heating Fuel	26 Increases, 26 Decreases	51.52 – 96.02
Stove Oil Heating Fuel	27 Increases, 25 Decreases	67.19 – 100.84
Propane Heating Fuel	12 Increases, 19 Decreases, 21 No Change	67.5 – 91.3

In addition to the weekly maximum price adjustments, in mid-2019 the Board commenced a review, pursuant to section 8 of the **Petroleum Products Act**, of the retail portion of the total allowed mark-up for price regulated heating fuels in the Province. The review was conducted with the assistance of the Board’s consultants, Grant Thornton LLP. Based on the results of the review the Board approved the following changes to the total allowed mark-ups for heating fuels effective October 3, 2019:

Product	Increase to Total Allowed Mark-Up
Furnace Oil Heating Fuel	1.71 cents per litre
Stove Oil Heating Fuel	1.90 cents per litre
Propane Heating Fuel	3.49 cents per litre

¹ No price adjustments were implemented on Thursday, January 23, 2020. On March 14, 2020 the Board intervened and adjusted maximum prices outside of the regular pricing schedule in order to address extraordinary commodity market developments and downward shifts in the Board’s average benchmark prices.

² Directional changes and ranges to maximum prices noted in the table are for the base zone for each regulated petroleum product.

In December 2019 the Board commenced a review of the wholesale and retail portions of the total allowed mark-ups for automotive fuels. This margin review is ongoing.

During 2019-2020 the Board transitioned from the Bloomberg Oil Buyer's Guide to the Oil Price Information Service as the data source for propane heating fuel benchmark prices. The transition to a new data source was necessitated by the discontinuance of Bloomberg Oil Buyer's Guide and certain associated price assessments. The **Petroleum Products Regulations** at the time required the Board to use the Bloomberg Oil Buyer's Guide for the purposes of establishing propane heating fuel benchmark prices weekly. In response to concerns raised by the Board regarding the discontinuation of the Bloomberg Oil Buyer's Guide data source and to facilitate the transition to the Oil Price Information Service as the benchmark data source for propane, the **Petroleum Products Regulations** were amended by Government in November 2019. The transition to the Oil Price Information Service as the benchmark data source for propane occurred with the pricing adjustment effective December 5, 2019.

In the spring of 2020 world commodity prices experienced extreme volatility due to COVID-19 and the global pandemic. This volatility resulted in a significant downward trend in the Board's benchmark prices, particularly during the month of March. On March 14, 2020 the Board intervened with an extraordinary price adjustment to address issues stemming from volatile market conditions. Subsequent to this price adjustment and a sustained downward trend in maximum prices over the course of a few weeks, the Board received several applications filed pursuant to Section 8 of the **Petroleum Products Act** from retailers and wholesalers seeking relief.³

MOTOR CARRIER REGULATION

Four orders were issued under the Board's motor carrier mandate related to ambulance services. Two orders approved new or amendments to existing motor carrier certificates for ambulance services and two orders cancelled an existing ambulance motor carrier certificates.

³ Increases to maximum prices were approved by the Board for these applications pursuant to Order Nos. P.P. 11(2020), P.P. 14(2020) and P.P. 17(2020).

Report on Planned Activities

The Board's strategic priorities for the last year of the 2017-2020 planning cycle focused on improving the efficiency of its regulatory tools and streamlining its regulatory framework while ensuring appropriate resources are available to effectively deliver its mandated responsibilities. Ongoing streamlining of the Board's regulatory processes over the past four planning cycles continue to reduce costs and regulatory burden for all stakeholders.

Effective management of the Board's regulatory agenda and on-going hearing and investigative processes has allowed the Board to continue to respond to emerging regulatory issues while fulfilling its legislated mandate and responsibilities. The year 2019-2020 was quite demanding, especially for the Board's public utility and automobile insurance regulatory mandates. In relation to public utilities ongoing and new matters in addition to the review of routine applications and compliance filings significantly impacted the Board's workload and resources. These included:

- the ongoing review of the Labrador Interconnected System Transmission Expansion Study and the Labrador Interconnected System Network Additions Policy;
- completion of the review and decision for Hydro's application for revisions to its Cost of Service Study;
- completion of the review and decision for Hydro's 2017 general rate application;
- ongoing review of Hydro's Reliability and Resource Adequacy Study;
- continued monitoring of supply adequacy and reliability for the Island Interconnected system prior to and post-Muskrat Falls; and
- commencing a review of the current Capital Budget Application Guidelines used in the approval process of utility capital expenditures.

The Board also completed its work, which included a public hearing, and submitted its final Report to Government on options to reduce the impact of the Muskrat Falls Project costs on electricity rates up to the year 2030 in accordance with the Reference from the Lieutenant-Governor in Council under section 5 of the **Electrical Power Control Act**.

Significant reforms to the **Automobile Insurance Act**, the **Insurance Companies Act** and **Automobile Insurance Regulations** resulted in significant changes to the Board's regulatory mandate, including the development of new filing guidelines, implementation of mandatory filing schedules and major changes to the Board's review processes. The Board had to quickly adapt and implement the required changes with the issuing of several directives to Industry in late 2019 and early 2020 replacing the Board's prior rate setting processes. Ongoing reviews of the mark-ups for petroleum products as well as an application under the **Expropriation Act** are also impacting the Board's workload.

The Board’s progress in meeting its planned objectives for 2019-2020 is set out below:

ISSUE:	Continued Regulatory Responsiveness
Objective	In each of the fiscal years the Board will have continued to enhance effective and efficient regulation
Measure:	Effective and efficient regulation enhanced
Indicator	Continued effective regulatory response provided
<p>Building on the improvements made to its regulatory processes has helped the Board to meet the objectives of enhanced and efficient regulation. Maintaining schedules, adhering to timelines and efficient organization of the record is key to issuing decisions in a timely manner and ensuring continued regulatory responsiveness.</p> <p>During the reporting period the Board received 37 applications and 111 compliance filings related to its public utility regulatory mandate. Orders for 30 or 92 per cent of applications were issued within 60 days or less following completion of the record. The remaining three applications involved information exchange processes with outside parties. Of the 111 compliance filings, 100 per cent were reviewed within 60 days of receipt by the Board.</p> <p>The changes to the automobile insurance legislation which came into effect on January 1, 2020 significantly changed the Board’s review processes for the automobile insurance filings. The full impact of the results of the effects of these changes will not available until the next reporting period.</p>	
Indicator	Enhanced website
<p>During the reporting period the Board continued to make enhancements to its website. Positive feedback has been received on the enhancements to-date, including the re-design of the webpages for the recent Automobile Insurance and Rate Mitigation reviews and the addition of a Report/Filings page which provides a catalogue of reports and filings submitted to the Board. Circumstances beyond the Board’s control have significantly affected the Board’s workload resulting in delays in completing planned enhancements to its website. These circumstances include major general rate applications from both Newfoundland and Labrador Hydro and Newfoundland Power, completion of the reference from Government to review and report on options to reduce the impact of the Muskrat Falls Project costs on electricity rates up to the year 2030, and completion of the Government directed Automobile insurance review which required implementation of the reforms announced in January 1, 2020 to the Automobile Insurance Act, the Insurance Companies Act and Automobile Insurance Regulations. These matters spanned a two-year period and involved public hearings and major report writing, requiring significant commitment of Board resources. The website enhancement project is expected to be completed during the next reporting period.</p>	

Opportunities and Challenges Ahead

The Board's work is responsive in nature. Work and activity plans are prepared around the Board's annual regulatory calendar of routine filings and applications filed in compliance with previous Board orders and legislative requirements. While the Board has full control over its regulatory processes circumstances beyond the Board's control, such as the submission of major applications requiring timely decisions, referrals from government and unforeseen investigations, can significantly impact the Board's regulatory calendar and workload.

The Board's regulatory calendar will continue to be demanding. The Board's ongoing review of the Reliability and Resource Adequacy Study focuses on Hydro's proposed planning criteria and its ability to meet customer and system requirements reliably over the next 10 years. This is a significant undertaking and is expected to receive considerable interest as the outcomes of the Board's decisions may impact customer reliability and rates. At the same time the Board is monitoring the integration of the Muskrat Falls Project into the Province's electrical system and is expecting an application from Hydro in the upcoming year to recover associated costs in customer rates.

On January 1, 2020 new automobile insurance regulations ("**NLR 56/19**") came into effect with respect to automobile insurance rate regulation, which included new rate filing categories, a mandatory rate filing schedule, expansion of the Board's review processes and new publication requirements. While the full impact of these regulatory changes has not yet been fully realized the changes have already significantly increased the Board's workload with respect to automobile insurance rate regulation.

During late March world commodity prices experienced extreme volatility resulting in a significant downward trend in the Board's benchmark petroleum products prices due to COVID-19 and the global pandemic. Before the end of the year the Board intervened with an extraordinary price adjustment to address issues stemming from volatile market conditions. Should the volatility in the markets continue the Board may have to further respond to consumers as well as retailers and wholesalers seeking relief.

Given the current uncertainties within the Province the Board may have to reprioritize its regulatory activities over the next few months and possibly for a longer period. At the end of the reporting period the Board's employees were working from home with only essential work being undertaken in accordance with public health directives issued on March 17, 2020 for the COVID-19 pandemic. The Board's regulatory calendar has already been affected by these developments with the postponement of a planned expropriation hearing and the delay of the schedule for the review of Hydro's Reliability and Resource Adequacy Study. Hydro has also advised the Board of the implications of the COVID-19 pandemic for the Muskrat Falls Project, including that it was not possible to provide a reliable schedule with respect to the commissioning of the Project.

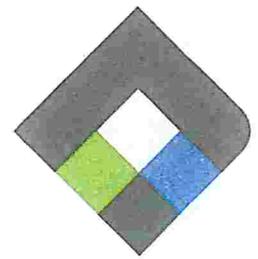
In light of these uncertainties the Board will focus on further strengthening the efficiencies realized and ensuring ongoing support of an effective and responsive regulatory environment. The ability of the Board to continue to meet its current and future regulatory responsibilities and challenges is dependent on its human resource capacity. Continuity of

regulatory knowledge and expertise is a critical factor for economic regulatory boards such as ours and ensures the Board is equipped to deliver effective and efficient regulation. The Board's primary focus is to maintain an organization that is responsive to change and is capable of meeting challenges while completing its ongoing regulatory work. Meeting the challenge of continued regulatory responsiveness in an era of heightened uncertainties is a key priority for the Board in the next few years.

Appendix I

**BOARD OF COMMISSIONERS
OF PUBLIC UTILITIES**

**FINANCIAL STATEMENTS
MARCH 31, 2020**



INDEPENDENT AUDITORS' REPORT

To the Members of the Board of Commissioners of Public Utilities

Opinion

We have audited the financial statements of Board of Commissioners of Public Utilities (the Board), which comprise the statement of financial position, statement of operations, statement of changes in net financial assets, statement of cash flow for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Board as at March 31, 2020, and the results of its operations and its cash flow for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Board in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Board's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Board or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Board's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing



standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Board to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.


Chartered Professional Accountants
St. John's, Newfoundland & Labrador
June 15, 2020

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Statement of Financial Position Year Ended March 31, 2020

	2020	2019
FINANCIAL ASSETS		
Cash	\$ 819,466	\$ 1,060,400
Receivables (Note 4)	1,815,988	1,859,629
Recoverable costs (Note 5)	623,735	622,796
	3,259,189	3,542,825
LIABILITIES		
Payables and accruals	166,644	367,143
Government remittances payable	-	7,201
HST payable (Note 6)	203,057	223,984
Payroll accruals	772,402	739,281
	1,142,103	1,337,609
NET FINANCIAL ASSETS	\$ 2,117,086	\$ 2,205,216
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 8)	\$ 76,141	\$ 80,627
Prepaid expenses	13,067	20,413
	89,208	101,040
ACCUMULATED SURPLUS	\$ 2,206,294	\$ 2,306,256
Accumulated surplus comprised of:		
Invested in capital assets (Note 8)	\$ 76,141	\$ 80,627
Internally restricted (Note 10)	1,441,874	1,410,403
Unrestricted	688,279	815,226
	\$ 2,206,294	\$ 2,306,256

Commitments (Note 13)

On Behalf of the Board:



Chairperson and CEO



Director of Corporate Services

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Statement of Operations Year Ended March 31, 2020

	Budget 2020 (Note 14) (Unaudited)	2020	2019
REVENUES			
Regulatory assessments	\$ 2,673,883	\$ 2,673,738	\$ 3,328,166
Interest and other income	10,000	26,192	23,308
	2,683,883	2,699,930	3,351,474
EXPENDITURES			
Amortization	\$ -	\$ 28,086	\$ 27,332
Consulting fees	173,400	146,433	629,456
Office equipment, supplies, and services	126,147	125,498	124,834
Rent and insurance	316,835	319,362	301,594
Salaries and associated costs (Note 12)	1,897,036	1,736,437	1,875,744
Telecommunications	47,280	40,137	41,996
Training and membership	76,270	31,326	16,244
Travel	46,915	25,927	29,368
	2,683,883	2,453,206	3,046,568
Excess of revenues over expenditures	\$ -	\$ 246,724	\$ 304,906

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Statement of Change in Net Financial Assets Year Ended March 31, 2020

	Budget 2020 (Note 14) (Unaudited)	2020	2019
Annual surplus	\$ -	\$ 246,724	\$ 304,906
Changes in tangible capital assets			
Acquisition of tangible capital assets		(23,600)	(49,688)
Amortization of tangible capital assets		28,086	27,332
	-	4,486	(22,356)
Change in other non-financial assets			
Assessment reductions		(346,686)	(160,794)
Net acquisition of prepaid expenses		7,346	(8,358)
	-	(339,340)	(169,152)
Increase (decrease) in net assets		(88,130)	113,398
Net financial assets, beginning of year	2,205,216	2,205,216	2,091,818
Net financial assets, end of year	\$ -	\$ 2,117,086	\$ 2,205,216

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Statement of Cash Flows Year Ended March 31, 2020

	2020	2019
Operating transactions		
Cash receipts from assessments and other revenues	\$ 2,396,885	\$ 1,530,261
Cash paid to suppliers and employees	(2,613,280)	(2,832,460)
Cash used in operating transactions	(216,395)	(1,302,199)
Hearing and review transaction		
Decrease (increase) in recoverable costs	(939)	1,296,016
Cash (used in) from hearing and review transactions	(939)	1,296,016
Capital transaction		
Purchase of capital assets	(23,600)	(49,688)
Cash used in capital transactions	(23,600)	(49,688)
Decrease in cash during year	(240,934)	(55,871)
Cash position, beginning of year	1,060,400	1,116,271
Cash position, end of year	\$ 819,466	\$ 1,060,400

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Notes to Financial Statements Year Ended March 31, 2020

1. GENERAL

The Board of Commissioners of Public Utilities (the "Board") is an independent, quasi-judicial regulatory tribunal constituted in 1949 by the Lieutenant-Governor in Council pursuant to the *Public Utilities Act*. The Board regulates the electric utilities in the Province of Newfoundland and Labrador and is responsible for ensuring that the rates charged are reasonable and that the service provided is safe and reliable. Other responsibilities include: (a) the regulation of automobile insurance rates; (b) the regulation of, from June 8, 2004, fuel prices pursuant to the Petroleum Products Act; (c) limited regulation of the motor carrier industry as it relates to certain passenger and ambulance operations; and (d) establishing compensation for matters referred to the Board pursuant to the *Expropriation Act*. The Board was incorporated on May 12, 2000 pursuant to an amendment to the *Public Utilities Act* and as a Crown entity of the Province is not subject to provincial or federal income taxes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The Board is classified as an Other Government Organization as defined by Canadian Public Sector Accounting Standards (CPSAS). These financial statements are prepared by management in accordance with CPSAS for provincial reporting entities established by the Canadian Public Sector Accounting Board (PSAB). The Board does not prepare a statement of re-measurement gains and losses as the Board does not enter into relevant transactions or circumstances that are addressed by that statement.

Financial instruments

The Board's financial instruments recognized in the statement of financial position consist of cash, receivables, HST receivable, recoverable costs, payables and accruals, government remittances payable and payroll accruals. The Board generally recognizes a financial instrument when it enters into a contract which creates a financial asset or financial liability. Financial assets and financial liabilities are initially measured at cost, which is the fair value at the time of acquisition.

The Board subsequently measures all its financial assets and financial liabilities at cost or amortized cost. Transaction costs and any gains or losses arising from changes in fair value are recognized immediately in the statement of revenues and expenditures. Receivables are classified as loans and accounts payable are classified as other financial liabilities. Both are measured at amortized cost.

The Board's carrying value of cash, receivables, recoverable costs, payables and accruals, government remittance payable, HST payable and payroll accruals approximates its fair value due to the immediate or short term maturity of these instruments.

Cash

Cash includes cash in bank and balances with financial institutions, net of overdrafts.

Recoverable costs

Recoverable costs relating to regulatory hearings and specific enquiries held by the Board are not accrued until the Board orders payment. The costs and subsequent recoveries for these enquiries are not included in the operating revenues and expenditures of the Board.

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Notes to Financial Statements Year Ended March 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Tangible capital assets

Capital assets are recorded on the Statement of Financial Position at cost net of accumulated amortization and are amortized as follows:

Furniture and equipment	20%	declining balance method
Computer hardware	35%	declining balance method
Computer software	50%	declining balance method
Leasehold improvements		the lesser of five year straight-line or remaining term of the lease

Capital assets are written down when conditions indicate that they no longer contribute to the Board's ability to provide goods and services, or when the value of future economic benefits associated with the capital assets are less than their net book value. The net write-downs are accounted for as expenditures in the statement of operations.

Prepaid expenses

Prepaid expenses include amounts paid in advance for services, insurance, and workers compensation and are charged to expense over the periods expected to benefit from them.

Funds and reserves

Certain amounts, as approved by the Board, are set aside in accumulated surplus for future operating and capital purposes. Transfers to/from funds and reserves are an adjustment to the respective fund when approved.

Employee future benefits

(i) Severance pay

Certain employees of the Board are entitled to severance pay. Severance pay is accounted for on the accrual basis and is based upon years of service and current salary levels. Under new legislation which received Royal Assent on May 31, 2018, employees with at least one (1) year service to a maximum of twenty (20) years of continuous service are entitled to severance pay. The severance entitlement is calculated based on service years and rate of pay as of March 31, 2018. Unpaid amounts have been accrued in the financial statements.

(ii) Pension fund

The employees of the Board are subject to the *Public Service Pension Act 1991*. Employee contributions are matched by the Board and then remitted to the Province of Newfoundland and Labrador Pooled Pension Fund from which pensions will be paid to employees when they retire. Contributions of the Board to the plan are recorded as expenses in the year the contributions are made.

Revenues

Revenues are recognized in the period in which the transactions or events occurred that gave rise to the revenues. All revenues are recorded on an accrual basis, except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable.

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Notes to Financial Statements Year Ended March 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expenditures

Expenditures are reported on an accrual basis. The costs of all goods consumed and services received during the year are expensed.

Inter-entity transactions

Inter-entity transactions are transactions between commonly controlled entities.

Inter-entity transactions are recorded at the exchange amount when they are undertaken on similar terms and conditions to those adopted if the entities were dealing at arm's length.

Cost allocations to/from commonly controlled entities are recorded on a gross basis.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

3. FINANCIAL INSTRUMENTS

The Board is exposed to various risks through its financial instruments and has a comprehensive risk management framework to monitor, evaluate and manage these risks. The following analysis provides information about the organization's risk exposure and concentration as of March 31, 2020:

Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Board is exposed to credit risk with respect to regulatory assessments. An allowance for doubtful accounts may be established based upon factors surrounding the credit risk of specific accounts, historical trends and other information.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Board manages exposure through its normal operating and financing activities. The Board is exposed to interest rate risk primarily through its floating interest rate bank credit agreement.

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Notes to Financial Statements Year Ended March 31, 2020

4. RECEIVABLES

	2020		2019
Revenues receivable	\$ 1,815,988	\$	1,851,292
Accrued interest receivable	-		1,720
Other receivables	-		6,617
	\$ 1,815,988	\$	1,859,629

5. RECOVERABLE COSTS

	2020		2019
Recoverable costs, beginning of year	\$ 622,796	\$	1,918,812
Add - specific enquiry costs incurred during the year:			
Consumer Advocate	525,615		440,715
Consulting fees	4,540,622		1,752,584
Legal	428,212		291,496
Advertising and notice	26,220		43,472
Transcription and printing	44,240		72,327
Other	334,205		-
	5,899,114		2,600,594
	6,521,910		4,519,406
Less - costs recovered during the year	(5,829,260)		(3,871,245)
Less - costs deemed non recoverable	(68,915)		(25,365)
Recoverable costs, end of year	\$ 623,735	\$	622,796

See also Note 11.

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Notes to Financial Statements Year Ended March 31, 2020

6. HST PAYABLE (RECEIVABLE)

	2020	2019
HST rebate receivable from federal government	\$ (17,129)	\$ (22,255)
HST payable to federal government	220,186	246,239
	<u>\$ 203,057</u>	<u>\$ 223,984</u>

7. BANK CREDIT AGREEMENT

The Board has established a \$1,000,000 line of credit subject to a general security agreement over all accounts and book debts, equipment, tangible capital assets and certain other assets. Any outstanding balance bears interest at the bank prime rate plus 0.5%. As at March 31, 2020, the balance outstanding was \$Nil (2019-\$Nil).

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Notes to Financial Statements Year Ended March 31, 2020

8. TANGIBLE CAPITAL ASSETS

	2020			
	Furniture and Equipment	Computer Hardware and Software	Leasehold Improvements	Total
Cost				
Opening balance	\$ 276,727	\$ 285,928	\$ 239,488	\$ 802,143
Additions	15,564	8,036	-	23,600
Disposals	-	-	-	-
Closing balance	292,291	293,964	239,488	825,743
Accumulated amortization				
Opening balance	249,424	266,353	205,739	721,516
Amortization	8,572	9,720	9,794	28,086
Disposals	-	-	-	-
Closing balance	257,996	276,073	215,533	749,602
Net book value	\$ 34,295	\$ 17,891	\$ 23,955	\$ 76,141
2019				
	Furniture and Equipment	Computer Hardware and Software	Leasehold Improvements	Total
Cost				
Opening balance	\$ 270,604	\$ 277,245	\$ 204,606	\$ 752,455
Additions	6,123	8,683	34,882	49,688
Disposals	-	-	-	-
Closing balance	276,727	285,928	239,488	802,143
Accumulated amortization				
Opening balance	242,598	255,641	195,945	694,184
Amortization	6,826	10,712	9,794	27,332
Disposals	-	-	-	-
Closing balance	249,424	266,353	205,739	721,516
Net book value	\$ 27,303	\$ 19,575	\$ 33,749	\$ 80,627

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Notes to Financial Statements Year Ended March 31, 2020

9. NON-VESTED SICK LEAVE PAYOUTS

Prior to a change in government policy, several employees were permitted to accumulate unused sick day credits. As of March 31, 2020, there is one employee who has an accumulated sick-leave payout balance. Accumulated credits may be used in future years to the extent that the employee's illness or injury exceeds the current year's allocation of credits. The use of accumulated sick days for sick-leave compensation ceases on termination of employment. The benefit costs and liabilities related to the plan are included in the financial statements.

10. INTERNALLY RESTRICTED SURPLUS

The Board has adopted a formal policy to accumulate and restrict estimated amounts required to meet expected future obligations. The amounts restricted as at March 31, 2020 are as follows:

	2020	2019
Redundancy pay contingency	972,683	963,089
Working capital	469,191	447,314
	<u>\$ 1,441,874</u>	<u>\$ 1,410,403</u>

11. RELATED PARTY TRANSACTIONS

The Board incurs costs in relation to hearings held to deliver on its mandate which are recoverable from industry participants at cost. A portion of these costs are recoverable from Newfoundland and Labrador Hydro, an entity under common control.

	2020	2019
Beginning balance	\$ 217,025	\$ 1,520,830
Costs incurred	1,305,966	1,049,680
Costs recovered	(1,284,156)	(2,353,485)
Ending balance	<u>\$ 238,835</u>	<u>\$ 217,025</u>

The Board has also charged Newfoundland and Labrador Hydro assessment fees in the amount of \$888,750 (2019: \$882,845).

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Notes to Financial Statements Year Ended March 31, 2020

12. DESIGNATED PENSION FUNDS AND PENSION ASSET (OBLIGATIONS)

Commissioners and employees are members of The Public Service Pension Fund Act 1991. Pension contributions deducted from commissioners' and employees' salaries are matched by the Board and then remitted to the Province of Newfoundland and Labrador Pooled Pension Fund from which pensions will be paid to commissioners and employees when they retire. The Board's share of pension expense for the year in the amount of \$165,549 (2019 - \$151,662) is included in salaries and associated costs.

The Board is also committed to make pension payments to a former Commissioner in the amount of \$2,043 per month (\$24,516 per annum). These payments are paid directly by the Board out of operating expenditures. An estimated liability in the amount of \$231,636 (2019 - \$233,913), has been included in the financial statements, and reflects the present value of the pension obligation based on an average life expectancy of 86 years and a discount rate of 1.14% (2019 - 2.01%).

13. COMMITMENTS

The Board has a premises lease agreement in the amount of \$26,254 plus HST per month (\$315,045 plus HST per annum), concluding May 31, 2023.

The Board has an equipment lease agreement in the amount of \$376 plus HST per month (\$4,512 plus HST per annum), concluding June 18, 2021.

14. BUDGET FIGURES

Budget figures have been provided for comparison purposes and have been derived from the estimates approved by the Board.

**Board of Commissioners of Public Utilities
Commissioners and Staff
Year End - March 31, 2020**

Commissioners

Chair and Chief Executive Officer..... Darlene Whalen
Vice-Chair..... Dwanda Newman
Full-time Commissioner..... John O'Brien
Full-time Commissioner..... Christopher Pike

Staff

Director of Corporate Services and Board Secretary..... Cheryl Blundon
Director of Regulatory and Legal Services Jacqueline Glynn
Financial Officer..... Calvin Green
Senior Engineering AdvisorMike Janes
Senior Financial AdvisorKim Simms
Regulatory Advisor Mike McNiven
Regulatory Advisor Ryan Oake
Regulatory Analyst Travis Fisher
Regulatory Analyst Matt Aylward
Information Technology Specialist Wesley Hawe
Records Administrator Sara Kean
Administrative Assistant Colleen Jones
Administrative Assistant Renee Reardon
Administrative Assistant Colleen Sutton

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