

**ANNUAL REPORT
YEAR ENDING MARCH 31, 2019**

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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, 2019. 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 second 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.

The year 2018-2019 has proven again to be quite challenging for the Board. The Board's ability to meet its legislated mandate and responsibilities under a demanding regulatory calendar is due to the dedication and commitment of its staff and commissioners and I wish to thank them for their continued support.



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

Overview

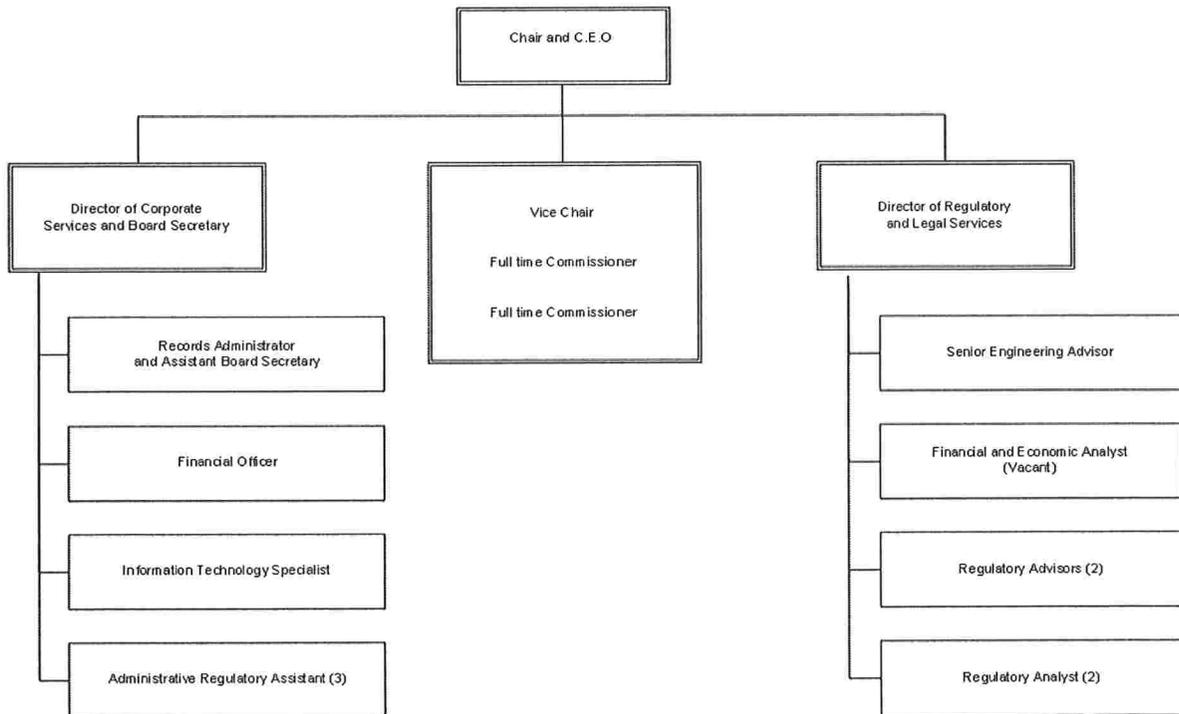
Organization

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, 2019



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 306,000 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 \$435,438,000 for approximately 354,016 private passenger and commercial vehicles;
- sets maximum prices for regulated petroleum products sold in the Province; and
- has 65 active ambulance certificates and 56 active bus service certificates.

Financial Information

The Board's operating expenses for 2018-19 were \$3,046,568. The comparative expenditures for the previous five-year period are shown below:

Board of Commissioners of Public Utilities Expenditures Year End-March 31					
	2015	2016	2017	2018	2019
Operating Total	\$2,330,468	\$2,496,125	\$2,356,425	\$2,525,431 ¹	\$3,046,568
Hearings - Board	\$1,822,246	\$1,997,267	\$1,109,651	\$468,204	\$2,159,879
Hearings - Consumer Advocate	\$505,044	\$879,694	\$968,982	\$1,291,763	\$440,715
Hearings - Total	\$2,327,290	\$2,876,961	\$2,078,633	\$1,759,967	\$2,600,594
Total Expenditures	\$4,657,758	\$5,373,086	\$4,435,058	\$4,285,398	\$5,647,162

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 2018-19 the Board assessed 70 per cent (\$1,982,040) of its annual revenue requirement to electrical utilities, 18 per cent (\$520,135) to automobile insurance companies, and 11 per cent (\$310,755) to the petroleum products industry. During the year the Board incurred additional expenses of \$489,836 for the Automobile Insurance Review and \$242,510 for payout of Severance in accordance with Bill 24 (**Salary Restraint and Extinguishment of Severance Pay Act**) announced by Government on May 29, 2018.

Public hearings and investigations are normally funded outside of normal budgeted activities on a cost recovery basis in accordance with applicable legislation. Section 90 of the **Public**

¹ Includes Pension/Salary adjustment

Utilities Act details the costs which may be recovered incidental to a matter. During 2018-19 the Board's accumulated hearing costs totaled \$2,600,594 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 6 to the Board's Financial Statements.

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 2018-19 the Board issued 53 Orders under the **Public Utilities Act**, 35 Orders under the **Automobile Insurance Act** and six Orders under the **Motor Carrier Act**. A complete list of these Orders can be found on the Board's website. The Board also ordered 53 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 2018-19 can also be found on the Board's website.

Highlights for 2018-19 are as follows:

Utility Regulation

Fifty-three orders were issued during 2018-19 under the Board's public utilities regulatory mandate. A summary of the major public utility decisions and on-going matters is outlined below.

- On May 28, 2018 by Order No. P.U.15(2018) the Board, as part of Hydro's 2017 general rate application, approved an application from Hydro for adjustments to the Rate Stabilization Plan and revised rates to be charged to Newfoundland Power on an interim basis, effective July 1, 2018. Newfoundland Power subsequently filed an application on June 11, 2018 to reflect the impact of these adjustments to the Rate Stabilization Plan and the revised rates charged by Hydro to its customers. On June 22, 2018 the Board by Order No. P.U. 20(2018) approved, effective July 1, 2018, an average rate increase of 6.8 per cent for Newfoundland Power customers.
- On June 1, 2018 Newfoundland Power filed a general rate application requesting approval of, among other things, a proposed rate increase of approximately 1.2 per cent to be effective March 1, 2019 and a proposed rate of return on average rate base of 7.47 per cent and 7.49 per cent for 2019 and 2020 respectively. On June 6, 2018 the Board published a Notice of Application and Pre-Hearing Conference providing details on the application and review process and inviting participation from interested persons or organizations.

Following settlement discussions facilitated by the Board between Newfoundland Power, the Consumer Advocate and International Brotherhood of Electrical Workers Local 1620 (“the parties”) a settlement agreement between the parties was filed on November 14, 2018. The settlement agreement stated that all of the issues arising from the application were agreed, including operating costs, forecasting, rate design and structure, certain amortizations, revenue requirements and return on rate base.

On November 19, 2018, Newfoundland Power filed an amended application reflecting the items agreed to in the Settlement Agreement, proposing no increase in current customer rates and a rate of return on average rate base of 7.01 per cent and 7.04 per cent for 2019 and 2020 respectively. On January 24, 2019 the Board approved the amended application by Order No. P.U. 2(2019).

- On July 4, 2018 the Board by Order No. P.U. 23(2018) approved an application from Hydro for capital expenditures of \$1.12 million to complete Level 2 condition assessments on the penstocks at the Bay d’Espoir Hydroelectric Generating Station as well as a comprehensive report outlining recommendations for the safe and reliable long-term operation of the penstocks.
- On July 11, 2018 the Board by Order No. P.U. 25(2018) approved an application from Hydro for capital expenditures in the amount of \$2,560,500 to restore the design performance of the air heaters associated with Units 1, 2 and 3 at the Holyrood Thermal Generating Station.
- On September 5, 2018 the Board was requested to undertake a review of electricity rate mitigation options and impacts in relation to the Muskrat Falls Project in accordance with the Reference from the Lieutenant-Governor in Council under section 5 of the **Electrical Power Control Act**. The Board has been directed to review and report on: (i) options to reduce the impact of the Muskrat Falls Project costs on electricity rates, (ii) the amount of required and surplus energy and capacity from the project, and (iii) the rate impacts of the identified options based on the most recent project cost estimates. The Board’s interim report to the Government which addressed questions (i) and (ii) was submitted on February 15, 2019. The Board’s final report is due on January 31, 2020.
- On October 2, 2018 the Board by Order No. P.U. 35(2018) approved Newfoundland Power’s 2019 Capital Budget of \$93,304,000 and fixed and determined the average rate base for the year ending December 31, 2017 at \$1,092,254,000.
- On October 31, 2018 Hydro submitted to the Board its Labrador Interconnected System Transmission Expansion Study. Hydro’s expansion study acknowledges the limited available transfer capacity of the Labrador Interconnected system and identifies a proposed expansion plan to deliver safe, reliable, least-cost service to customers in Labrador. The Board is currently facilitating a review process for this study concurrent with the Labrador Interconnected System Network Additions Policy - Summary Report submitted by Hydro on December 14, 2018.
- 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. The Board is currently facilitating a review process for the application.

- On November 16, 2018 Hydro submitted to the Board its Reliability and Supply Adequacy Study which sets out the company's planned long-term approach to providing continued least-cost, reliable service for its customers. The analysis within the study focuses on Hydro's proposed planning criteria and its ability to meet customer and system requirements reliably over a 10-year planning horizon from 2019 to 2028. An ongoing review process for the study is being facilitated by the Board.
- On December 10, 2018 the Board by Order No. P.U. 46(2018) approved Hydro's 2019 Capital Budget in an amount of \$116,140,700 and fixed and determined the average rate base for the year ending December 31, 2014 at \$1,620,982,000.
- On December 18, 2018 the Board by Order No. P.U. 49(2018) approved Hydro's application for a Pilot Agreement for the Optimization of Hydraulic Resources between Hydro and Nalcor Energy Marketing to facilitate ponding and spill energy activities so as to avail of potential opportunities associated with energy markets external to Newfoundland and Labrador.
- On February 19, 2019 the Board by Order No. P.U. 5(2019) approved Newfoundland Power's application for capital expenditures in the amount of \$4,600,000 for the addition of a substation on the north side of the Memorial University St. John's campus and by, Order No. P.U. 6(2019), Newfoundland Power's application for capital expenditures of \$2,642,000 for the addition of a substation transformer at Newfoundland Power's Pepperrell Substation and a three-phase distribution feeder line from the substation.

The Board also issued a number of orders arising from supplementary applications of 2018 and 2019 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 raised in the Board's Phase One report in relation to the investigation into the supply issues and power outages on the Island Interconnected system in 2013, 2014 and 2015 and continued its Phase Two review of supply adequacy and reliability for the Island Interconnected system prior to and post-Muskrat Falls.

Automobile Insurance Regulation

The Board issued 35 orders in relation to Category 2 and Category 3 rate filings proposing rate increases or new rates. Eight of the Category 2 filings were initially denied by the Board, six of which were later resubmitted with revised proposals and approved.

The Board also received 25 Category 1 filings representing no changes or reductions in rates. Pursuant to the **Automobile Insurance Act** these filings are not subject to prior approval and may be implemented 30 days, or later as may be specified by the company, following filing with the Board. The majority of the 25 Category 1 filings were in relation to updating Vehicle Rate Group Tables and revisions to underwriting guidelines.

The Board has established a compliance audit program to review the rates and rating practices of the automobile insurance companies. The compliance audit program is designed to ensure that insurers writing business in the Province are charging rates that have been approved by the Board in accordance with the **Automobile Insurance Act** and the **Insurance Companies Act**. The audit program also ensures that agents and brokers are interpreting the underwriting guidelines of the insurer correctly and that insureds of similar risk characteristics are being rated correctly. One compliance audit was commenced in March, 2019.

During 2018-2019 the Board continued its review of automobile insurance in the Province in accordance with the Terms of Reference issued by Government on August 9, 2017. The Board engaged consultants to conduct a series of studies and reports to assist the Board in the completion of its work, and all studies and reports were made available on the Board's website. The Board undertook a number of initiatives to advise the public of the review, the process and schedule, and how to participate. The Board's website included notice of the review, an insurance background, as well as the Board's work plan and schedule. The website also provided the opportunity to complete a feedback form or to email comments to the Board.

Public hearings were held at the Board's offices in St. John's during June and September, 2018. During this time intervenors were provided an opportunity to file reports, make presentations and ask questions of the Board's consultants. The Board also heard presentations from industry, consumers and other interest groups on automobile insurance product offerings and met directly with individual taxi operators to hear their concerns. On January 29, 2019 the Board submitted the final report of its review to Government.

Petroleum Products Pricing Regulation

There were 53 adjustments for the maximum price for various fuel products for the period April 1, 2018 to March 31, 2019 as follows²:

Fuel Product	Change in Maximum Price	Range of Maximum Price (cents per litre)
Gasoline Motor Fuel	28 increases, 25 decreases	111.2 – 144.5
Diesel Motor Fuel (Island)	23 increases, 30 decreases	128.3 – 151.7
Diesel Motor Fuel (Labrador)	22 increases, 31 decreases	136.2 – 159.1
Furnace Oil Heating Fuel	23 increases, 29 decreases 1 with no change	82.35 – 102.51
Stove Oil Heating Fuel	26 increases, 27 decreases	86.79 – 108.49
Propane Heating Fuel	20 increases, 20 decreases 13 with no change	73.6 – 82.6

One change to the level of provincial taxation in 2018-2019 also impacted the maximum prices of certain regulated petroleum products. On October 23, 2018 the Department of

² The change in maximum price and the range in maximum price noted in the table are for the base zone for each respective type of motor fuel and heating fuel.

Municipal Affairs, the Department of Finance and the Department of Natural Resources issued a news release in relation to the Province's Carbon Plan. The news release detailed changes in the provincial fuel tax applicable to gasoline and diesel automotive fuels and the introduction of a new carbon tax. The changes to taxation effective on January 1, 2019 were as follows:

Product	Provincial Fuel Tax Before January 1, 2019 (cents per litre)	Provincial Fuel Tax on and After January 1, 2019 (cents per litre)	Carbon Tax (cents per litre)
Gasoline	20.5	16.5	4.42
Diesel	21.5	16.5	5.37

Motor Carrier Regulation

Six orders were issued related to ambulance and public bus services. One order approved a new motor carrier certificate for an ambulance service, one order cancelled an existing motor carrier certificate and four orders approved amendments to existing motor carrier certificates.

Report On Planned Activities

The Board's strategic priorities for the second 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. The Board has streamlined its regulatory processes by establishing minimum filing guidelines, standardizing processes for applications and hearings, issuing procedural guidelines, using negotiated settlement processes for major applications and enhancing communication and consultation processes with stakeholders. These initiatives have led to reduced costs and regulatory burden for all participants.

The year 2018-19 was an extremely challenging year for the Board and effective management of its regulatory agenda and on-going hearing and investigative processes was key to ensuring the Board could continue to meet its legislated mandate and responsibilities. In addition to routine applications and compliance filings a number of ongoing and new matters significantly impacted the Board's workload and resources, including:

- the ongoing review of Hydro's 2017 General Rate Application;
- the ongoing work related to the 2017 Automobile Insurance Review;
- Newfoundland Power's general rate application filed in June 2018 for 2019 and 2020 test year costs and customer rates for January 2019; and
- the Reference received in September 2018 from the Government to undertake a review of electricity rate mitigation options and impacts in relation to the Muskrat Falls Project in accordance with the Reference from the Lieutenant-Governor in Council under section 5 of the **Electrical Power Control Act**.

During the reporting period the Board also continued its monitoring of supply adequacy and reliability for the Island Interconnected system prior to and post-Muskrat Falls. The Board also received a number of complex applications which required the establishment of formal processes for review and participation by intervenors, including the Labrador Interconnected System Transmission Expansion Study, the Labrador Interconnected System Network Additions Policy, Hydro's application for a Cost of Service and Rate Design review, supplementary applications for capital spending, and various other financial and accounting matters for both Hydro and Newfoundland Power. The Reliability and Resource Adequacy Study filed by Hydro is intended to address the company's long-term approach to providing continued least-cost reliable service for the period 2019-2028 and will inform a planned comprehensive and consultative review by the Board of reliability and resource adequacy on a provincial basis including the addition of the interconnection to the North American grid.

The Board is committed to meeting the on-going demands of its workload by continuing its focus on regulatory responsiveness, building on the initiatives already implemented which have proven effective in meeting the Board's objective of enhanced and efficient regulation.

The Board's progress in meeting its planned objectives for 2018-19 is set out below:

ISSUE:	Continued Regulatory Responsiveness
Objective	By March 31, 2019 the Board will have enhanced effective and efficient regulation.
Measure:	Effective and efficient regulation enhanced
Indicator	Continued effective regulatory response
<p>The enhancements made to its regulatory processes continue to help the Board meet its objective of enhanced and efficient regulation and fulfill its mandate in a timely and effective manner.</p> <p>The challenge for the Board in this reporting period has been to issue timely decisions. Maintaining schedules, adhering to timelines and efficient organization of the record were vital in ensuring regulatory responsiveness. The automatic review process for routine applications, introduced about 10 years ago, continues to be key in the Board's ability to issue decisions in a timely manner.</p> <p>During the reporting period the Board received 52 applications and 136 compliance filings related to its public utility regulatory mandate. Orders for 43 or 82 per cent of applications were issued within 60 days or less following completion of the record. The remaining nine applications involved information exchange processes with outside parties. Of the 136 compliance filings, 93 per cent were reviewed within 60 days of receipt by the Board.</p> <p>In addition to the significant public utility agenda, the Board also reviewed 25 Category 1 automobile insurance rate filings and 25 Category 2 and 3 automobile insurance rate filings requiring additional actuarial review. Of the 25 Category 2 and Category 3 automobile insurance rate filings submitted to the Board, 80 per cent were concluded within the 90-day review period.</p> <p>The Board views these outcomes as positive considering the number of applications and complex issues before it during the year.</p>	
Indicator	Enhanced website
<p>Enhancement of the Board's website continued in response to feedback from users. The goal is to make the webpage user friendly and easy to navigate. Due to the positive feedback to the re-design of the webpage for the 2017 Automobile Insurance Review the Board used a similar format when it launched the Rate Mitigation webpage. The Board also introduced a Report/Filings page which includes a catalogue of reports and filings submitted to the Board after October 1, 2018. The Board plans to implement a re-designed website in 2019-20.</p>	

Opportunities and Challenges Ahead

The Board prepares its work and activity plans around its annual regulatory calendar of routine filings and applications expected to be 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 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 over the next number of years. The schedule and hearing dates for the review of rate mitigation options and impacts in relation to the Muskrat Falls Project will be set in the spring of 2019 with the Board's final report to Government due on January 31, 2020. The Board will also review Hydro's cost of service methodology and the Reliability and Resource Adequacy Study, both of which are closely linked to the Muskrat Falls Project. The cost of service methodology will be used for determining the test year class revenue requirements reflecting the inclusion of the Muskrat Falls Project costs upon full commissioning. 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. The Board expects that the review of these two studies will garner significant interest as the decisions regarding these matters may impact future customer rates.

The Board's report on the 2017 Automobile Insurance Review was provided to Government in January 2019. While as of the end this reporting period there have been no changes announced to the automobile insurance system, the Board will have to respond to any changes to the **Automobile Insurance Act** that impact the regulatory processes or the automobile insurance product as required. In December 2018 Government also announced that it was introducing new legislation for the Road Ambulance Program and will be repealing certain aspects of the **Motor Carrier Act** that will remove the Board's responsibilities with respect to the issuing of certificates for ambulance operators. The new legislation is expected to be proclaimed in the next reporting period.

All of these matters are complex with each having unique and specific issues. The Board expects that it will see an increase in the number of interested parties and members of the public who wish to participate in the Board's matters and applications because of the impact that its decisions and review findings may have on ratepayers and consumers. The Board will continue to respond to emerging issues in regulation by focusing on the management and administration of its processes and practices and by building on past successes. The Board's primary focus is to maintain an organization that is responsive to change and is capable of meeting new challenges while completing its ongoing regulatory calendar.

Appendix I

**BOARD OF COMMISSIONERS
OF PUBLIC UTILITIES**

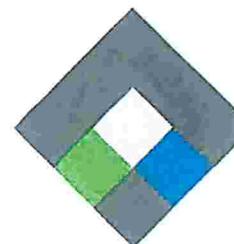
**FINANCIAL STATEMENTS
MARCH 31, 2019**

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Index to Financial Statements Year Ended March 31, 2019

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INDEPENDENT AUDITOR'S 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 as at March 31, 2019, and the statements of operations, changes in net financial assets and 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, 2019, and the results of its operations and its cash flow for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

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 accounting standards for not-for-profit organizations, 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.

(continues)



Independent Auditor's Report to the Board of Commissioners of Public Utilities *(continued)*

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.

Noseworthy Chapman

Chartered Professional Accountants
St. John's, NL
May 29, 2019

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Statement of Financial Position Year Ended March 31, 2019

	2019	2018
FINANCIAL ASSETS		
Cash	\$ 1,060,400	\$ 1,116,271
Receivables (Note 4)	1,859,629	28,367
HST receivable (Note 5)	-	170,843
Recoverable costs (Note 6)	622,796	1,918,812
	3,542,825	3,234,293
LIABILITIES		
Payables and accruals	367,143	201,630
Government remittances payable	7,201	18,528
HST payable (Note 5)	223,984	-
Payroll accruals	739,281	922,317
	1,337,609	1,142,475
NET FINANCIAL ASSETS	\$ 2,205,216	\$ 2,091,818
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 8)	\$ 80,627	\$ 58,271
Prepaid expenses	20,413	12,055
	101,040	70,326
ACCUMULATED SURPLUS	\$ 2,306,256	\$ 2,162,144
Accumulated surplus comprised of:		
Invested in capital assets (Note 8)	\$ 80,627	\$ 58,271
Internally restricted (Note 10)	1,410,403	1,477,815
Unrestricted	815,226	626,058
	\$ 2,306,256	\$ 2,162,144

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, 2019

	Budget 2019 (Note 14) (Unaudited)	2019	2018
REVENUES			
Regulatory assessments	\$ 2,669,592	\$ 3,328,166	\$ 2,467,177
Interest and other income	10,000	23,308	8,139
	2,679,592	3,351,474	2,475,316
EXPENDITURES			
Amortization	\$ -	\$ 27,332	\$ 21,795
Consulting fees	208,000	629,456	270,869
Office equipment, supplies, and services	129,002	124,834	86,775
Rent and insurance	302,744	301,594	225,096
Salaries and associated costs (Note 12)	1,891,652	1,875,744	1,837,580
Telecommunications	30,972	41,996	32,259
Training and membership	73,522	16,244	22,149
Travel	43,700	29,368	28,908
	2,679,592	3,046,568	2,525,431
Excess of revenues over expenditures (expenditure over revenues)	\$ -	\$ 304,906	\$ (50,115)

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Statement of Change in Net Financial Assets Year Ended March 31, 2019

	Budget 2019 (Note 14) (Unaudited)	2019	2018
Annual surplus (deficit)	\$ -	\$ 304,906	\$ (50,115)
Changes in tangible capital assets			
Acquisition of tangible capital assets		(49,688)	(29,090)
Amortization of tangible capital assets		27,332	21,795
		-	(7,295)
Change in other non-financial assets			
Assessment reductions		(160,794)	-
Net acquisition of prepaid expenses		(8,358)	(2,334)
		-	(2,334)
Increase in net assets		113,398	(59,744)
Net financial assets, beginning of year	2,091,818	2,091,818	2,151,562
Net financial assets, end of year	\$ -	\$ 2,205,216	\$ 2,091,818

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Statement of Cash Flows Year Ended March 31, 2019

	2019	2018
Operating transactions		
Cash receipts from assessments and other revenues	\$ 1,530,261	\$ 3,196,728
Cash paid to suppliers and employees	(2,832,460)	(2,488,400)
Cash (used in) from operating transactions	(1,302,199)	708,328
Hearing and review transaction		
Decrease in recoverable costs	1,296,016	318,265
Cash from hearing and review transaction	1,296,016	318,265
Capital transaction		
Purchase of capital assets	(49,688)	(29,090)
Cash used in capital transaction	(49,688)	(29,090)
(Decrease) increase in cash during year	(55,871)	997,503
Cash position, beginning of year	1,116,271	118,768
Cash position, end of year	\$ 1,060,400	\$ 1,116,271

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Notes to Financial Statements

Year Ended March 31, 2019

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, 2019

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, 2019

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, 2019:

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, 2019

4. RECEIVABLES

	2019	2018
Revenues receivable	\$ 1,851,292	\$ 23,230
Accrued interest receivable	1,720	-
Other receivables	6,617	5,137
	<u>\$ 1,859,629</u>	<u>\$ 28,367</u>

5. HST RECEIVABLE (PAYABLE)

	2019	2018
HST rebate receivable from federal government	\$ 22,255	\$ 193,682
HST payable to federal government	(246,239)	(22,839)
	<u>\$ (223,984)</u>	<u>\$ 170,843</u>

6. RECOVERABLE COSTS

	2019	2018
Recoverable costs, beginning of year	\$ 1,918,812	\$ 2,237,077
Add - specific enquiry costs incurred during the year:		
Consumer Advocate	440,715	1,291,763
Consulting fees	1,752,584	305,067
Legal	291,496	144,922
Advertising and notice	43,472	18,215
Transcription and printing	72,327	-
Other	-	-
	<u>2,600,594</u>	<u>1,759,967</u>
	4,519,406	3,997,044
Less - costs recovered during the year	(3,871,245)	(1,929,047)
Less - costs deemed non recoverable	(25,365)	(149,185)
	<u>\$ 622,796</u>	<u>\$ 1,918,812</u>

See also Note 11.

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, 2019, the balance outstanding was \$Nil (2018-\$Nil).

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Notes to Financial Statements Year Ended March 31, 2019

8. TANGIBLE CAPITAL ASSETS

	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
2018				
	Furniture and Equipment	Computer Hardware and Software	Leasehold Improvements	Total
Cost				
Opening balance	\$ 266,009	\$ 260,310	\$ 197,046	\$ 723,365
Additions	4,595	16,935	7,560	29,090
Disposals	-	-	-	-
Closing balance	270,604	277,245	204,606	752,455
Accumulated amortization				
Opening balance	235,596	243,666	193,127	672,389
Amortization	7,002	11,975	2,818	21,795
Disposals	-	-	-	-
Closing balance	242,598	255,641	195,945	694,184
Net book value	\$ 28,006	\$ 21,604	\$ 8,661	\$ 58,271

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Notes to Financial Statements Year Ended March 31, 2019

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, 2019, 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, 2019 are as follows:

	2019	2018
Lease commitments	\$ -	\$ 283,681
Payroll contingency	-	61,425
Redundancy pay contingency	963,089	686,110
Working capital	447,314	446,599
	<u>\$ 1,410,403</u>	<u>\$ 1,477,815</u>

During the year, as a result of a review of the Board's policies surrounding internally restricted surpluses, it was decided that the Board revise the methodology used to calculate the restricted surpluses better reflect the future immediate obligations of the Board.

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.

	2019	2018
Beginning balance	\$ 1,551,008	\$ 2,129,494
Costs incurred	859,486	1,155,070
Costs recovered	2,278,831	1,733,556
Ending balance	<u>\$ 131,663</u>	<u>\$ 1,551,008</u>

The Board has also charged Newfoundland and Labrador Hydro assessment fees in the amount of \$882,845 (2018: \$854,297).

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Notes to Financial Statements Year Ended March 31, 2019

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 \$151,662 (2018 - \$125,511) 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 \$233,913 (2018 - \$241,119), 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 2.01% (2018 - 2.36%).

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 a equipment lease agreement in the amount of \$376 plus HST per month (\$4,512 plus HST per annum), concluding June 18, 2020.

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, 2019

Commissioners

Chair and Chief Executive Officer Darlene Whalen
Vice-Chair Dwanda Newman
Full-time Commissioner John O'Brien
Full-time Commissioner James Oxford

Staff

Director of Corporate Services and Board Secretary Cheryl Blundon
Director of Regulatory and Legal Services Jacqueline Glynn
Financial Officer Amanda Foster
Senior Engineering Advisor Mike Janes
Regulatory Advisor Mike McNiven
Regulatory Advisor Ryan Oake
Regulatory Analyst Travis Fisher
Regulatory Analyst Matt Alyward
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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