

WHENEVER. WHEREVER.
We'll be there.



March 28, 2024

Board of Commissioners
of Public Utilities
P.O. Box 21040
120 Torbay Road
St. John's, NL A1A 5B2

Attention: Jo-Anne Galarneau
Executive Director and Board Secretary

Re: Newfoundland Power 2023 Annual Report to the Board

Dear Ms. Galarneau:

Please find enclosed Newfoundland Power Inc.'s ("Newfoundland Power") 2023 Annual Report to the Board, filed pursuant to section 59(2) of the *Public Utilities Act* (Newfoundland and Labrador). The Annual Report is presented as follows:

- 1) Newfoundland Power's 2023 Annual Returns, including its Management Discussion and Analysis and Financial Statements for the year ended December 31, 2023 ("Return 1");
- 2) Newfoundland Power's System of Accounts;
- 3) Summary of Revisions related to the System of Accounts (consolidated); and
- 4) Load Research and Rate Design Update, as requested by the Board in correspondence dated January 23, 2023.

No significant changes have been made to the Annual Returns for 2023.

The consolidated copy of Newfoundland Power's System of Accounts and the related Summary of Revisions is provided to the Board for informational purposes. For 2023, accounts were added to record transactions related to the Pension Capitalization Cost Deferral Accounts (18500/18501). These accounts were approved in Order No. P.U. 3 (2022). In addition, the Company added new accounts to its existing Payroll Overhead and Payroll Overhead Suspense and Recovery Accounts to capture transactions related to the recording of pension capitalization through a labour loader (19100/19150).

Other revisions consisted of updating definitions, classifications and minor wording changes to improve the clarity and accuracy of the account descriptions.

Newfoundland Power Inc.

55 Kenmount Road • P.O. Box 8910 • St. John's, NL A1B 3P6
PHONE (709) 737-5364 • FAX (709) 737-2974 • ihollett@newfoundlandpower.com

Board of Commissioners
of Public Utilities
March 28, 2024
Page 2 of 2

Should you have any questions, please contact the undersigned.

Yours truly,



Lindsay Hollett
Senior Legal Counsel &
Assistant Corporate Secretary

Enclosures

ec. Shirley Walsh
Newfoundland and Labrador Hydro

Dennis Browne, KC
Browne Fitzgerald Morgan & Avis

Newfoundland Power Inc.

55 Kenmount Road • P.O. Box 8910 • St. John's, NL A1B 3P6

PHONE (709) 737-5364 • FAX (709) 737-2974 • lhollitt@newfoundlandpower.com

IN THE MATTER OF
the 2023 Annual Report of
Newfoundland Power Inc.
filed pursuant to section 59(2)
of the *Public Utilities Act*.

AFFIDAVIT


I, Paige London, of the city of St. John's, in the Province of Newfoundland and Labrador, make oath and say as follows:

1. That I am Vice President, Finance and Chief Financial Officer of Newfoundland Power Inc.;
2. That I have read and understood the 2023 Annual Report of Newfoundland Power Inc., filed with the Board of Commissioners of Public Utilities pursuant to section 59(2) of the *Public Utilities Act* (the "Filing"); and
3. That to the best of my knowledge, information and belief, the information contained in the Filing is accurate.

SWORN to before me at St. John's
in the Province of Newfoundland and Labrador
this 28th day of March, 2024:



Lindsay S. Hollett
Barrister, NL



Paige London

NEWFOUNDLAND POWER INC.

2023 Annual Returns

March 28, 2024





2023 Management Discussion & Analysis

WHENEVER. WHEREVER.
We'll be there.

NEWFOUNDLAND 
POWER
A FORTIS COMPANY

MANAGEMENT DISCUSSION AND ANALYSIS

Dated February 8, 2024

The following Management Discussion and Analysis (“MD&A”) should be read in conjunction with the Company’s annual audited financial statements and notes thereto for the year ended December 31, 2023. This MD&A has been prepared in accordance with National Instrument 51-102 - Continuous Disclosure Obligations. Financial information for 2023 and comparative periods contained herein reflects Canadian dollars and accounting principles generally accepted in the United States (“U.S. GAAP”).

FORWARD-LOOKING INFORMATION

Certain information in this MD&A is forward-looking information within the meaning of applicable Canadian securities laws. Forward-looking information reflects expectations of Newfoundland Power management regarding future growth, results of operations, performance and opportunities. Wherever possible, words such as “anticipates”, “believes”, “budgets”, “could”, “estimates”, “expects”, “forecasts”, “intends”, “may”, “might”, “plans”, “projects”, “schedule”, “should”, “will”, “would” and the negative of these terms and other similar terminology have been used to identify forward-looking information.

The forward-looking information in this MD&A includes, but is not limited to, statements regarding: the expectation that there will be no material changes in annual cash flow or financing dynamics; the expectation that sufficient cash will be generated from operations to meet pension funding requirements; the expectation that the Company will maintain investment grade credit ratings in 2024; the expectation that upcoming accounting standards updates will not have a material impact on the Company’s financial statements; the expectation that growth in the Company’s number of customers will be modest; and the expectation that future increases in supply costs will increase electricity rates for Newfoundland Power’s customers.

The forecasts and projections that make up the forward-looking information are based on assumptions, which include, but are not limited to: receipt of applicable regulatory approvals; continued electricity demand; no significant operational disruptions or environmental liability due to severe weather or other acts of nature; no significant decline in capital spending; sufficient liquidity and capital resources; the continuation of regulator-approved mechanisms that permit recovery of costs; no significant variability in interest rates; no significant changes in government energy plans or environmental laws; the ability to obtain and maintain insurance coverage, licenses and permits; the ability to renew collective bargaining agreements on acceptable terms; and sufficient human resources to deliver service and execute the capital program.

A number of factors could cause actual results to differ materially from the results discussed or implied in the forward-looking information. These factors should be considered carefully and undue reliance should not be placed on the forward-looking information. Risk factors which could cause results or events to differ from current expectations are detailed under the heading “Business Risk Management” in this MD&A, and in other continuous disclosure materials filed from time to time with Canadian securities regulatory authorities. These risk factors include, but are not limited to: regulation; energy supply; purchased power costs; economic conditions; health and safety; cybersecurity; climate change and weather; environment; capital resources and liquidity; interest rates; labour relations; political environment; human resources; operating and maintenance; information technology infrastructure; insurance; defined benefit pension plan performance; legal, administrative and other proceedings; and continued reporting in accordance with U.S. GAAP.

All forward-looking information in this MD&A is given as of the date of this MD&A and, except as required by law, the Company undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise.

OVERVIEW

The Company

Newfoundland Power is a regulated electricity utility that owns and operates an integrated generation, transmission and distribution system throughout the island portion of Newfoundland and Labrador. The Company is a wholly owned subsidiary of Fortis Inc. (“Fortis”). Fortis is a well-diversified leader in the North American regulated electric and gas utility industry, serving customers across Canada and in the United States and the Caribbean.

Newfoundland Power’s primary business is electricity distribution. It generates approximately 7% of its electricity needs and purchases the remainder from Newfoundland and Labrador Hydro (“Hydro”). Newfoundland Power serves approximately 275,000 customers, comprising approximately 87% of all electricity consumers in the Province.

Newfoundland Power’s vision is to be a leader among North American electricity utilities in terms of safety, reliability, customer service and efficiency. The key goals of the Company are to operate sound electricity distribution systems, deliver safe, reliable electricity to customers at the lowest reasonable cost, and conduct business in a sustainable manner.

Regulation

Newfoundland Power is regulated by the Newfoundland and Labrador Board of Commissioners of Public Utilities (the "PUB"). The Company operates under cost of service regulation whereby it is entitled an opportunity to recover, through customer rates, all reasonable costs incurred in providing electricity service to its customers, including a just and reasonable return on its rate base. The rate base is the value of the net assets required to provide electricity service.

On February 25, 2022, the PUB issued an order on the Company's 2022/2023 General Rate Application (the "2022/2023 GRA Order") which established the Company's cost of capital for rate making purposes for 2022 through 2024 based upon an 8.5% return on equity and 45% common equity. The order approved a 1.1% decrease in customer rates effective March 1, 2022. The Company's rate of return on rate base for 2022 and 2023 was established at 6.61% and 6.39%, respectively, with a range of ± 18 basis points.

On June 23, 2023, the PUB issued an order approving a 6.9% increase in customer electricity rates effective July 1, 2023. This was the result of a 3.9% increase reflecting Hydro's updated wholesale rate adjustments, and a 3.0% increase due to the annual operation of Hydro's Rate Stabilization Plan ("RSP") and Newfoundland Power's Rate Stabilization Account ("RSA"). Variances in Hydro's supply costs are captured in Hydro's RSP and flowed-through to the Company's customers through the operation of the Company's RSA. The RSA also captures variances in certain Newfoundland Power costs including energy supply and employee future benefit costs. The July 1, 2023 customer rate change did not impact Newfoundland Power's annual earnings.

On November 23, 2023, the Company filed an application with the PUB for approval of its 2024 forecast average rate base and rate of return on rate base ("2024 RORB Application"). The 2024 RORB Application is proposing an overall average increase in customer rates of 1.5% effective July 1, 2024. The Company is proposing a rate of return on rate base for 2024 of 6.85%, with a range of ± 18 basis points.

On December 12, 2023, the Company filed a General Rate Application (the "2025/2026 GRA") for the purpose of setting customer rates effective July 1, 2025. The 2025/2026 GRA proposes an overall average increase in customer rates of 5.5% effective July 1, 2025. This proposed increase results from a full review of the Company's costs since its last GRA, including cost of capital. The application proposes a 9.85% return on equity and 45% common equity for 2025 and 2026. The application is currently under review by the PUB.

On January 18, 2024, the PUB issued an order approving \$114.3 million in capital expenditures for 2024. Approximately 53% of the Corporation's 2024 capital expenditures relate to maintenance of the electricity system.

Financial Highlights

	2023	2022	Change
Electricity Sales (<i>gigawatt hours ("GWh")</i>) ¹	5,927.9	5,784.5	143.4
Earnings Applicable to Common Shares			
\$ Millions	46.0	45.7	0.3
\$ Per Share	4.46	4.42	0.04
Cash Flow from Operating Activities (<i>\$millions</i>)	63.8	108.0	(44.2)
Total Assets (<i>\$millions</i>)	1,950.2	1,813.9	136.3

¹ Reflects normalized electricity sales.

Electricity sales for 2023 increased by 143.4 GWh, or approximately 2.5% compared to 2022. The increase in electricity sales reflects 1.8% higher average consumption by residential and commercial customers and customer growth of 0.7%.

Earnings increased by \$0.3 million, from \$45.7 million in 2022 to \$46.0 million in 2023. The increase in earnings primarily reflects higher than expected electricity sales and higher revenues associated with the implementation of the 2022/2023 GRA Order effective March 1, 2022. The increase was partially offset by the impact of a regulatory earnings adjustment, higher demand charges from Hydro, higher than expected finance charges and an increase in operating expenses.

Cash from operating activities decreased by \$44.2 million compared to 2022. The decrease primarily reflects the operation of PUB-approved regulatory mechanisms, primarily energy supply cost variances and weather normalization, and changes in working capital. The decrease was partially offset by lower income tax payments and increases associated with the implementation of the Company's 2022/2023 GRA Order.

Total assets increased by \$136.3 million compared to December 31, 2022. The increase primarily reflects continued investment in the electricity system and an increase in regulatory assets associated with PUB-approved regulatory mechanisms.

RESULTS OF OPERATIONS

Revenue

(\$millions)	2023	2022	Change
Electricity Revenue ¹	759.5	722.1	37.4
Other Revenue ²	14.4	13.6	0.8
Total Revenue	773.9	735.7	38.2

¹ Electricity revenue includes regulatory deferrals and amortizations recognized pursuant to PUB orders of approximately \$28.4 million for 2023 (2022 - \$6.7 million). The amounts are recorded in accordance with PUB orders and are described in Note 7 to the Company's 2023 annual audited financial statements.

² Other revenue includes revenue from telecommunication companies, interest revenue associated with customer accounts and other miscellaneous amounts.

Electricity revenue increased by \$37.4 million compared to 2022. The increase primarily reflects changes in regulatory deferrals and amortizations and higher electricity sales, partially offset by a 1.1% decrease in customer electricity rates as a result of the 2022/2023 GRA Order.

Regulatory deferrals and amortizations include the energy supply cost variance, excess earnings, pension expense variance deferral ("PEVDA"), other post-employment benefits ("OPEB") cost variance deferral, and the amortization of annual customer energy conservation program costs. These regulatory mechanisms are described in Note 7 to the Company's 2023 annual audited financial statements.

Other revenue increased by \$0.8 million compared to 2022. The increase primarily reflects higher interest on the Company's RSA balance, partially offset by lower revenue from telecommunications companies and third-party provisioning services.

Purchased Power: Purchased power expense for 2023 was \$32.5 million higher than 2022. The increase primarily reflects higher energy purchases and billing demand charges from Hydro.

Operating Expenses: Operating expenses for 2023 were \$1.4 million lower than 2022. The decrease was primarily due to lower current service costs on the Company's employee future benefit plans, lower contract expenses associated with services provided to telecommunications companies, and lower amortization of deferred conservation and demand management costs, as approved by the PUB. The decrease was partially offset by inflationary cost increases and increased corporate costs.

Employee Future Benefits: Employee future benefits for 2023 were \$0.3 million lower than 2022. The decrease was primarily due to a higher expected return on the Company's defined benefit pension plan assets, partially offset by higher interest costs.

Depreciation and Amortization: Depreciation and amortization expense increased by \$4.2 million, from \$78.2 million in 2022 to \$82.4 million in 2023. The increase reflects the Company's continued investment in the electricity system.

Cost Recovery Deferrals, Net: Cost recovery deferrals for 2023 were comparable to 2022.

Finance Charges: Finance charges for 2023 were \$2.6 million higher than 2022. The increase primarily reflects higher interest on the Company's credit facilities and higher interest on long-term debt, partially offset by an increase in the allowance for funds used during construction.

Income Taxes: Income tax expense for 2023 was \$0.4 million higher than 2022. The increase primarily reflects an increase in earnings before tax and a higher effective tax rate.

FINANCIAL POSITION

Explanations of the primary causes of significant changes in the Company's balance sheets between December 31, 2022 and December 31, 2023 follow.

<i>(\$millions)</i>	Increase (Decrease)	Explanation
Accounts Receivable	13.2	Increase reflects higher electricity sales and an increase in electricity rates effective July 1, 2023.
Regulatory Assets, including Current Portion	34.0	Increase due to normal operation of the Company's approved regulatory accounts. See Note 7 to the Company's 2023 annual audited financial statements.
Property, Plant and Equipment	56.8	Increase due to investment in the electricity system, in accordance with the 2023 capital expenditure program, partially offset by depreciation and customer contributions in aid of construction.
Intangible Assets	18.0	Increase primarily reflects investment in the Company's Customer Service System Replacement project, in accordance with the 2023 capital expenditure program.
OPEB, including Current Portion	(19.9)	Decrease due to an actuarial gain associated with an OPEB valuation, primarily due to lower claims cost experience, partially offset by an actuarial loss associated with a lower discount rate at December 31, 2023 used to determine the Company's OPEB obligation.
Long-Term Debt, including Current Portion	93.3	Increase primarily reflects the issuance of first mortgage sinking fund bonds and higher borrowings on the Company's committed credit facility, incurred primarily to finance the 2023 capital expenditure program, the operation of approved regulatory accounts and changes in working capital.
Deferred Income Tax Liability	23.1	Increase primarily reflects investment in the electricity system, in accordance with the 2023 capital expenditure program.
Retained Earnings	38.7	Earnings in excess of dividends; retained to finance rate base growth.

LIQUIDITY AND CAPITAL RESOURCES

The primary sources of liquidity and capital resources are net funds generated from operations, debt capital markets and bank credit facilities. These sources are used primarily to satisfy capital and intangible asset expenditures, service and repay debt, and pay dividends. A summary of cash flows and cash position for 2023 and 2022 follows.

<i>(\$millions)</i>	2023	2022	Change
Cash, Beginning of Year	-	-	-
Operating Activities	63.8	108.0	(44.2)
Investing Activities	(145.0)	(124.2)	(20.8)
Financing Activities	84.3	16.2	68.1
Cash, End of Year	3.1	-	3.1

Operating Activities

Cash from operating activities decreased by \$44.2 million compared to 2022. The decrease primarily reflects the operation of PUB-approved regulatory mechanisms, primarily energy supply cost variances and weather normalization, and changes in working capital. The decrease was partially offset by lower income tax payments and increases associated with the implementation of the Company's 2022/2023 GRA Order.

Investing Activities

Cash used in investing activities increased by \$20.8 million compared to 2022. The increase primarily reflects higher capital and intangible asset expenditures, partially offset by increased contributions from customers.

A summary of 2023 and 2022 capital and intangible asset expenditures follows.

<i>(\$millions)</i>	2023	2022
Electricity System		
Generation	8.7	2.8
Transmission	12.2	11.2
Substations	20.2	15.7
Distribution	57.6	51.4
Other	28.1	29.1
Intangible Assets	23.4	16.8
Capital and Intangible Asset Expenditures	150.2	127.0

The Company's business is capital intensive. Capital investment is required to ensure safe, reliable electrical system performance and to meet customer growth. All costs considered to be repairs and maintenance are expensed as incurred. Capital investment is also required for information technology systems, general facilities, equipment, and vehicles. Capital expenditures, property, plant and equipment repairs, and maintenance expense can vary from year to year depending upon both planned electricity system expenditures and unplanned expenditures arising from weather or other unforeseen events.

Financing Activities

Cash provided by financing activities increased by \$68.1 million compared to 2022. The increase was primarily due to lower repayments of long-term debt, lower dividends on common shares, the issuance of first mortgage sinking fund bonds and lower repayments of short-term borrowings, partially offset by lower borrowings on the Company's committed credit facility.

On August 11, 2023, the Company issued \$90 million in first mortgage sinking fund bonds. The bonds were issued with a 30-year term at an interest rate of 5.122%. Net proceeds from the issue were used to repay credit facility borrowings, which were incurred principally to fund capital expenditures, and for general corporate purposes.

The Company has historically generated sufficient annual cash flows from operating activities to service annual interest and sinking fund payments on debt, to fund pension obligations, to pay dividends and to finance a major portion of its annual capital program. Additional financing to fund the annual capital program is primarily obtained through the Company's bank credit facilities. These borrowings are periodically refinanced, along with any maturing bonds, through the issuance of long-term first mortgage sinking fund bonds. The issuance of bonds is subject to prior PUB approval and to a mortgage trust deed requirement that the ratio of (i) annual earnings, before tax and bond interest, to (ii) annual bond interest incurred plus annual bond interest to be incurred on the contemplated bond issue, be two times or higher. The Company does not expect any material changes in its annual cash flow or financing dynamics.

Credit Facilities: The Company's credit facilities are comprised of a \$100 million committed revolving term credit facility and a \$20 million demand facility as detailed below.

(\$millions)	2023	2022
Total Credit Facilities	120.0	120.0
Borrowing, Committed Facility	(32.0)	(20.0)
Borrowing, Demand Facility	-	(1.4)
Credit Facilities Available	88.0	98.6

During the third quarter of 2023, the committed credit facility was amended to extend the maturity date from August 2027 to August 2028. Subject to lenders' approval, the Company may request an extension for a further period of up to, but not exceeding, five years.

Pensions: As at December 31, 2023, the fair value of the Company's funded defined benefit pension plan assets was \$388.2 million compared to \$364.1 million as at December 31, 2022. The \$24.1 million increase in fair value was primarily due to favourable market conditions in 2023. Details of the plan asset changes are included in Note 11 to the Company's 2023 annual audited financial statements.

In August 2023, Newfoundland Power received actuarial valuation results for its defined benefit pension plan, including the funding status of the plan as at December 31, 2022, on a going concern and solvency basis. On a going concern basis, the surplus increased from \$67.6 million as at December 31, 2019 to \$131.0 million as at December 31, 2022. On a solvency basis, the funding position surplus increased from \$19.2 million as at December 31, 2019 to \$29.2 million as at December 31, 2022. The increase was primarily due to a higher estimated discount rate.

Based on the most recent actuarial valuation, contributions for current service amounts are estimated to average \$1.1 million annually for 2024 through 2026. The Company expects to have sufficient cash generated from operations to meet future pension funding requirements.

Contractual Obligations: Details, as at December 31, 2023, of contractual obligations over the subsequent five years and thereafter, follow.

(\$millions)	Total	Due Within 1 Year	Due in Years 2 & 3	Due in Years 4 & 5	Due After 5 Years
Credit Facilities (unsecured)	32.0	32.0	-	-	-
First Mortgage Sinking Fund Bonds ¹	747.5	8.5	44.9	51.1	643.0
Interest Obligations on Long-Term Debt	658.3	38.9	75.3	69.8	474.3
Total	1,437.8	79.4	120.2	120.9	1,117.3

¹ First mortgage sinking fund bonds are secured by a first fixed and specific charge on property, plant and equipment owned or to be acquired by the Company, by a floating charge on all other assets and carry customary covenants.

Credit Ratings and Capital Structure: To ensure continued access to capital at reasonable cost, the Company endeavors to maintain its investment grade credit ratings. Details of the Company's investment grade bond ratings follow.

Rating Agency	2023		2022	
	Rating	Outlook	Rating	Outlook
Moody's Investors Service ("Moody's")	A2	Stable	A2	Stable
Morningstar DBRS ("DBRS")	A	Stable	A	Stable

During the first quarter of 2023, Moody's issued an updated credit rating report confirming the Company's existing bond rating and rating outlook.

During the fourth quarter of 2023, DBRS issued an updated credit rating report confirming the Company's existing bond rating and rating outlook.

Newfoundland Power maintains an average annual capital structure of approximately 55% debt and 45% common equity. This capital structure is reflected in customer rates and is consistent with the Company's current investment grade credit ratings.

The Company's capital structure follows.

	2023		2022	
	\$millions	%	\$millions	%
Total Debt ¹	773.2	57.0	684.4	55.7
Common Equity	582.6	43.0	543.9	44.3
Total	1,355.8	100.0	1,228.3	100.0

¹ Includes long-term debt, net of deferred financing costs, unamortized credit facility costs and cash. Total also includes bank indebtedness, current portion of long-term debt and credit facility borrowings.

The Company expects to maintain its investment grade credit ratings in 2024.

Capital Stock and Dividends: In both 2023 and 2022, the weighted average number of common shares outstanding was 10,320,270. In 2023, the quarterly common share dividend increased to \$0.71 per share compared to \$0.70 per share in 2022. Dividends on common shares for 2023 were \$21.6 million lower than 2022. The Company did not declare or pay common share dividends during the second, third or fourth quarters of 2023, consistent with the Company's common share dividend policy to maintain a capital structure composed of approximately 55% debt and 45% common equity.

As of the date of this MD&A, the issued and outstanding capital of the Company consisted of 10,320,270 common shares, all of which were held by Fortis.

RELATED PARTY TRANSACTIONS

The Company provides services to, and receives services from, its parent company, Fortis and other subsidiaries of Fortis. The Company also incurs charges from Fortis for the recovery of general corporate expenses incurred by Fortis. These transactions are in the normal course of business and are recorded at their exchange amounts.

Related party transactions included in operating expenses in 2023 were \$2.2 million (2022 - \$2.3 million).

A member of the Board of Directors of Newfoundland Power is the President of a construction services company. The Company has entered into construction service agreements with this company. Total capital expenditures incurred in 2023 associated with these agreements were \$4.0 million (2022 - \$2.6 million). The awarding of these contracts followed a competitive bidding process in the ordinary course of business. The construction services company is also a member of a joint venture that paid a \$2.6 million contribution in aid of construction to the Company in 2023. The contribution followed PUB guidelines in the ordinary course of business. The Board of Directors has no role in these processes.

FINANCIAL INSTRUMENTS

The carrying values of financial instruments included in current assets, current liabilities, other assets, and other liabilities approximate their fair value, reflecting their nature, short-term maturity or normal trade credit terms.

The fair value of long-term debt is calculated by discounting the future cash flows of each debt instrument at the estimated yield-to-maturity equivalent to benchmark government bonds, with similar terms to maturity, plus a credit risk premium equal to that of issuers of similar credit quality. Since the Company does not intend to settle its debt instruments before maturity, the fair value estimate does not represent an actual liability, and therefore, does not include settlement costs.

The carrying and estimated fair values of the Company's long-term debt follow.

(\$millions)	2023		2022	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Long-Term Debt, including Current Portion and Committed Credit Facility	779.5	833.2	686.0	706.3

BUSINESS RISK MANAGEMENT

The following is a summary of the Company's significant business risks.

Regulation: The Company's key business risk is regulation. The Company is subject to normal uncertainties facing entities that operate under cost of service regulation. It is dependent on PUB approval of customer rates that permit a reasonable opportunity to recover, on a timely basis, the estimated costs of providing electricity service, including a fair and reasonable return on rate base. The ability to recover the actual costs of providing service and to earn the approved rate of return depends on achieving the forecasts established in the rate setting process. There is no assurance that rate orders issued by the PUB will permit the Company to recover the estimated costs of providing electricity service. A failure to obtain acceptable rate orders may adversely affect the operations of the Company, the timing of capital projects, and the Company's credit ratings assigned by rating agencies, which may in turn, negatively affect the results of operations and financial position of the Company.

The Company is also dependent on PUB approval of its annual capital budget. Capital expenditures are necessary to provide safe, reliable and least cost service to customers. A failure to obtain approval of its capital budget application may negatively impact operations and the financial position of the Company.

Energy Supply: The Company is dependent on Hydro for approximately 93% of its electricity requirements. In the event that Hydro is unable to supply the Company with wholesale energy deliveries, Newfoundland Power would be unable to meet its customers' requirements.

Energy from Hydro's \$13.5 billion Muskrat Falls hydroelectric generation development and associated transmission assets (the "Muskrat Falls project") supplies a significant portion of Hydro's, and in turn Newfoundland Power's, electricity requirements. While it was fully commissioned and released for service in 2023, the reliability of supply from the Muskrat Falls project remains uncertain. In October 2022, Hydro filed an updated study with the PUB recommending, among other things, that its 490-megawatt Holyrood Thermal Generating Station ("Holyrood") remain operational until 2030 as backup generation in the event of an extended outage to the Labrador-Island Link ("LIL"). Supply adequacy and reliability of the province's electrical system continues to be under review by the PUB.

Purchased Power Costs: Purchased power costs are based on a wholesale demand and energy rate structure. The demand and energy rate structure present the risk of volatility in purchased power costs due to uncertainty in forecasting energy sales and peak billing demand.

Customer rates are designed to recover the average test year cost of supplying energy, however, as load requirements on the system increase, the Company's supply costs from Hydro also increase due to the structure of Hydro's wholesale rate. The marginal cost of purchased power (\$0.18 per kWh) significantly exceeds the average cost of purchased power that is embedded in customer rates. These supply cost dynamics have no material effect on Company earnings because the PUB ordered that variance in purchased power expense caused by differences between the actual unit cost of energy purchased and that reflected in customer rates be recovered from or refunded to customers through the Company's RSA. Volatility in supply costs could, however, negatively impact the Company's cash flows and financial position.

A significant portion of customer electricity rates is dependent on purchased power costs, which are outside of Newfoundland Power's control. Future increases in supply costs from Hydro, including costs associated with the Muskrat Falls project, are expected to increase electricity rates for Newfoundland Power's customers. The final impact the Muskrat Falls project will have on customer rates and the timing of the rate changes will remain uncertain until the finalization of the provincial government's rate mitigation plans and Hydro's next general rate application. Any additional costs associated with extending the life of Hydro's Holyrood generating station or the construction of additional backup generation capacity on the Island of Newfoundland could further increase supply costs and, in turn, increase electricity rates for the Company's customers.

Increases in electricity rates can cause changes in customer electricity consumption, which could negatively impact the Company's sales and, therefore, earnings and cash flows.

Economic Conditions: Economic conditions impact the Company's operations, including electricity sales, supply chain, cost of capital and the performance of the defined benefit pension plan.

Electricity sales are influenced by economic factors such as changes in employment levels, inflation, personal disposable income and housing starts. A downturn in oil prices negatively impacts the Government of Newfoundland and Labrador's fiscal capacity as well as the broader economy. Out-migration in rural areas, as well as declining birth rates and increasing death rates associated with an aging population, also affect sales. An extended decline in economic conditions would be expected to have the effect of reducing demand for energy over time. In addition to the impact of reduced demand, an extended decline in economic conditions could also impair the ability of customers to pay for electricity consumed, thereby affecting the aging and collection of the Company's accounts receivable.

The Company's ability to deliver safe and reliable electricity in a cost-effective manner is dependent on its supply chain and ability to secure materials needed for continued investment in the electricity system. Domestic and global supply chain issues may delay the delivery of goods necessary to support normal operations and continued investment in the electricity system and may also increase the cost of those materials. Any delays and increased costs could have a material adverse effect on the results of operations, cash flows and financial position of the Company.

For a description of the impact of economic conditions on pensions and cost of capital, see "Interest Rates" on page 10 and "Defined Benefit Pension Plan Performance" on page 11.

Health and Safety: The operations of the Company inherently involve risk to the health and safety of employees, contractors and the public. Personal injury or loss of life could result from failure to implement or observe appropriate health and safety procedures and could give rise to operational, reputational or financial impacts. In addition, failure to comply with health and safety regulations could result in fines, penalties, reputational damage, litigation, increased capital and operating costs or adverse regulatory outcomes. There is no assurance that any costs which might arise would be recoverable through customer rates and, if substantial, unrecovered costs could have a material adverse effect on the results of operations, cash flows and financial position of the Company.

The Company maintains a health and safety management system which complies with International Organization for Standardization ("ISO") standard 45001. Continuing to meet this standard improves the Company's ability to capture and track information related to safe work practices and hazard recognition, and enhances safety management.

Cybersecurity: The Company is exposed to the risk of cybersecurity violations. Unauthorized access to corporate and information technology systems due to hacking, viruses and other causes could result in service disruptions and system failures. Due to the nature of its operations, the Company maintains personal information of customers and employees, which could be exposed in the event of a security breach.

Information technology systems, including those of the Company's third-party service providers, may be vulnerable to unauthorized access or disruption due to cyber and other attacks, including hacking, malware, acts of war or terrorism, and acts of vandalism, among others. Further, geopolitical conflicts may further increase the sophistication, magnitude or frequency of cyberattacks, some of which may be initiated by nation state actors.

Newfoundland Power maintains a Cybersecurity Risk Management Program, which guides the Company's response to managing its cybersecurity risk. Despite implemented security measures and controls to protect corporate and information technology systems and safeguard the confidentiality of customer information, a security breach could occur. This could potentially result in disruption of service and other business operations, property damage, corruption or unavailability or the misappropriation or disclosure of sensitive, confidential and proprietary business information or personal information of customers or employees. These could impact the Company's results if the situation is not resolved in a timely manner, or the financial impacts are not alleviated through insurance policies or through recovery from customers in future rates.

Climate Change and Weather: Climate change may lead to more frequent and intense weather events, changing air temperatures and changing seasonal variations that may impact the Company's service territory. These climate changes may impact the consumption pattern of electricity by the Company's customers, which in turn could have an impact on customer rates. These climate changes may also impact the Company's ability to provide safe, reliable, least-cost electricity to customers.

The physical assets of the Company are exposed to the effects of severe weather conditions and other acts of nature. Although the physical assets are constructed, operated and maintained to withstand severe weather, there is no assurance that they will successfully do so in all circumstances. In the event of a material uninsured loss caused by severe weather conditions or other natural disaster, the Company could apply to the PUB for recovery of those costs. However, there is no assurance that the PUB would approve any such application. Any major damage to the Company's facilities could result in loss of revenue, repair costs and customer claims that are substantial in amount and could result in a material adverse effect on the Company's results of operations, cash flows or financial position.

Weather-related events due to climate change could affect the Company's operations and systems. Responding to changes in weather events could lead to increased costs associated with the strengthening of infrastructure to ensure system reliability and resiliency, which in

turn could have an impact on customer rates. An increase in the severity and frequency of weather-related events could impact future operating, maintenance, replacement, expansion and removal costs that will be incurred in the ongoing operation of its business.

The Company may also be adversely impacted by policy decisions, legal risks, technological changes and market changes as governments and customers take action to address climate change. Failure to respond to these transitional risks in an appropriate manner may adversely impact the Company's ability to provide safe, reliable, least-cost electricity to customers, which could cause reputational harm and other negative impacts. The availability of regulatory mechanisms or the ability of the Company to pass related costs on to customers with respect to its climate change response remains uncertain.

Environment: The Company is subject to numerous laws, regulations and guidelines relating to the protection of the environment including those governing the management, transportation and disposal of hazardous substances and other waste materials. Environmental damage and associated costs could potentially arise due to a variety of events, including the impact of severe weather and other natural disasters, climate change, human error or misconduct and equipment failure. Costs arising from environmental protection initiatives, compliance with environmental laws, regulations and guidelines or damages may become material to the Company.

The Company's key environmental hazard relates to risks of contamination of air, soil or water primarily relating to the storage and handling of fuel, the use and disposal of petroleum-based products, including transformer oils containing polychlorinated biphenyls, in the day-to-day operating and maintenance activities, and emissions from the combustion of fuel required in the generation of electricity.

Electricity transmission and distribution facilities have the potential to cause fires as a result of equipment failure, trees falling on a transmission or distribution line or lightning strikes to wooden poles. The Company may be liable for costs and third-party claims if its facilities cause a fire. The Company's facilities are also subject to breakdown or damage from fire, floods or other natural disasters, that may result in lower-than-expected operational efficiency or performance, and service disruption.

The environmental hazards related to hydroelectric generation operations include the creation of artificial water flows that may disrupt natural habitats and the storage of large volumes of water for the purpose of electricity generation.

The Company has established an environmental management system ("EMS") to monitor environmental performance. The Company's EMS is compliant with the ISO 14001:2015 standard. As at December 31, 2023, there were no environmental liabilities recorded in the Company's 2023 annual audited financial statements and there were no material unrecorded environmental liabilities known to management.

Capital Resources and Liquidity: The Company's financial position could be adversely affected if it fails to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and the repayment of maturing debt. There is no assurance that sufficient capital will continue to be available on acceptable terms to repay existing debt and to fund capital expenditures. The ability to arrange sufficient and cost-effective financing is subject to numerous factors, including the financial position of the Company, conditions in the capital and bank credit markets, credit ratings assigned by rating agencies and general economic conditions.

Credit ratings affect the level of credit risk spreads on new long-term bond issues and on the Company's credit facilities. A decrease in credit ratings could potentially affect access to various sources of capital and increase the Company's financing costs.

The Company has been successful at securing cost-effective capital and expects to have reasonable access to capital in the near to medium term. Further information on the Company's credit facilities, contractual obligations, including long-term debt maturities and repayments, and cash flow requirements is provided in the "Liquidity and Capital Resources" section of this MD&A.

Interest Rates: Global financial market conditions could impact the Company's cost of capital as well as impact timing of future long-term bond issues. Market driven changes in interest rates could cause fluctuations in interest costs associated with the Company's bank credit facilities. The Company periodically refinances its credit facilities in the normal course with fixed-rate first mortgage sinking fund bonds, which compose most of its long-term debt, thereby significantly mitigating exposure to short-term interest rate changes.

Labour Relations: Approximately 52% of the Company's employees are members of the two bargaining units, the Craft unit and the Clerical unit, represented by The International Brotherhood of Electrical Workers labour union (the "IBEW"). A collective agreement between the Corporation and IBEW for the Clerical bargaining unit was signed on November 10, 2023 with an expiry date of December 31, 2026. The Craft bargaining unit collective agreement expired on June 30, 2022. A tentative collective agreement for the Craft bargaining unit was reached between the Company and IBEW on September 26, 2023, however, it was not ratified by Craft employees.

The *Electrical Power Control Act, 1994* (Newfoundland and Labrador) allows for a retailer of electricity to apply to the PUB for an order determining the number of essential employees who are required to report to work in the event of a labour dispute. The Company filed an essential employees application with the PUB on July 20, 2023. As a regulated utility, determining the number of essential employees is

necessary to ensure it can continue to provide safe, reliable service to customers in the event of a labour dispute. The essential employees proceeding is ongoing.

The inability to renew the collective agreements on acceptable terms could result in increased labour costs, or service interruptions arising from labour disputes that are not provided for in approved rates, which could have a material adverse effect on the results of operations, cash flows and financial position of the Company.

Political Environment: The political environment, at the local, national or global level, may impact energy laws, governmental energy policies or regulatory decisions. Political pressure or intervention to address rising energy prices and customer affordability concerns may impact regulatory decisions, as well as the period over which the Company recovers allowed costs.

The Company is further exposed to risks associated with international relations and geopolitical events. Political, economic or social instability or events, trade disputes, increased tariffs, changes in laws or the imposition of onerous regulations applicable to existing operations, currency restrictions, and the impacts of changes in political leadership could lead to an increase in commodity prices, impact the availability and cost of energy or generally affect global economic conditions, any of which could have a material adverse effect on the Company's results of operations, cash flows or financial position (see "Economic Conditions" described on page 8 and "Environment" described on page 10).

Human Resources: The ability of the Company to deliver service in a cost-effective manner is dependent on the ability of the Company to attract, develop and retain a skilled workforce as well as to fill strategic positions. The inability to attract, develop and retain a skilled workforce or filling strategic positions could have a material adverse effect on the Company.

Operating and Maintenance: The Company's electricity system requires ongoing maintenance and capital investment to ensure its continued performance, reliability and safety. The failure of the Company to properly execute its capital expenditure programs, maintenance programs or the occurrence of significant unforeseen equipment failures could have a material adverse effect on the Company's results of operations, cash flows and financial position. There is no assurance that any additional maintenance or capital costs will receive regulatory approval for recovery in future customer rates.

Information Technology Infrastructure: The ability of the Company to operate effectively is dependent upon developing and maintaining its information systems and infrastructure that support electricity operations, provide customers with billing information and support the financial and general operating aspects of the business.

The implementation of new information technology systems into the business, including those impacting utility operations and customer billing systems, carries risk that any such system will not operate as expected. Failure to maintain, upgrade, replace or properly implement such new information technology systems could result in increased risk of a cybersecurity incident and have an adverse effect on operational efficiency, revenue or reputation (see "Cybersecurity" described on page 9).

Insurance: The Company maintains a comprehensive insurance program considered appropriate and in accordance with industry practice. Insurance is subject to coverage limits as well as time-sensitive claims discovery and reporting provisions and there is no assurance that the types of liabilities that may be incurred by the Company, including those that may arise relating to environmental matters, will be covered by insurance. There is no assurance that the Company will be able to obtain or maintain adequate insurance in the future at rates considered reasonable or that insurance will continue to be available on terms comparable to those now existing.

Certain of the Company's transmission and distribution assets are not covered under insurance for physical damage, including poles and wires. This is customary in North America as the cost of the coverage is not considered economical. For material uninsured losses, the Company could seek regulatory relief for recovery in customer rates. However, there is no assurance that regulatory relief would be received.

Any major damage to the physical assets of the Company could result in repair costs and customer claims that are substantial in amount and which could have a material adverse effect on the Company's results of operations, cash flows and financial position.

Defined Benefit Pension Plan Performance: The defined benefit pension plan is subject to judgments utilized in the actuarial determination of the projected pension benefit obligation and the related pension expense. The primary assumptions utilized are the expected long-term rate of return on pension plan assets and the discount rate used to value the projected pension benefit obligation. A discussion of the critical accounting estimates associated with pensions is provided in the "Critical Accounting Estimates – Employee Future Benefits" section of this MD&A.

There is also risk associated with measurement uncertainty inherent in the actuarial valuation process as it affects the measurement of pension expense, future funding requirements, and the projected benefit obligation.

Pension benefit obligations and related pension expense can be affected by changes in the global financial and capital markets. There is no assurance that the pension plan assets will earn the expected long-term rate of return in the future. Market-driven changes impacting the performance of the pension plan assets may result in material variations in actual return on pension plan assets from the expected long-term return on the assets. This may cause material changes in future pension funding requirements from current estimates and material changes in future pension expense. Market-driven changes also impact the discount rate, which may result in material variations in future pension funding requirements from current estimates and future pension expense.

Pension risks are mitigated due to the PUB approved PEVDA to deal with the differences between actual defined benefit pension expense and pension expense approved by the PUB for rate-setting purposes. Differences in pension expense arising from variations in assumptions are recovered from or refunded to customers through the Company's RSA. The closure of the defined benefit pension plan in 2004 also mitigates pension risk.

Legal, Administrative and Other Proceedings: Legal, administrative and other proceedings arise in the ordinary course of business and may include environmental claims, employment-related claims, securities-based litigation, contractual disputes, personal injury or property damage claims, actions by regulatory or tax authorities, and other matters. Unfavourable outcomes such as judgments or settlements for monetary or other damages, injunctions, denial or revocation of permits, reputational harm, and other results could have a material adverse effect on the financial position of the Company.

Continued Reporting in Accordance with U.S. GAAP: Newfoundland Power prepares its financial statements in accordance with U.S. GAAP pursuant to an order of the Ontario Securities Commission ("OSC"). The order permits Newfoundland Power to continue to prepare its financial statements in accordance with U.S. GAAP until the earliest of: (i) January 1, 2027; (ii) the first day of the financial year that commences after the Company ceases to have activities subject to rate regulation; and (iii) the first day of the financial year that commences on or following the later of: (a) the effective date prescribed by the International Accounting Standards Board ("IASB") for a mandatory application of a rate-regulated standard; and (b) two years after the IASB publishes the final version of a mandatory rate-regulated standard.

On the expiration of the OSC relief described above, the Company will be required to adopt International Financial Reporting Standards ("IFRS"). Adopting IFRS is a complex and costly process. If regulatory relief is not granted in respect of these costs, they could have a material adverse effect on the Company's results of operations, cash flows and financial position.

CHANGES IN ACCOUNTING POLICIES

There were no changes to the Company's accounting policies in 2023.

FUTURE ACCOUNTING PRONOUNCEMENTS

The Company considers the applicability and impact of all accounting standards updates ("ASUs") issued by the Financial Accounting Standards Board ("FASB"). The following update has been issued by the FASB, but has not yet been adopted by Newfoundland Power. Any ASUs not included below were assessed and determined to be either not applicable to the Company or are not expected to have a material impact on the financial statements.

Income Taxes

ASU No. 2023-09, *Improvements to Income Tax Disclosures*, issued in December 2023, is effective for Newfoundland Power on January 1, 2025 on a prospective basis, with retrospective application and early adoption permitted. Principally, it requires additional disclosure of income tax information by jurisdiction to reflect an entity's exposure to potential changes in tax legislation, and associated risks and opportunities. Newfoundland Power is assessing the impact that the adoption of this update will have on its financial statements and related disclosures.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Estimates and judgments are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Additionally, certain estimates are necessary since the regulatory environment in which the Company operates often requires amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. Due to changes in facts and circumstances and the inherent uncertainty involved in making estimates, actual results may differ significantly from current estimates.

Estimates and judgments are reviewed periodically and, as adjustments become necessary, are reported in earnings in the period in which they either, as appropriate, become known or included in customer rates. The critical accounting estimates are discussed below.

Depreciation and Amortization: Depreciation and amortization, by their nature, are estimates based primarily on the useful lives of assets. Estimated useful lives are based on current facts and historical information, and take into consideration the anticipated lives of the assets. Newfoundland Power's depreciation methodology, including depreciation and amortization rates, accumulated depreciation and estimated remaining service lives, is subject to a periodic study by external experts. The difference between actual accumulated depreciation and that indicated by the depreciation study is amortized and included in customer rates in a manner prescribed by the PUB.

The most recent depreciation study, based on property, plant and equipment in service as at December 31, 2019, indicated an accumulated depreciation variance of \$31.9 million. The PUB ordered that it be amortized as an increase in depreciation expense of property, plant and equipment over the average remaining service life of the related assets.

The estimate of future removal and site restoration costs is based on historical experience and future expected cost trends. The balance of this regulatory liability as at December 31, 2023 was \$208.7 million (December 31, 2022 - \$200.4 million). The net amount of estimated future removal and site restoration costs provided for and reported in depreciation expense during 2023 was \$24.0 million (2022 - \$23.0 million).

Capitalized Overhead: Newfoundland Power capitalizes overhead costs which are not directly attributable to specific capital assets, but which relate to the overall capital expenditure program ("general expenses capitalized" or "GEC"). Capitalization reflects estimates of the portions of various general expenses that relate to the overall capital expenditure program in accordance with a methodology ordered by the PUB. GEC is allocated over constructed property, plant and equipment, and amortized over their estimated service lives. In 2023, GEC totalled \$5.1 million (2022 - \$7.2 million). Changes to the methodology for calculating and allocating general overhead costs to property, plant and equipment could have a material impact on the amounts recorded as operating expenses versus property, plant and equipment. However, any change in the fundamental methodology for the calculation and allocation of GEC would require the approval of the PUB.

Employee Future Benefits: The Company's primary defined benefit pension and OPEB plans are subject to judgments utilized in the actuarial determination of the expense and related obligations. The primary assumptions utilized in determining the pension expense and the projected pension benefit obligation are the discount rate and the expected long-term rate of return on plan assets. The primary assumptions utilized in determining the OPEB expense and the projected OPEB benefit obligation are the discount rate and the health care cost trend rate. All assumptions are assessed and concluded in consultation with the Company's external actuarial advisor.

The discount rate as at December 31, 2023, which is utilized to determine the projected pension benefit obligation and the 2024 pension expense, was 4.6%, compared to the discount rate of 5.3% as at December 31, 2022. The discount rate as at December 31, 2023, utilized to determine the projected OPEB obligation and the 2024 OPEB expense, was 4.6%, compared to the discount rate of 5.3% as at December 31, 2022. Discount rates reflect market interest rates on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments.

The expected long-term rate of return on pension plan assets which is used to estimate the 2024 defined benefit pension expense is 5.75%, consistent with December 31, 2022. The expected long-term rate of return reflects global market conditions and the Company's long-term investment strategy. As in previous years, the Company's actuary provided a range of expected long-term pension asset returns based on its internal modelling. The expected long-term return on pension plan assets of 5.75% falls within this range.

The defined benefit pension plan investment strategy and current asset mix reflects three main objectives: (i) reduce the plan's risk exposure while allowing for a reasonable rate of return on assets; (ii) maintain the plan's fully funded status; and (iii) reduce pension expense volatility and its resulting impact on customer electricity rates. The Company continues to monitor market conditions to ensure the current investment strategy and asset mix appropriately address the defined benefit pension plan's three main objectives.

The health care cost trend rate as at December 31, 2023, which is utilized to determine the projected OPEB benefit obligation and the 2024 OPEB expense, is 4.0%, consistent with December 31, 2022.

The following table provides sensitivity to the changes in the 2023 primary assumptions associated with the Company's primary defined benefit pension and OPEB plans.

(\$millions)	Defined Benefit Pension Plan		OPEB Plan	
	Pension Expense ¹	Benefit Obligation ²	OPEB Expense ¹	Benefit Obligation ²
Rate of return on plan assets:				
Increase by 1.0%	(4.3)	-	-	-
Decrease by 1.0%	4.3	-	-	-
Discount rate:				
Increase by 1.0%	0.7	(33.4)	(0.7)	(5.4)
Decrease by 1.0%	6.9	40.0	0.9	6.7
Health care cost trend rate:				
Increase by 1.0%	-	-	1.2	5.5
Decrease by 1.0%	-	-	(0.9)	(4.5)

¹ For the year ended December 31, 2023. The volatility of future pension and OPEB expense has been mitigated by the PUB approved PEVDA and OPEB cost variance deferrals, in which the difference arising from variations in assumptions between actual pension and OPEB expense and pension and OPEB expense approved by the PUB for rate-setting purposes would be recovered from or refunded to customers through the Company's RSA.

² As at December 31, 2023.

Other assumptions applied in measuring the defined benefit pension expense and/or the projected pension benefit obligation were the average rate of compensation increase, average remaining service life of the active employee group, and employee and retiree mortality rates. Other assumptions utilized in determining OPEB costs and obligations include the foregoing assumptions, excluding the average rate of compensation increase.

Income Taxes: Deferred income tax assets and liabilities are based upon temporary differences between the accounting and tax basis of existing assets and liabilities, the benefit of income tax reductions or tax losses available to be carried forward and the effects of changes in tax laws. The carrying amounts of assets and liabilities are based upon the amounts recorded in the financial statements and are, therefore, subject to accounting estimates that are inherent to those balances. The timing of the reversal of temporary differences is estimated based upon assumptions of expectations of future results of operations. The composition of deferred income tax assets and liabilities are reasonably likely to change from period to period because of changes in the estimation of these expectations.

Asset Retirement Obligations: The measurement of the fair value of asset retirement obligations ("AROs") requires the Company to make reasonable estimates about the method of settlement and settlement dates associated with legally obligated asset retirement costs. While the Company has AROs for its generation assets and certain distribution and transmission assets, there were no amounts recognized as at December 31, 2023 or 2022.

The nature, amount and timing of AROs for hydroelectric generation assets cannot be reasonably estimated at this time as these assets are expected to effectively operate in perpetuity given their nature. In the event that environmental issues are identified or hydroelectric generation assets are decommissioned, AROs will be recorded at that time provided the costs can be reasonably estimated. It is management's judgment that identified AROs for its remaining assets are immaterial.

Revenue Recognition: The development of the electricity sales estimates requires analysis of electricity consumption on a historical basis in relation to key inputs such as the current price of electricity, population growth, economic activity, weather conditions and electricity system losses. The estimation process for accrued unbilled electricity consumption will result in adjustments to electricity revenue in the period during which the difference between actual results and those estimated becomes known. As at December 31, 2023, the amount of accrued unbilled revenue recorded in accounts receivable was approximately \$31.8 million (December 31, 2022 - \$32.5 million).

Contingencies: The Company is subject to various legal proceedings and claims associated with the ordinary course of business operations. It is management's judgment that the amount of liability, if any, from these actions would not have a material adverse effect on the Company's financial position or results of operations.

SELECTED ANNUAL INFORMATION

The following table sets forth annual information for the years ended December 31, 2023, 2022 and 2021. The financial information reflects Canadian dollars and has been prepared in accordance with U.S. GAAP.

<i>(\$millions, except per share amounts)</i>	2023	2022	2021
Results of Operations:			
Revenue	773.9	735.7	713.3
Net Earnings Applicable to Common Shares	46.0	45.7	43.8
Financial Position:			
Total Assets	1,950.2	1,813.9	1,764.4
Total Long-Term Liabilities	1,212.1	1,118.8	1,068.3
Shareholder's Equity	582.6	543.9	526.4
Per Share Data:			
Earnings Applicable to Common Shares ¹	4.46	4.42	4.24
Common Dividends Declared ¹	0.71	2.80	3.24

¹ Basic and fully diluted. Based on the weighted average number of common shares outstanding, which was 10,320,270 common shares in each year.

For a description of the changes from 2022 to 2023, see "Financial Highlights" on page 2 and "Revenue" on page 3. The increase in revenue from 2021 to 2022 primarily reflects changes in regulatory deferrals and amortizations and higher electricity sales, partially offset by a 1.1% decrease in customer electricity rates as a result of the Company's 2022/2023 GRA Order effective March 1, 2022. The increase in earnings from 2021 to 2022 primarily reflects higher revenues associated with the implementation of the Company's 2022/2023 GRA Order and higher than expected electricity sales, partially offset by an increase in operating expenses.

The increase in total assets from 2021 to 2022 primarily reflects continued investment in the electricity system and an increase in regulatory assets associated with PUB-approved regulatory mechanisms, partially offset by a decrease in pension assets.

FOURTH QUARTER RESULTS

	2023	2022	Change
Electricity Sales (GWh) ¹	1,587.6	1,563.2	24.4
Net Earnings Applicable to Common Shares			
\$ Millions	13.4	15.6	(2.2)
\$ Per Share	1.30	1.51	(0.21)
Cash Flow from Operating Activities (\$millions)	22.9	37.5	(14.6)
Cash Flow used in Investing Activities (\$millions)	(42.7)	(41.7)	(1.0)
Cash Flow from Financing Activities (\$millions)	20.4	4.2	16.2

¹ Reflects normalized electricity sales.

Electricity sales for the fourth quarter of 2023 increased by 24.4 GWh, or approximately 1.6% compared to the fourth quarter of 2022. The increase in electricity sales reflects 1.0% higher average consumption by residential and commercial customers and customer growth of 0.6%.

Earnings for the fourth quarter of 2023 decreased by \$2.2 million compared to the fourth quarter of 2022. The decrease in earnings primarily reflects the impact of a regulatory earnings adjustment, higher demand charges from Hydro and higher than expected finance charges, partially offset by higher than expected electricity sales and higher revenues associated with the implementation of the Company's 2022/2023 GRA Order.

Cash from operating activities for the fourth quarter of 2023 decreased by \$14.6 million compared to the fourth quarter of 2022. The decrease primarily reflects changes in the Company's working capital and the operation of PUB-approved regulatory mechanisms, partially offset by lower income tax payments.

Cash used in investing activities for the fourth quarter of 2023 increased by \$1.0 million compared to the fourth quarter of 2022. The increase primarily reflects higher capital asset expenditures, partially offset by higher contributions from customers.

Cash provided by financing activities for the fourth quarter of 2023 increased by \$16.2 million compared to the fourth quarter of 2022. The increase was primarily due to borrowings on the Company's committed credit facility and lower common share dividends.

QUARTERLY RESULTS

The following table sets forth unaudited quarterly information for each of the eight quarters ended March 31, 2022, through December 31, 2023. The quarterly information reflects Canadian dollars and has been obtained from the Company's interim unaudited financial statements which have been prepared in accordance with U.S. GAAP. These financial results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

<i>(unaudited)</i>	First Quarter March 31		Second Quarter June 30		Third Quarter September 30		Fourth Quarter December 31	
	2023	2022	2023	2022	2023	2022	2023	2022
Electricity Sales (GWh) ¹	2,021.3	1,988.9	1,373.7	1,318.3	945.4	914.1	1,587.6	1,563.2
Revenue (\$millions)	255.4	242.9	184.1	169.4	130.8	123.1	203.5	200.4
Net Earnings Applicable to Common Shares (\$millions)	9.3	5.7	14.0	14.0	9.2	10.3	13.4	15.6
Earnings per Common Share (\$) ²	0.90	0.55	1.36	1.36	0.89	1.00	1.30	1.51

¹ Reflects normalized electricity sales.

² Basic and fully diluted.

Seasonality

Sales and Revenue: Quarterly sales and revenue are impacted by the seasonality of electricity sales for heating. As a result, sales and revenue are significantly higher in the first quarter and significantly lower in the third quarter compared to the remaining quarters.

Earnings: In addition to the seasonality of electricity consumption for heating, quarterly earnings are impacted by the purchased power rate structure. The Company pays more, on average, for each kilowatt hour ("kWh") of purchased power in the winter months and less, on average, for each kWh of purchased power in the summer months. Overall, these sales, revenue and cost dynamics are such that earnings are generally lower in the first quarter than the remaining quarters in the year.

Trending

Sales and Revenue: Changes in quarterly electricity sales year-over-year reflect fluctuations in average consumption and growth in the number of customers served by the Company. The Company expects growth in the number of customers to be modest. Trends in future sales are expected to be comparable with recent years.

Earnings: Beyond the impact of fluctuations in electricity sales, future quarterly earnings and earnings per share are expected to trend with the return on equity reflected in customer rates and rate base growth.

OUTLOOK

Newfoundland Power's vision is to be a leader among North American electricity utilities in terms of safety, reliability, customer service and efficiency. The key goals of the Company are to operate sound electricity distribution systems, deliver safe, reliable electricity to customers at the lowest reasonable cost, and conduct business in a sustainable manner.

Customer Rates: On November 23, 2023, the Company filed an application with the PUB for approval of its 2024 forecast average rate base and rate of return on rate base. This application proposes an overall average increase in customer rates of 1.5% effective July 1, 2024 and is currently under review by the PUB.

Customer electricity rates are also projected to increase effective July 1, 2024 as a result of the annual operation of Hydro's supply cost mechanisms and Newfoundland Power's RSA. Variances in Hydro's supply costs are flowed-through to the Company's customers through the operation of the Company's RSA. The RSA also captures variances in certain Newfoundland Power costs including energy supply and employee future benefit costs. The amount of increase in customer rates is uncertain.

On December 12, 2023, the Company filed a 2025/2026 General Rate Application with the PUB for the purpose of setting customer rates effective July 1, 2025. This application proposes an overall average increase in customer rates of 5.5% effective July 1, 2025 and is currently under review by the PUB.

Energy Supply: Newfoundland Power purchases approximately 93% of its electricity requirements from Hydro. In the event that Hydro is unable to supply the Company with wholesale energy deliveries, Newfoundland Power would be unable to meet its customers' requirements.

The Muskrat Falls project supplies a significant portion of Hydro's, and in turn Newfoundland Power's, electricity requirements. While it was fully commissioned and released for service in 2023, the reliability of supply from the Muskrat Falls project remains uncertain and is under review by the PUB. In October 2022, Hydro filed an updated study with the PUB recommending, among other things, that its 490-megawatt Holyrood Thermal Generating Station remain operational until 2030 as backup generation in the event of an extended outage to the LIL. The PUB's review is expected to continue throughout 2024.

A significant portion of customer electricity rates is dependent on purchased power costs, which are outside of Newfoundland Power's control. Future increases in supply costs from Hydro are expected to increase electricity rates for the Company's customers. The final impact the Muskrat Falls project will have on customer rates, and the timing of the rate changes will remain uncertain until the finalization of the Government of Newfoundland and Labrador's rate mitigation plans and Hydro's next general rate application. Any additional costs associated with extending the life of Hydro's Holyrood Thermal Generating Station or the construction of additional backup generating capacity on the Island of Newfoundland could further increase supply costs and, in turn, increase electricity rates for the Company's customers.

OUTSTANDING SHARES

As at the filing date of this MD&A the Company had issued and outstanding 10,320,270 common shares. The common shares carry voting rights of one vote per share.

CORPORATE INFORMATION

Additional information about Newfoundland Power, including its quarterly and annual financial statements and Annual Information Form, is available on SEDAR+ at www.sedarplus.ca.

The Company is a wholly owned subsidiary of Fortis, a leader in the North American regulated electric and natural gas utility industry. Fortis shares are listed on both the Toronto Stock Exchange and the New York Stock Exchange.

Additional information about Fortis can be accessed at www.fortisinc.com, www.sedarplus.ca, or www.sec.gov.

For further information, contact:

Paige London, Vice President, Finance & CFO
Newfoundland Power Inc.
P.O. Box 8910, St. John's, NL A1B 3P6
Tel: (709) 737-5819
Fax: (709) 737-5300
Email: plondon@newfoundlandpower.com
Website: www.newfoundlandpower.com



Annual Audited Financial Statements December 31, 2023

WHENEVER. WHEREVER.
We'll be there.

NEWFOUNDLAND 
POWER
A FORTIS COMPANY

Independent Auditor's Report

To the Shareholder and the Board of Directors of Newfoundland Power Inc.

Opinion

We have audited the financial statements of Newfoundland Power Inc. (the "Company"), which comprise the balance sheets as of December 31, 2023 and 2022, and the statements of earnings, changes in shareholder's equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (US GAAP).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). 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 Company 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 these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Regulatory Assets and Liabilities - Impact of Rate Regulation - Refer to Notes 2 and 7 to the financial statements

Key Audit Matter Description

The Company is regulated by the Newfoundland and Labrador Board of Commissioners of Public Utilities (the "PUB") which sets electricity base rates charged to ratepayers. Base rates are designed to recover all reasonable and prudent costs of service and include per kilowatt-hour ("KWh") electricity charges and fixed charges. The Company's return on rate base ("RORB") is subject to review through regular General Rate Applications made to the PUB. Accounting for rate regulation impacts multiple financial statement line items and disclosures, such as property, plant, and equipment; regulatory assets and liabilities; revenues and expenses; and depreciation expense.

We identified the impact of rate regulation as a key audit matter due to the numerous judgments made by management to support its assertions about impacted account balances and disclosures and the potential uncertainties involved in assessing the impact of existing or future regulatory orders on the financial statements. Management judgments include assessing the likelihood of recovery of costs incurred or a refund to customers through the rate-setting process. While the Company has indicated they expect to recover costs from customers through regulated rates, there is a risk that the PUB will not approve full recovery of the costs incurred and a reasonable RORB. Auditing this matter required numerous judgments and specialized knowledge of accounting for rate regulation due to its inherent complexities.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to the likelihood of recovery of costs from, or a refund to, customers through the rate-setting process, and included the following:

- Assessing relevant regulatory orders, regulatory statutes, and interpretations as well as procedural memorandums, utility and intervener filings, and other publicly available information to evaluate the likelihood of recovery in existing or future rates or of existing or future reduction in rates and the ability to earn a reasonable RORB.
- For regulatory matters in process, inspecting the Company's filings and intervenor filings for any evidence that might contradict management's assertions. We obtained and evaluated an analysis from management regarding cost recoveries or potential future reduction in rates, as appropriate.
- Evaluating the Company's disclosures related to the impacts of rate regulation, including the balances recorded and regulatory developments.

Revenue - Refer to Notes 2 and 4 to the financial statements

Key Audit Matter Description

The Company implemented a new Customer Information System ("CIS") used in the recording of revenue. The Company derives the majority of its revenue from the delivery of electricity to residential and commercial customers and the provision of street lighting service to municipalities. The initiation, processing and recording of revenue are highly automated and are based on the consumption data and electricity rates hosted in the Company's CIS.

We identified the implementation of the new CIS in the current year as a key audit matter due to the potential risks that revenue is not initiated, processed and recorded consistently with the Company's historical practices. As such, auditing the implementation of the Company's new system to process revenue transactions resulted in an increased extent of audit effort, which included the involvement of information technology ("IT") specialists.

How the Key Audit Matter Was Addressed in the Audit

With the assistance of IT specialists, our audit procedures related to the implementation of the CIS included the following:

- Evaluated the accuracy of the data migration of the relevant information from the legacy system to the CIS.
- Tested the effectiveness of general IT controls over the CIS, including user access controls, change management controls and IT operations controls.
- Evaluated the effectiveness of the relevant automated controls in relation to the completeness and accuracy of transactions recorded in the CIS, from initial capturing to the recording into the general ledger.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

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 US GAAP, 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company'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 GAAS 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 GAAS, 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 Company'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 Company'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 Company 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Tarah Schulz.

/s/ Deloitte LLP

Chartered Professional Accountants
St. John's, Newfoundland and Labrador
February 8, 2024

Statements of Earnings
For the years ended December 31
(in thousands of Canadian dollars, except per share amounts)

	2023	2022
Revenue (Note 4)	\$ 773,863	\$ 735,755
Expenses		
Purchased power	511,983	479,527
Operating expenses	85,800	87,207
Employee future benefits (Note 11)	(944)	(626)
Depreciation and amortization	82,407	78,187
Cost recovery deferrals, net (Note 7)	(814)	(656)
Finance charges	<u>38,043</u>	<u>35,464</u>
	<u>716,475</u>	<u>679,103</u>
Earnings Before Income Taxes	57,388	56,652
Income tax expense (Note 8)	<u>11,392</u>	<u>11,002</u>
Net Earnings	45,996	45,650
Net Earnings Applicable to Common Shares	<u>\$ 45,996</u>	<u>\$ 45,650</u>
Basic and Diluted Earnings per Common Share	<u>\$ 4.46</u>	<u>\$ 4.42</u>

Statements of Changes in Shareholder's Equity
For the years ended December 31
(in thousands of Canadian dollars, except per share amounts)

	Common Shares	Retained Earnings	Total Equity
As at January 1, 2023	\$ 70,321	\$ 473,611	\$ 543,932
Net earnings	-	45,996	45,996
Dividends on common shares (\$0.71 per share)	-	(7,327)	(7,327)
As at December 31, 2023	<u>\$ 70,321</u>	<u>\$ 512,280</u>	<u>\$ 582,601</u>
As at January 1, 2022	\$ 70,321	\$ 456,123	\$ 526,444
Net earnings	-	45,650	45,650
Allocation of Part VI.1 tax	-	735	735
Dividends on common shares (\$2.80 per share)	-	(28,897)	(28,897)
As at December 31, 2022	<u>\$ 70,321</u>	<u>\$ 473,611</u>	<u>\$ 543,932</u>

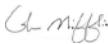
See accompanying notes to financial statements.

Balance Sheets
As at December 31
(in thousands of Canadian dollars)

	2023	2022
Assets		
Current assets		
Cash	\$ 3,126	\$ -
Accounts receivable (Note 5)	82,736	69,551
Income taxes receivable	3,574	392
Materials and supplies (Note 6)	3,408	2,896
Prepaid expenses	4,398	3,738
Regulatory assets (Note 7)	28,032	5,439
	<u>125,274</u>	<u>82,016</u>
Property, plant and equipment (net) (Note 9)	1,389,378	1,332,577
Intangible assets (Note 10)	66,182	48,221
Defined benefit pension plans (Note 11)	47,509	40,435
Regulatory assets (Note 7)	320,550	309,124
Other assets	1,307	1,573
	<u>\$ 1,950,200</u>	<u>\$ 1,813,946</u>
Liabilities and Shareholder's Equity		
Current liabilities		
Short-term borrowings (Note 12)	\$ -	\$ 1,361
Accounts payable and accrued charges	103,197	96,022
Interest payable	8,534	6,856
Defined benefit pension plans (Note 11)	264	277
Other post-employment benefits (Note 11)	3,035	3,922
Regulatory liabilities (Note 7)	-	15,196
Current instalments of long-term debt (Note 12)	40,450	27,550
	<u>155,480</u>	<u>151,184</u>
Regulatory liabilities (Note 7)	214,027	205,003
Defined benefit pension plans (Note 11)	5,128	5,074
Other post-employment benefits (Note 11)	43,629	62,594
Other liabilities	945	1,270
Deferred income taxes (Note 8)	212,440	189,292
Long-term debt (Note 12)	735,950	655,597
	<u>1,367,599</u>	<u>1,270,014</u>
Shareholder's equity		
Common shares, no par value, unlimited authorized shares, 10.3 million shares issued and outstanding (Note 13)	70,321	70,321
Retained earnings	512,280	473,611
	<u>582,601</u>	<u>543,932</u>
	<u>\$ 1,950,200</u>	<u>\$ 1,813,946</u>

See accompanying notes to financial statements.

APPROVED ON BEHALF OF THE BOARD:


Glenn Mifflin
Director


Gina Pecore
Director

Statements of Cash Flows
For the years ended December 31
(in thousands of Canadian dollars)

	2023	2022
Operating Activities		
Net earnings	\$ 45,996	\$ 45,650
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation of property, plant and equipment	76,945	73,712
Amortization of intangible assets and other	5,679	4,690
Change in long-term regulatory assets and liabilities	(37,306)	2,880
Deferred income taxes <i>(Note 8)</i>	14,656	(3,053)
Employee future benefits	(6,361)	(3,818)
Other	(909)	60
Change in working capital <i>(Note 14)</i>	(34,922)	(12,080)
	<u>63,778</u>	<u>108,041</u>
Investing Activities		
Capital expenditures <i>(Note 14)</i>	(126,767)	(110,218)
Intangible asset expenditures	(23,422)	(16,774)
Contributions from customers	5,197	2,773
	<u>(144,992)</u>	<u>(124,219)</u>
Financing Activities		
Change in short-term borrowings	(1,361)	(13,459)
Net borrowings under committed credit facility	12,000	20,000
Proceeds from long-term debt <i>(Note 12)</i>	90,000	75,000
Repayments of long-term debt <i>(Note 12)</i>	(8,450)	(35,950)
Payment of debt financing costs	(522)	(516)
Dividends on common shares	(7,327)	(28,897)
	<u>84,340</u>	<u>16,178</u>
Change in Cash	3,126	-
Cash, Beginning of Year	-	-
Cash, End of Year	<u>\$ 3,126</u>	<u>\$ -</u>
Cash Flows Include the Following:		
Interest paid	\$ 37,718	\$ 35,586
Income taxes paid	\$ 9,660	\$ 13,000
Income taxes (refunded)	\$ (10,049)	\$ -

See accompanying notes to financial statements.

Notes to Financial Statements

December 31, 2023

Tabular amounts are in thousands of Canadian dollars unless otherwise noted.

1. Description of the Business

Newfoundland Power Inc. (the “Company” or “Newfoundland Power”) is a regulated electricity utility that operates an integrated generation, transmission and distribution system throughout the island portion of Newfoundland and Labrador. The Company serves approximately 275,000 customers comprising approximately 87% of all electricity consumers in the Province. All of the common shares of the Company are owned by Fortis Inc. (“Fortis”). Newfoundland Power has an installed generating capacity of 145 megawatts (“MW”), of which approximately 98 MW is hydroelectric generation. The Company generates approximately 7% of its energy needs and purchases the remainder from Newfoundland and Labrador Hydro (“Hydro”).

Newfoundland Power is regulated by the Newfoundland and Labrador Board of Commissioners of Public Utilities (the “PUB”). The Company operates under cost of service regulation whereby it is entitled an opportunity to recover, through customer rates, all reasonable costs incurred in providing electricity service to its customers, including a just and reasonable return on its rate base. The rate base is the value of the net assets required to provide electricity service.

The determination of the forecast return on rate base, together with the forecast of all reasonable and prudent costs, establishes the revenue requirement upon which the Company’s customer rates are determined through a general rate hearing. Rates include generation, transmission and distribution services.

Newfoundland Power maintains a capital structure comprised of approximately 55% debt and 45% common equity.

On February 25, 2022, the PUB issued an order on the Company’s 2022/2023 General Rate Application (the “2022/2023 GRA Order”) which established the Company’s cost of capital for rate making purposes for 2022 through 2024 based upon an 8.5% return on equity and 45% common equity. The order approved a 1.1% decrease in customer rates effective March 1, 2022. The Company’s rate of return on rate base for 2022 and 2023 was established at 6.61% and 6.39%, respectively, with a range of ± 18 basis points.

On November 23, 2023, the Company filed an application with the PUB for approval of its 2024 forecast average rate base and rate of return on rate base (“2024 RORB Application”). The 2024 RORB Application is proposing an overall average increase in customer rates of 1.5% effective July 1, 2024. The Company is proposing a rate of return on rate base for 2024 of 6.85%, with a range of ± 18 basis points. The application is currently under review by the PUB.

On December 12, 2023, the Company filed a General Rate Application (the “2025/2026 GRA”) for the purpose of setting customer rates effective July 1, 2025. The 2025/2026 GRA proposes an overall average increase in customer rates of 5.5% effective July 1, 2025. This proposed increase results from a full review of the Company’s costs since its last GRA, including cost of capital. The application proposes a 9.85% return on equity and 45% common equity for 2025 and 2026. The application is currently under review by the PUB.

2. Summary of Significant Accounting Policies

The significant accounting policies of the Company are as follows.

Basis of Presentation

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) pursuant to an order of the Ontario Securities Commission (“OSC”). The order permits Newfoundland Power to prepare its financial statements in accordance with U.S. GAAP until the earliest of: (i) January 1, 2027; (ii) the first day of the financial year that commences after the Company ceases to have activities subject to rate regulation; and (iii) the first day of the financial year that commences on or following the later of: (a) the effective date prescribed by the International Accounting Standards Board (“IASB”) for a mandatory application of a rate-regulated standard; and (b) two years after the IASB publishes the final version of a mandatory rate-regulated standard.

2. Summary of Significant Accounting Policies (cont'd)

Revenue Recognition

The majority of the Company's revenue is generated from electricity sales to customers based on published tariff rates, as approved by the PUB. Electricity is metered upon delivery to customers and recognized as revenue using approved rates when consumed. Meters are read periodically and bills are issued to customers based on these readings. At the end of each period, an estimate of electricity consumed but not yet billed is accrued as revenue. The unbilled revenue accrual for each period is based on estimated electricity sales to customers for the period since the last meter reading at the rates approved by the PUB. The development of electricity sales estimates requires analysis of electricity consumption on a historical basis in relation to key inputs such as the current price of electricity, population growth, economic activity, weather conditions and electricity system losses.

Revenue arising from the amortization of certain regulatory assets and liabilities is recognized in the manner prescribed by the PUB (Note 7). Other revenue is recognized when the service is rendered.

Sales Taxes

In the course of its operations, the Company collects municipal taxes and sales taxes from its customers. When customers are billed, a current liability is recognized for municipal taxes included in electricity rates charged to customers and sales taxes included on customers' bills. The liability is settled when the taxes are remitted to the appropriate government authority. The Company's revenue excludes municipal taxes and sales taxes.

Allowance for Credit Losses

The Company records an allowance for credit losses to reduce accounts receivable for amounts estimated to be uncollectible from customers. The allowance is estimated based on historical collection patterns, sales, and current and forecasted economic and other conditions.

Materials and Supplies

Materials and supplies, representing fuel and materials required for maintenance activities, are measured at the lower of average cost and net realizable value.

Regulatory Assets and Liabilities

Regulatory assets and liabilities arise as a result of the rate-setting process. Regulatory assets represent future revenues associated with certain costs incurred in the current or prior periods that will be, or are expected to be, recovered from customers in future periods through the rate-setting process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that will be, or are expected to be, refunded to customers through the rate-setting process. The accounting methods underlying regulatory assets and liabilities, and their eventual settlement through the rate-setting process, are approved by the PUB and impact the Company's cash flows.

Property, Plant and Equipment

Property, plant and equipment are stated at values approved by the PUB as at June 30, 1966, with subsequent additions at cost.

Maintenance and repairs of utility capital assets are charged to expense in the period incurred, while replacements and betterments which extend the useful lives are capitalized.

Contributions in aid of construction represent the cost of utility property, plant and equipment contributed by customers and government. These contributions are recorded as a reduction in the cost of utility property, plant and equipment.

The Company capitalizes certain overhead costs not directly attributable to specific property, plant and equipment but which do relate to its overall capital expenditure program ("general expenses capitalized" or "GEC"). The methodology for calculating and allocating GEC among classes of property, plant and equipment is established by a PUB Order. In 2023, GEC totalled \$5.1 million (2022 - \$7.2 million).

The Company capitalizes an allowance for funds used during construction ("AFUDC"), which represents the cost of debt and equity financing incurred during construction of property, plant and equipment. AFUDC is calculated in a manner prescribed by the PUB based on a capitalization rate that is the Company's weighted average cost of capital. In 2023, the cost of equity financing capitalized as AFUDC and recorded in other revenue was approximately \$1.2 million (2022 - \$0.7 million). The debt component of AFUDC totalling \$1.5 million in 2023 (2022 - \$0.8 million) is recorded as a reduction of finance charges.

Property, plant and equipment are depreciated using the straight-line method by applying the depreciation rates approved by the PUB and disclosed below to the average original cost of the related assets, including GEC and AFUDC.

2. Summary of Significant Accounting Policies (cont'd)

Property, Plant and Equipment (cont'd)

The Company's depreciation methodology, including depreciation rates, accumulated depreciation and estimated remaining service lives, is subject to periodic review by external experts (a "Depreciation Study").

Based on the 2019 Depreciation Study, and as approved by the PUB, the composite depreciation rates for the Company's property, plant and equipment, as well as their service life ranges and average remaining service lives are as follows.

	Composite Depreciation Rate (%)	Service Life (Years)	
		Range	Average Remaining
Distribution	3.1	18-65	29
Transmission and substations	3.1	33-70	28
Generation	2.8	21-80	30
Transportation and communications	8.3	6-30	6
Buildings	2.6	37-80	25
Equipment	10.0	5-25	5

The difference between actual accumulated depreciation and that indicated by a Depreciation Study is treated as a depreciation variance which is used to increase or decrease depreciation expense and is included in customer rates in a manner prescribed by the PUB. The 2019 Depreciation Study, which was based on property, plant and equipment in service as at December 31, 2019, indicated an accumulated depreciation variance of \$31.9 million. The PUB ordered that this variance be amortized as an increase in depreciation expense of property, plant and equipment over the average remaining service life of the related assets.

Upon disposition, the original cost of property, plant and equipment is removed from the asset accounts. That amount, net of salvage proceeds, is also removed from accumulated depreciation. As a result, any gain or loss is charged to accumulated depreciation and is effectively included in the depreciation variance arising from the next Depreciation Study.

Intangible Assets

Intangible assets are recorded at cost and amortized over their estimated useful lives using the straight-line method by applying the amortization rates approved by the PUB to the cost of the related assets. The weighted average amortization rates for intangible assets in 2023 were 10.0% for computer software (2022 – 10.0%), 5.56% for the customer information system (2022 – not applicable) and 1.5% for land rights (2022 – 1.5%).

Upon disposition, the original cost of the intangible asset is removed from the asset accounts. That amount, net of salvage proceeds, is also removed from accumulated amortization. As a result, any gain or loss is charged to accumulated amortization and is effectively included in the accumulated amortization variance arising from the next Depreciation Study.

Impairment of Long-Lived Assets

The Company reviews the valuation of property, plant and equipment, intangible assets and other long-term assets when events or changes in circumstances indicate that the assets' carrying values exceed the total undiscounted cash flows expected from their use and eventual disposition. An impairment loss, calculated as the difference between the assets' carrying value and their fair values, which is determined using present value techniques, is recognized in earnings in the period in which it is identified. There was no impairment of long-lived assets for the years ended December 31, 2023 or 2022.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities. The deferred income tax assets and liabilities are measured using enacted income tax rates and laws that are expected to be in effect when the differences are expected to be recovered or settled. The effect of a change in income tax rates on deferred income tax assets and liabilities is recognized in earnings in the period that the change occurs. Current income tax expense is recognized for the estimated income taxes payable or receivable in the current year

2. Summary of Significant Accounting Policies (cont'd)

Income Taxes (cont'd)

Newfoundland Power recovers current income tax expense in customer rates. The Company is permitted to recover deferred income tax expense by the PUB as follows.

Effective January 1, 1981, deferred income tax liabilities are recognized and recovered in customer rates on temporary differences associated with the cumulative excess of capital cost allowance over depreciation of property, plant and equipment.

Effective January 1, 1987, the PUB order noted above was modified to exclude GEC from the depreciation of property, plant and equipment.

Effective January 1, 2008, deferred income taxes are recognized and recovered in customer rates on temporary differences between pension expense and pension funding.

Effective January 1, 2011, deferred income taxes are recognized and recovered in customer rates on temporary timing differences between other post-employment benefits ("OPEB") costs recovered using the accrual method and cash payments.

Deferred income taxes associated with the Company's regulatory reserves and certain regulatory deferrals are also recognized and included in the determination of customer rates (Note 7).

Deferred income tax assets and liabilities associated with other temporary differences between the tax basis of assets and liabilities and their carrying amounts are not included in customer rates. These amounts are expected to be recovered from (refunded to) customers through rates when the income taxes actually become payable (recoverable). The Company recognizes these deferred income tax liabilities with an offsetting increase in regulatory assets. The Company's regulatory asset for deferred income taxes as at December 31, 2023 was \$252.0 million (2022 - \$243.6 million) (Note 7).

The allocation of Part VI.1 tax to Newfoundland Power from Fortis associated with preference share dividends is recognized in retained earnings upon signing the respective agreement.

Tax benefits associated with income tax positions taken, or expected to be taken, in an income tax return are recognized only when the more likely than not recognition threshold is met.

Interest related to unrecognized tax benefits is recognized in finance charges and any associated penalties are recognized in operating expenses.

Employee Future Benefits

Newfoundland Power maintains defined contribution and defined benefit pension plans for its employees and also provides an OPEB plan. The OPEB plan is composed of retirement allowances for retiring employees as well as health, medical and life insurance for retirees and their dependants.

Defined Contribution and Defined Benefit Pension Plans

The Company's defined contribution plans are its individual and group registered retirement savings plans. Defined contribution pension plan costs are expensed as incurred.

The Company's defined benefit plans are its funded defined benefit pension plan, an unfunded pension uniformity plan ("PUP"), and an unfunded supplementary employee retirement plan ("SERP"). The funded defined benefit pension plan and the PUP are closed to new entrants.

The net benefit costs and projected benefit obligations of the funded defined benefit pension plan and the PUP are actuarially determined using the projected benefits method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees. Discount rates reflect market interest rates on high-quality bonds with cash flows that match the timing and amount of pension payments. The net benefit costs and projected benefit obligations of the SERP are determined based upon employee earnings and years of service. Net benefit costs are also impacted by the amortization of various regulatory assets (Note 7 (iv)).

2. Summary of Significant Accounting Policies (cont'd)

Employee Future Benefits (cont'd)

Pension plan assets of the funded defined benefit pension plan are valued at market-related value, where investment returns in excess of or below expected returns are recognized in the asset value over a period of three years. The excess of the cumulative net actuarial gain or loss over 10% of the greater of the benefit obligation and the market-related value of plan assets is amortized over the estimated average remaining service period of active employees.

Other Post-Employment Benefits

The net benefit cost and projected benefit obligation of the OPEB plan are actuarially determined using the projected benefits method pro-rated on service and best estimate of health care costs. Discount rates reflect market interest rates on high-quality bonds with cash flows that match the timing and amount of OPEB payments. Net benefit costs are also impacted by the amortization of various regulatory assets (Note 7 (ii)). The excess of any cumulative net actuarial gain or loss over 10% of the benefit obligation, along with unamortized past service costs is amortized over the estimated average remaining service period of active employees.

Asset Retirement Obligations

The Company is required to record the fair value of future expenditures necessary to settle legal obligations associated with asset retirements even though the timing or method of settlement is conditional on future events. Newfoundland Power has determined that there are asset retirement obligations ("AROs") associated with its hydroelectric generation assets and some parts of its transmission and distribution system.

For hydroelectric generation assets, the legal obligation is the environmental remediation of the land and waterways to protect fish habitat. However, this obligation is conditional on the decision to decommission generation assets. The Company currently has no plans to decommission any of its hydroelectric generation assets as they are effectively operated in perpetuity. Therefore, the nature and fair value of any ARO is not currently determinable.

The legal obligations for the transmission and distribution system pertain to the proper disposal of assets containing oil and polychlorinated biphenyl. Obligations related to other Company facilities consist of the removal of fuel storage tanks and asbestos. These obligations have been determined to be immaterial and therefore no AROs have been recognized.

The Company will recognize AROs and offsetting property, plant and equipment if the nature and timing can reasonably be determined and the amount is material.

Leases

A right-of-use asset and lease liability is recognized for all leases with a term greater than 12 months. The right-of-use asset and liability are both measured at the present value of future lease payments, excluding variable payments that are based on usage or performance.

Use of Accounting Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Estimates and judgments are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Additionally, certain estimates are necessary since the regulatory environment in which the Company operates often requires amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. Due to changes in facts and circumstances and the inherent uncertainty involved in making estimates, actual results may differ significantly from current estimates. Estimates are reviewed periodically and, as adjustments become necessary, are reported in earnings in the period in which they either, as appropriate, become known or included in customer rates.

3. Future Accounting Pronouncements

The Company considers the applicability and impact of all accounting standards updates ("ASUs") issued by the Financial Accounting Standards Board. The following update has been issued by the FASB, but has not yet been adopted by Newfoundland Power. Any upcoming ASUs not included below were assessed and determined to be either not applicable to the Company or are not expected to have a material impact on the financial statements.

3. Future Accounting Pronouncements (cont'd)

Income Taxes

ASU No. 2023-09, *Improvements to Income Tax Disclosures*, issued in December 2023, is effective for Newfoundland Power on January 1, 2025 on a prospective basis, with retrospective application and early adoption permitted. Principally, it requires additional disclosure of income tax information by jurisdiction to reflect an entity's exposure to potential changes in tax legislation, and associated risks and opportunities. Newfoundland Power is assessing the impact that the adoption of this update will have on its financial statements and related disclosures.

4. Revenue

The composition of the Company's revenue follows.

	2023	2022
Electricity revenue		
Residential	\$ 468,774	\$ 457,185
Commercial	245,754	241,534
Street lighting	16,536	16,725
Regulatory deferrals and amortizations (Note 7)	28,400	6,691
	759,464	722,135
Other contract revenue	10,650	12,821
Other revenue	3,749	799
Total revenue	\$ 773,863	\$ 735,755

Electricity revenue

Electricity revenue includes revenue from the delivery of electricity to residential and commercial customers and the provision of street lighting service to municipalities.

Other contract revenue

Other contract revenue is primarily the result of other contracts with customers including: (i) revenue from telecommunication companies for pole attachments and other pole-related services; (ii) wheeling revenue from Hydro for transmitting electricity to its customers using Newfoundland Power's electrical system; and, (iii) revenue from customers for services other than those directly related to delivery of electricity service.

Other revenue

Other revenue includes interest revenue, the equity portion of AFUDC and other miscellaneous amounts.

5. Accounts Receivable

The timing of revenue recognition, billings and cash collections from contracts with customers results in trade accounts receivable and unbilled accounts receivable. The composition of the Company's accounts receivable follows.

	2023	2022
Trade accounts receivable	\$ 53,729	\$ 39,609
Unbilled accounts receivable	31,789	32,452
Other	1,094	1,419
Allowance for credit losses	(3,876)	(3,929)
	\$ 82,736	\$ 69,551

5. Accounts Receivable (cont'd)

Accounts receivable is recorded net of an allowance for credit losses. The change in the allowance for credit losses balance from December 31, 2022 and December 31, 2021 follows.

	2023	2022
Balance, beginning of year	\$ (3,929)	\$ (3,299)
Credit loss expense	(1,971)	(2,027)
Write-offs	2,711	1,872
Recoveries	(687)	(475)
Balance, end of year	\$ (3,876)	\$ (3,929)

6. Materials and Supplies

	2023	2022
Materials and supplies	\$ 2,721	\$ 2,387
Fuel in storage	687	509
	\$ 3,408	\$ 2,896

7. Regulatory Assets and Liabilities

The Company's regulatory assets and liabilities which will be, or are expected to be, reflected in customer rates in future periods, follow.

	2023	2022	Remaining Recovery Period (Years)
Regulatory assets			
Rate stabilization account (i)	\$ 36,615	\$ -	2
OPEB (ii)	7,008	10,512	2
Conservation and demand management deferral (iii)	29,581	27,655	10
Employee future benefits (iv)	9,215	30,564	Benefit payment period
Weather normalization account (v)	9,031	-	2
Pension capitalization deferral (vi)	1,141	-	4
Cost recovery deferral (vii)	328	656	1
Electrification deferral (viii)	1,953	1,598	N/A
Demand management incentive ("DMI") (ix)	1,398	-	2
Load research and rate design cost deferral (xi)	270	28	N/A
Deferred income taxes (Note 8)	252,042	243,550	Life of related assets
Total regulatory assets	\$ 348,582	\$ 314,563	
Less: current portion	(28,032)	(5,439)	
Long-term regulatory assets	\$ 320,550	\$ 309,124	

7. Regulatory Assets and Liabilities (cont'd)

	2023	2022	Remaining Settlement Period (Years)
Regulatory liabilities			
Rate stabilization account (i)	\$ -	\$ 10,266	-
Weather normalization account (v)	-	9,394	-
DMI (ix)	-	153	-
Future removal and site restoration provision (x)	208,722	200,386	Life of related assets
Excess earnings (xii)	5,305	-	N/A
Total regulatory liabilities	\$ 214,027	\$ 220,199	
Less: current portion	-	(15,196)	
Long-term regulatory liabilities	\$ 214,027	\$ 205,003	

(i) Rate Stabilization Account

On July 1 of each year, customer rates are recalculated in order to recover from or refund to customers, over the subsequent twelve months, the balance in the RSA as of March 31 of the current year. The amount and timing of the recovery or refund is subject to PUB approval.

The RSA passes through, to the Company's customers, amounts primarily related to variances in Hydro's supply costs charged to the Company. Effective July 1, 2022, the RSA also passes through amounts approved for the Muskrat Falls project cost recovery rider to the Company's customers.

The RSA also passes through, to the Company's customers, variations in purchased power expense caused by differences between the actual unit cost of energy and that reflected in customer rates ("Energy Supply Cost Variance"). The marginal cost of purchased power for the Company currently exceeds the average cost that is embedded in customer rates. The amount transferred to the RSA in 2023 for recovery from customers due to the Energy Supply Cost Variance was \$29.2 million (2022 - \$3.8 million).

The pension expense variance deferral account ("PEVDA") is charged or credited with the amount by which actual pension expense differs from amounts approved in customer rates by the PUB due to variations in assumptions. Each year, at March 31, the balance in the PEVDA is transferred to the Company's RSA and disposed of in accordance with the operation of the RSA. The amount transferred from the PEVDA to the RSA in 2023 for recovery from customers was \$1.4 million (2022 - \$0.8 million refund to customers).

The OPEB cost variance deferral account is charged or credited with the amount by which actual OPEB expense differs from amounts approved in customer rates by the PUB due to variations in assumptions. Each year, at March 31, the balance in the OPEB cost variance deferral account is transferred to the Company's RSA and disposed of in accordance with the operation of the RSA. The amount transferred from the OPEB cost variance deferral account to the RSA in 2023 for refund to customers was \$1.1 million (2022 - \$0.1 million).

Customer energy conservation program costs and balances in the weather normalization account are also transferred to the RSA (Notes 7 (iii) and (v)). The RSA is also adjusted from time-to-time by other amounts as approved by the PUB.

(ii) OPEB

This regulatory asset represents the accumulated difference between OPEB expense recognized on a cash basis for regulatory purposes and an accrual basis for financial reporting purposes from 2000 through 2010. Effective January 1, 2011, the PUB ordered the adoption of the accrual method of accounting for OPEB and the \$52.6 million regulatory asset be amortized evenly over 15 years.

(iii) Conservation and Demand Management Deferral

As ordered by the PUB, annual customer energy conservation program costs are deferred and amortized to operating expenses over the period these costs are recovered from customers. Effective January 1, 2021 the amortization period increased from seven to ten years, for both historical balances and annual charges as a result of the 2022/2023 GRA Order.

7. Regulatory Assets and Liabilities (cont'd)

(iii) Conservation and Demand Management Deferral (cont'd)

The conservation and demand management deferral was adjusted by \$2.7 million on March 31, 2022 as a result of this Order, representing a balance owing to customers. Conservation program costs of \$6.2 million were deferred in 2023 (2022 - \$5.2 million). The amount transferred to the RSA in 2023 for recovery from customers was \$4.2 million (2022 - \$3.7 million).

(iv) Employee Future Benefits

Upon transition to U.S. GAAP in 2012, the PUB approved the following with respect to the accounting for employee future benefits.

(a) Opening unamortized balances and future amounts of past service costs and actuarial gains or losses are recorded as a regulatory asset, rather than accumulated other comprehensive loss. The amortization of these balances will continue to be included in the calculation of employee future benefit expense.

(b) The period over which pension expense had been recognized differed between that used for regulatory purposes and that used for U.S. GAAP. Therefore, the cumulative difference was recorded as a regulatory asset to be recovered from customers in future rates. The PUB ordered that pension expense for regulatory purposes be recognized in accordance with U.S. GAAP effective January 1, 2013 and that the accumulated difference in pension expense to December 31, 2012 of \$12.4 million be amortized evenly over 15 years to pension expense.

(v) Weather Normalization Account

The weather normalization account reduces earnings volatility by adjusting purchased power expense and electricity sales revenue to eliminate variances in purchases and sales caused by the difference between normal weather conditions, based on long-term averages and actual weather conditions. The PUB has ordered that balances in the weather normalization account be recovered through the RSA (Note 7 (i)). The amount transferred to the RSA in 2023 for refund to customers was \$9.4 million (2022 - \$2.9 million).

(vi) Pension Capitalization Deferral

As approved in the 2022/2023 GRA Order, the Company recorded a \$1.4 million deferral of forecast revenue requirement increase in 2023. The deferral will be amortized over a 5 year period from January 1, 2023 to December 31, 2027. Amortization of \$0.3 million was recorded in 2023.

(vii) Cost Recovery Deferral

As approved in the 2022/2023 GRA Order, the Company recorded a \$0.9 million under-recovery from customers in 2022. The deferral will be amortized over a 34-month period from March 1, 2022 to December 31, 2024. Amortization of \$0.3 million was recorded in 2023 (2022 - \$0.3 million).

(viii) Electrification Deferral

As approved in the 2022/2023 GRA Order, the Company will record costs incurred in implementing customer electrification initiatives in a deferral account. A recovery mechanism for these costs has not yet been approved by the PUB.

(ix) DMI

Through the DMI, variations in the unit cost of purchased power related to demand are limited, at the discretion of the PUB, to 1% of demand costs reflected in customer rates. The disposition of balances in this account to the RSA are determined by orders of the PUB following consideration of the Company's conservation and demand management activities. The amount transferred to the RSA in 2023 for refund to customers was \$0.2 million (2022 - \$1.9 million recovery from customers).

(x) Future Removal and Site Restoration Provision

This regulatory liability represents amounts collected in customer electricity rates over the life of certain property, plant and equipment which are attributable to removal and site restoration costs that are expected to be incurred in the future. Actual removal and site restoration costs are recorded against the regulatory liability when incurred. The regulatory liability represents the amount of expected future removal and site restoration costs associated with the applicable property, plant and equipment in service as at December 31, calculated using current depreciation rates as approved by the PUB.

(xi) Load Research and Rate Design Cost Deferral

As approved in the 2022/2023 GRA Order, the Company will record costs incurred associated with the completion of a Load Research and Rate Design Review in a deferral account. A recovery mechanism for these costs has not yet been approved by the PUB.

7. Regulatory Assets and Liabilities (cont'd)

(xii) Excess Earnings

This account represents regulatory earnings for 2023 in excess of the upper limit of the allowed range of return on rate base as determined by the PUB. The disposition of the balance in this account will be determined by a further order of the PUB.

8. Income Taxes

The composition of the Company's income tax expense follows.

	2023	2022
Current income tax expense	\$ (3,264)	\$ 14,055
Deferred income tax expense	23,145	5,781
Less: regulatory adjustment	(8,489)	(8,834)
	\$ 11,392	\$ 11,002

Income taxes differ from the amount that would be determined by applying the enacted combined Canadian federal and provincial statutory income tax rate to earnings before income taxes. A reconciliation of the combined statutory income tax rate to the Company's effective income tax rate follows.

	2023	2022
Earnings before income taxes	\$ 57,388	\$ 56,652
Statutory tax rate	30.0%	30.0%
Income taxes, at statutory rate	17,216	16,996
Items capitalized for accounting purposes but expensed for income tax purposes	(2,331)	(2,597)
Difference between capital cost allowance and depreciation and amortization expense	(3,896)	(3,705)
Other	403	308
Income tax expense	\$ 11,392	\$ 11,002
Effective income tax rate	19.9%	19.4%

The composition of the Company's net deferred income tax liability follows.

	2023	2022
Deferred income tax liabilities		
Property, plant and equipment	\$ 218,064	\$ 210,889
Intangible assets	24,563	11,436
Regulatory assets	19,874	26,534
Defined benefit pension plans	18,057	16,141
Total deferred income tax liabilities	\$ 280,558	\$ 265,000
Deferred income tax assets		
Regulatory liabilities	\$ (56,097)	\$ (55,170)
OPEB	(10,777)	(19,727)
Other	(1,244)	(811)
Total deferred income tax assets	(68,118)	(75,708)
Net deferred income tax liability	\$ 212,440	\$ 189,292

The net deferred income tax liability includes a gross up to reflect the income tax associated with future revenue required to fund the net deferred income tax liability (Note 7).

As at December 31, 2023, the Company had no material non-capital or capital losses carried forward. As at December 31, 2023, the Company had no material unrecognized tax benefits related to uncertain tax positions.

As at December 31, 2023, the Company's tax years open to examination by taxing authorities include 2017, 2019 and subsequent years.

9. Property, Plant and Equipment

	Cost		Accumulated Depreciation		Net Book Value	
	2023	2022	2023	2022	2023	2022
Distribution	\$ 1,184,377	\$ 1,138,060	\$ (419,833)	\$ (401,313)	\$ 764,544	\$ 736,747
Transmission and substations	490,508	460,601	(133,649)	(128,343)	356,859	332,258
Generation	278,197	269,638	(112,768)	(106,866)	165,429	162,772
Transportation and communications	51,284	44,243	(25,576)	(23,207)	25,708	21,036
Land, buildings and equipment	88,926	86,931	(34,277)	(33,877)	54,649	53,054
Construction in progress	7,816	12,429	-	-	7,816	12,429
Construction materials	14,373	14,281	-	-	14,373	14,281
	\$2,115,481	\$2,026,183	\$ (726,103)	\$ (693,606)	\$ 1,389,378	\$ 1,332,577

Distribution assets are used to distribute low voltage electricity to customers and include poles, towers and fixtures, low voltage wires, transformers, overhead and underground conductors, street lighting, metering equipment and other related equipment. Transmission and substations assets are used to transmit high voltage electricity to distribution assets and include poles, high voltage wires, switching equipment, transformers and other related equipment. Generation assets are used to generate electricity and include hydroelectric and thermal generating stations, gas and combustion turbines, dams, reservoirs and other related equipment. Transportation and communications assets include vehicles as well as telephone, radio and other communications equipment. Land, buildings and equipment are used generally in the provision of electricity service, but not specifically in the distribution, transmission or generation of electricity or specifically related to transportation and communication activities.

10. Intangible Assets

	Cost		Accumulated Amortization		Net Book Value	
	2023	2022	2023	2022	2023	2022
Computer software	\$ 78,463	\$ 59,351	\$ (24,002)	\$ (21,219)	\$ 54,461	\$ 38,132
Land rights	17,390	15,594	(5,669)	(5,505)	11,721	10,089
	\$ 95,853	\$ 74,945	\$ (29,671)	\$ (26,724)	\$ 66,182	\$ 48,221

Amortization expense related to intangibles was \$5.5 million for 2023 (2022 - \$4.5 million).

11. Employee Future Benefits

The projected benefit obligation for all of the Company's defined benefit plans, and the market-related value of plan assets for the Company's funded defined benefit pension plan, are measured for accounting purposes as at December 31 of each year.

In August 2023, Newfoundland Power received actuarial valuation results for its defined benefit pension plan including the funding status of the plan as at December 31, 2022, on a going concern and solvency basis. On a going concern basis, the surplus increased from \$67.6 million as at December 31, 2019 to \$131.0 million as at December 31, 2022. On a solvency basis, the funding position surplus increased from \$19.2 million as at December 31, 2019 to \$29.2 million as at December 31, 2022. The increase was primarily due to a higher estimated discount rate.

11. Employee Future Benefits (cont'd)

Details of the Company's defined benefit plans follow.

	2023		2022	
	Defined Benefit Pension Plans ¹	OPEB Plan	Defined Benefit Pension Plans ¹	OPEB Plan
Change in projected benefit obligation				
Balance, beginning of year	\$ 328,995	\$ 66,516	\$ 418,738	\$ 88,675
Service costs	2,492	1,515	3,826	2,730
Employee contributions	424	-	516	-
Interest costs	16,862	3,421	13,127	2,779
Benefits paid	(20,787)	(3,324)	(19,580)	(2,428)
Actuarial loss (gain)	18,067	(21,464)	(87,632)	(25,240)
Balance, end of year ^{2,3}	\$ 346,053	\$ 46,664	\$ 328,995	\$ 66,516
Change in fair value of plan assets				
Balance, beginning of year	\$ 364,079	\$ -	\$ 482,154	\$ -
Actual return on assets	42,682	-	(102,023)	-
Benefits paid	(20,787)	(3,324)	(19,580)	(2,428)
Employee contributions	424	-	516	-
Employer contributions	1,772	3,324	3,012	2,428
Balance, end of year ⁴	\$ 388,170	\$ -	\$ 364,079	\$ -
Funded status, net asset (liability), end of year				
	\$ 42,117	\$ (46,664)	\$ 35,084	\$ (66,516)
Balance Sheet Presentation				
Long-term assets	\$ 47,509	\$ -	\$ 40,435	\$ -
Current liabilities	(264)	(3,035)	(277)	(3,922)
Long-term liabilities	(5,128)	(43,629)	(5,074)	(62,594)
	\$ 42,117	\$ (46,664)	\$ 35,084	\$ (66,516)

¹ The Company's defined benefit plans include the funded defined benefit pension plan, the PUP and the SERP.

² The accumulated benefit obligation for defined benefit pension plans, which includes no assumption about future salary levels, was \$335.5 million at December 31, 2023 (December 31, 2022 - \$316.0 million).

³ The increase in the projected benefit obligation for the defined benefit pension plan is due to an actuarial loss recorded at December 31, 2023 as a result of a decrease in discount rate. Further detail is provided in the significant assumptions table on the following page.

⁴ The increase in the fair value of plan assets is due to an increased actual return on assets, as a result of favourable market conditions.

11. Employee Future Benefits (cont'd)

Newfoundland Power's net benefit costs for its defined benefit pension and OPEB plans included in regulatory assets and yet to be recognized are as follows.

	2023			2022		
	Defined Benefit Pension Plans	OPEB Plan	Total	Defined Benefit Pension Plans	OPEB Plan	Total
Employee future benefits regulatory asset (Note 7 (iv))						
Unrecognized actuarial losses (gains)	\$ 50,619	\$ (44,701)	\$ 5,918	\$ 50,589	\$ (24,147)	\$ 26,442
Unrecognized transitional obligations	3,297	-	3,297	4,122	-	4,122
	\$ 53,916	\$ (44,701)	\$ 9,215	\$ 54,711	\$ (24,147)	\$ 30,564
OPEB regulatory asset (Note 7 (ii))	\$ -	\$ 7,008	\$ 7,008	\$ -	\$ 10,512	\$ 10,512

The change in regulatory assets associated with the Company's defined benefit pension and OPEB plans for 2023 and 2022 follow.

	2023		2022	
	Defined Benefit Pension Plans	OPEB Plan	Defined Benefit Pension Plans	OPEB Plan
Actuarial losses (gains)	\$ 28	\$ (21,464)	\$ 35,247	\$ (25,240)
Amortization of OPEB regulatory asset	-	(3,504)	-	(3,504)
Amortization of actuarial gains (losses)	-	910	(16)	-
Amortization of pension deferral costs	(824)	-	(824)	-
Total	\$ (796)	\$ (24,058)	\$ 34,407	\$ (28,744)

Significant Assumptions

The following table provides the weighted-average assumptions used to determine benefit obligations for the Company's defined benefit pension and OPEB plans. These rates are used in determining the net benefit costs in the following year.

	2023		2022	
	Defined Benefit Pension Plans	OPEB Plan	Defined Benefit Pension Plans	OPEB Plan
Discount rate (%)	4.60	4.60	5.30	5.30
Rate of compensation increase (%)	3.50	-	3.50	-
Expected long-term rate of return on plan assets (%) ¹	5.75	-	5.75	-
Health care cost trend increase (%) ²	-	4.00	-	4.00

¹ Developed by management with assistance from an independent actuary. The best estimates are based on historical performance, future expectations and periodic portfolio rebalancing among the diversified asset classes.

² The health care cost trend rate at December 31, 2023 is 6.14% for the OPEB plan (2022 – 6.24%). This rate is assumed to decrease to the ultimate health care cost trend rate of 4.0% by 2040.

11. Employee Future Benefits (cont'd)

Plan Assets

The investment strategy of the Company's funded defined benefit pension plan is to ensure that the pension plan assets, together with expected contributions, are invested in a prudent and cost-effective manner so as to optimally meet the liabilities of the plan for its members.

The investment objective of the pension plan is to maximize return in order to manage the funded status of the plan, and minimize the Company's cost over the long-term, as measured by both cash contributions and pension expense for financial statement purposes.

The Company's funded primary defined benefit pension plan asset allocation is as follows.

Plan assets as at December 31 (%)	2023		2022	
	Target Allocation	Actual ¹	Target Allocation	Actual ¹
Canadian equities	10	10	10	11
International equities	30	31	30	33
Fixed income	60	59	60	56
Total	100	100	100	100

¹ The defined benefit pension plan assets will be rebalanced to target only if actual results are +/- 5% outside of target allocation.

Newfoundland Power periodically reviews its investment strategy and asset allocation. Based on the review completed in 2021, the allocation of fixed income investments was updated to incorporate longer duration bonds to reduce interest rate risk and pension expense volatility, while maintaining the opportunity to earn a reasonable return on pension plan assets.

Fair Value of Plan Assets

The guidance on fair value measurements emphasizes that plan asset measurement should be based on assumptions that market participants would use to price the plan assets. The Company's funded defined benefit pension plan assets are measured using the market approach valuation technique. The assumptions or inputs to the valuation technique are categorized into three levels. Level 1 provides the most reliable measure of fair value, whereas Level 3 generally requires significant management judgment.

The fair value measurements for all of the Company's equity and debt securities, as held in various pooled funds, are classified as Level 2 inputs based on the three-level hierarchy that distinguishes the level of pricing observability utilized in measuring fair value. Level 2 includes inputs other than quoted market prices in active markets that are either directly or indirectly observable for the asset or liability.

The fair value of the Company's primary defined benefit pension plan assets are as follows.

	2023	2022
Canadian equities	\$ 39,904	\$ 40,205
International equities	121,575	119,310
Fixed income	226,691	204,564
Total fair value	\$ 388,170	\$ 364,079

11. Employee Future Benefits (cont'd)

Expected Cash Flows

The estimated future benefit payments for the defined benefit pension and OPEB plans follow.

	Defined Benefit Pension Plans	OPEB Plan
2024	\$ 21,207	\$ 3,035
2025	21,446	2,818
2026	22,327	3,027
2027	22,728	3,027
2028	22,933	3,046
2029-2033	117,193	15,546

The Company's contributions to the defined benefit pension plans are estimated to average \$1.5 million annually through 2026.

Employee Future Benefits Cost

The Company's employee future benefits cost includes the net benefit costs of its defined benefit, defined contribution and OPEB plans.

The components of net benefit costs associated with the Company's defined benefit pension and OPEB plans, prior to capitalization, are as follows.

	2023		2022	
	Defined Benefit Pension Plans	OPEB Plan	Defined Benefit Pension Plans	OPEB Plan
Service costs	\$ 2,458	\$ 1,515	\$ 3,784	\$ 2,730
Interest costs	16,862	3,421	13,127	2,779
Expected return on plan assets	(24,643)	-	(20,859)	-
Amortization of actuarial (gains) losses	-	(910)	16	-
	\$ (5,323)	\$ 4,026	\$ (3,932)	\$ 5,509
Regulatory adjustments (Note 7)				
Amortization of pension deferrals	824	-	824	-
Amortization of OPEB regulatory asset	-	3,504	-	3,504
Net benefit cost	\$ (4,499)	\$ 7,530	\$ (3,108)	\$ 9,013

During 2023, the Company expensed approximately \$3.4 million (2022 - \$3.1 million) related to its defined contribution pension plans.

12. Long-term Debt

	Maturity Date	2023	2022
First mortgage sinking fund bonds			
8.900% \$40 million Series AH	2026	\$ 29,235	\$ 29,635
6.800% \$50 million Series AI	2028	37,500	38,000
7.520% \$75 million Series AJ	2032	59,250	60,000
5.441% \$60 million Series AK	2035	48,600	49,200
5.901% \$70 million Series AL	2037	58,100	58,800
6.606% \$65 million Series AM	2039	55,250	55,900
4.805% \$70 million Series AN	2043	63,000	63,700
4.446% \$75 million Series AO	2045	68,250	69,000
3.815% \$75 million Series AP	2057	69,750	70,500
3.608% \$100 million Series AQ	2060	96,000	97,000
4.198% \$75 million Series AR	2052	73,500	74,250
5.122% \$90 million Series AS	2053	89,100	-
Committed credit facility	2028	32,000	20,000
		779,535	685,985
Less: current portion		(40,450)	(27,550)
		\$ 739,085	\$ 658,435
Less: deferred financing costs		(3,135)	(2,838)
		\$ 735,950	\$ 655,597

First mortgage sinking fund bonds are secured by a first fixed and specific charge on property, plant and equipment owned or to be acquired by the Company and by a floating charge on all other assets. They require an annual sinking fund payment of 1% of the original principal balance.

On August 11, 2023, the Company issued \$90 million in first mortgage sinking fund bonds. The bonds were issued for a 30-year term at an interest rate of 5.122%. Net proceeds from the issue were used to repay credit facility borrowings, which were incurred principally to fund capital expenditures, and for general corporate purposes.

Newfoundland Power has unsecured bank credit facilities of \$120 million comprised of a \$100 million committed credit facility and a \$20 million demand facility. During the third quarter of 2023, the committed facility was amended to extend the maturity date from August 2027 to August 2028. Subject to lenders' approval, the Company may request an extension for a further period of up to, but not exceeding, five years.

Borrowings under the committed credit facility are in the form of bankers acceptances that primarily have a maturity of 30 days or less, bearing interest based on the daily Canadian Deposit Offering Rate for the date of borrowing plus a stamping fee. Standby fees on the unutilized portion of the committed credit facility are payable quarterly in arrears at a fixed rate of 0.16%. Interest on borrowings under the demand facility is calculated at the daily prime rate and is payable monthly in arrears.

The utilized and unutilized credit facilities as at December 31 follow.

	2023	2022
Total credit facilities	\$ 120,000	\$ 120,000
Borrowings under committed credit facility	(32,000)	(20,000)
Borrowings under demand facility	-	(1,361)
Credit facilities available	\$ 88,000	\$ 98,639

Deferred financing costs are recorded at cost and are amortized to earnings using the effective interest rate method over the life of the related debt.

12. Long-term Debt (cont'd)

Future payments required to meet sinking fund instalments, maturities of long-term debt and long-term credit facilities follow.

Year	(\$ thousands)
2024	8,450
2025	8,450
2026	36,485
2027	8,050
2028	43,050
Thereafter	643,050

The issuance of debt with a maturity that exceeds one year requires prior approval of the PUB. The issuance of first mortgage sinking fund bonds is subject to an earnings covenant whereby the ratio of (i) annual earnings applicable to common shares, before bond interest and tax, to (ii) annual bond interest incurred plus annual bond interest to be incurred on the contemplated bond issue, must be two times or higher. Under its committed credit facility, the Company must also ensure that its debt to capitalization ratio does not exceed 0.65:1.00 at any time. During 2023, and as at December 31, 2023, the Company was in compliance with all of its debt covenants.

13. Capital Stock

Authorized

- an unlimited number of Class A and Class B Common Shares without nominal or par value. The shares of each class are inter-convertible on a share-for-share basis and rank equally in all respects including dividends. The Board of Directors may provide for the payment, in whole or in part, of any dividends to Class B shareholders by way of a stock dividend; and
- an unlimited number of First Preference Shares and Second Preference Shares without nominal or par value. First Preference Shares are entitled to cumulative preferential dividends and are redeemable at the option of the Company at a premium not in excess of the annual dividend rate.

<i>Issued and outstanding</i>	2023		2022	
	Number of Shares	Amount	Number of Shares	Amount
Class A common shares	10,320,270	\$ 70,321	10,320,270	\$ 70,321

14. Change in Working Capital

The composition of the Company's change in working capital follows.

	2023	2022
Accounts receivable	\$ (12,913)	\$ 3,335
Income taxes receivable	(3,182)	321
Materials and supplies	(512)	(1,057)
Prepaid expenses	(660)	(993)
Current regulatory assets	(16,447)	(328)
Accounts payable and accrued charges	3,921	4,627
Interest payable	1,678	339
Current regulatory liabilities	(6,807)	(18,324)
	\$ (34,922)	\$ (12,080)

Non-cash investing activities balances as at December 31 follows.

	2023	2022
Capital expenditures included in accounts payable and accrued charges	\$ 11,135	\$ 8,496

15. Related Party Transactions

The Company provides services to, and receives services from, its parent company, Fortis and other subsidiaries of Fortis. The Company also incurs charges from Fortis for the recovery of general corporate expenses incurred by Fortis. These transactions are in the normal course of business and are recorded at their exchange amounts.

Related party transactions included in operating expenses in 2023 were \$2.2 million (2022 - \$2.3 million).

A member of the Board of Directors of Newfoundland Power is the President of a construction services company. The Company has entered into construction service agreements with this company. Total capital expenditures incurred in 2023 associated with these agreements were \$4.0 million (2022 - \$2.6 million). The awarding of these contracts followed a competitive bidding process in the ordinary course of business. The construction services company is also a member of a joint venture that paid a \$2.6 million contribution in aid of construction to the Company in 2023. The contribution followed PUB guidelines in the ordinary course of business. The Board of Directors has no role in these processes.

16. Fair Value Measurement

Fair value is the price at which a market participant could sell an asset or transfer a liability to an unrelated party. A fair value measurement is required to reflect the assumptions that market participants would use in pricing an asset or a liability based on the best available information. These assumptions include the risks inherent in a particular valuation technique, such as a pricing model, and the risks inherent in the inputs to the model.

The fair value of long-term debt, including current portion and committed credit facility, is classified as Level 2 based on the three level hierarchy utilized in measuring fair value. The fair value is calculated by discounting the future cash flows of each debt instrument at the estimated yield-to-maturity equivalent to benchmark government bonds, with similar terms to maturity, plus a credit risk premium equal to that of issuers of similar credit quality. Since the Company does not intend to settle its debt instruments before maturity, the fair value estimate does not represent an actual liability and, therefore, does not include settlement costs.

The fair value of long-term debt, including current portion and committed credit facility, as at December 31, 2023 and 2022 is as follows.

	2023		2022	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Long-term debt, including current portion and committed credit facility (Note 12)	\$ 779,535	\$ 833,225	\$ 685,985	\$ 706,328

The fair value of the Company's defined benefit pension plan assets is discussed in Note 11. The fair value of the Company's remaining financial instruments included in current assets, current liabilities, other assets and other liabilities approximate their carrying value, reflecting their nature, short-term maturity or normal trade credit terms.

The fair value of the Company's financial instruments reflects a point-in-time estimate based on current and relevant market information about the instruments as at the balance sheet date. The estimates cannot be determined with precision as they involve uncertainties and matters of judgment, and therefore, may not be relevant in predicting the Company's future earnings or cash flows.

Newfoundland Power Inc.
Names and Places of Residence of Officers and Directors
as of December 31, 2023

Name	Address	Position Held
Fred Cahill	St. John's, NL	Director
Byron Chubbs	Paradise, NL	Vice President, Engineering and Energy Supply
Wilma Hartmann	St. John's, NL	Director
Lynn Healey	St. John's, NL	Director
Lindsay Hollett	St. John's, NL	Assistant Corporate Secretary
Glen King	Fort Erie, ON	Director
Paige London	St. John's, NL	Vice President, Finance and Chief Financial Officer
Joe McKenna	St. John's, NL	Director
Glenn Mifflin	St. John's, NL	Director
Jamie Mullins	Paradise, NL	Vice President, Customer Operations
Gary Murray	St. John's, NL	President and Chief Executive Officer, Director
Regan O'Dea	St. John's, NL	Director

Newfoundland Power Inc.
Names and Places of Residence of Officers and Directors
as of December 31, 2023

Name	Address	Position Held
Gina Pecore	St. John's, NL	Director
Jason Roberts	Suffolk, PE	Director
Diane Whalen	St. John's, NL	Corporate Secretary

Newfoundland Power Inc.
Computation of Average Rate Base
For The Years Ended December 31
(\$000s)

	2023	2022
1 Net Plant Investment		
2 Plant Investment - Return 4	2,311,786	2,178,072
3 Accumulated Depreciation - Return 6	(957,928)	(914,827)
4 Contributions in Aid of Construction - Return 7	(47,887)	(45,171)
5	1,305,971	1,218,074
6		
7 Additions to Rate Base		
8 Deferred Pension Costs - Return 8	101,430	95,095
9 Credit Facility Costs - Return 8	105	87
10 Cost Recovery Deferral - Conservation - Return 9	20,708	19,359
11 Cost Recovery Deferral - 2022 Revenue Shortfall - Return 9	229	459
12 Cost Recovery Deferral - Load Research and Retail Rate Design Review - Return 9	189	20
13 Cost Recovery Deferral - Pension Capitalization - Return 9	799	-
14 Customer Finance Programs - Return 10	1,199	1,472
15	124,659	116,492
16		
17 Deductions from Rate Base		
18 Weather Normalization Reserve - Return 17	(6,321)	6,576
19 Demand Management Incentive Account - Return 18	(978)	107
20 Other Post Employment Benefits - Return 10	84,357	80,151
21 Customer Security Deposits - Return 10	653	1,270
22 Accrued Pension Obligation - Return 10	5,397	5,300
23 Accumulated Deferred Income Taxes - Return 23	30,609	18,076
24 Refundable Investment Tax Credits - Return 10	292	-
25 Excess Earnings Account - Return 10	3,714	-
26	117,723	111,480
27		
28 Year End Rate Base	1,312,907	1,223,086
29		
30 Average Rate Base Before Allowances	1,267,997	1,211,751
31		
32 Rate Base Allowances		
33 Materials and Supplies Allowance - Return 11	14,778	11,978
34 Cash Working Capital Allowance - Return 12	7,304	6,705
35		
36 Average Rate Base at Year End	1,290,079	1,230,434

Newfoundland Power Inc.
Plant Investment
For The Year Ended December 31, 2023
(\$000s)

	Opening Balance	Adjustments	Additions	Retirements	Year End Balance
1 Power Generation					
2 Hydro	228,178	56	8,728	397	236,565
3 Diesel	4,516	-	65	24	4,557
4 Gas Turbine	36,877	-	158	26	37,009
5	<u>269,571</u>	<u>56</u>	<u>8,951</u>	<u>447</u>	<u>278,131</u>
6					
7 Substations	299,112	(219)	21,427	3,512	316,808
8 Transmission	184,344	-	16,890	2,883	198,351
9 Distribution	1,225,305	165	59,793	8,731	1,276,532
10 General Property	65,743	(14)	3,242	1,863	67,108
11 Transportation	36,545	(4)	6,979	1,574	41,946
12 Communications	7,781	93	1,677	130	9,421
13 Computer Software	45,374	(4)	35,706	2,514	78,562
14 Computer Hardware	11,201	-	2,383	1,680	11,904
15 Government Contributions	23,109	-	-	-	23,109
16	<u>1,898,514</u>	<u>17</u>	<u>148,097</u>	<u>22,887</u>	<u>2,023,741</u>
17					
18 Total Depreciable Plant	2,168,085	73	157,048	23,334	2,301,872
19					
20 Non Depreciable Land	9,987	(73)	-	-	9,914
21					
22 Plant Investment Included In Rate Base	<u>2,178,072</u>	<u>-</u>	<u>157,048</u>	<u>23,334</u>	<u>2,311,786</u>
23					
24 Construction Work In Progress					8,025
25					
26 Total Plant Investment ¹					<u>2,319,811</u>

¹ A reconciliation of the total plant investment to the plant investment shown in Return 1 follows:

	(\$000s)
2023 Capital Assets shown in Return 1 (Note 9 to Financial Statements)	2,115,481
Add: Contributions in Aid of Construction - Return 7	122,847
Add: Plant Investment classified as Intangibles in Return 1 (Note 10 to Financial Statements)	95,853
Deduct: Inventories included in Plant Investment for financial reporting purposes	(14,370)
2023 Total Plant Investment for Average Rate Base	<u>2,319,811</u>

Newfoundland Power Inc.
Capital Expenditure
For The Year Ended December 31, 2023
(\$000s)

	Approved By Board ¹	Actual	Variance ²
1 Generation			
2 Hydro	9,476	9,525	49
3 Thermal	335	214	(121)
4	<u>9,811</u>	<u>9,739</u>	<u>(72)</u>
5			
6 Substations	20,720	20,955	235
7			
8 Transmission	12,284	9,203	(3,081)
9			
10 Distribution	53,671	57,328	3,657
11			
12 General Property	2,505	2,686	181
13			
14 Transportation	4,968	4,967	(1)
15			
16 Telecommunications	1,268	707	(561)
17			
18 Information Systems	12,940	13,490	550
19			
20 Unforeseen	750	-	(750)
21			
22 General Expenses Capital	<u>4,000</u>	<u>5,100</u>	<u>1,100</u>
23			
24	<u>122,917</u>	<u>124,175</u>	<u>1,258</u>
25			
26			
27 Projects carried forward from prior years ³		<u>25,298</u>	

¹ Approved in Order Nos. P.U. 38 (2022) and P.U. 14 (2023).

² Variance explanations are provided in Newfoundland Power Inc.'s 2023 Capital Expenditure Report filed with the Board on March 28, 2024.

³ The projects carried forward include actual expenditures of \$11,860,000 for *Customer Service System Replacement* , \$6,922,000 for *Transmission Line 94L Rebuild* , \$1,683,000 for *Purchase Vehicles and Aerial Devices* , \$1,458,000 for *Replace Vehicles and Aerial Devices 2022-2023* , \$1,182,000 for *Substations Refurbishment and Modernization* , \$499,000 for *Hydro Facility Rehabilitation* , \$409,000 for *Trunk Feeders* , \$383,000 for *St. John's Teleprotection System Replacement* , \$249,000 for *Distribution Reliability Initiative* , \$172,000 for *Network Infrastructure* , \$135,000 for *Clarenville Area Office Building Refurbishment* , \$134,000 for *Application Enhancements* , \$115,000 for *Transmission Line Extension - 35L* and \$97,000 for *Fibre Optic Cable Builds* .

Newfoundland Power Inc.
Accumulated Depreciation
For The Year Ended December 31, 2023
(\$000s)

1	Opening Balance - January 1, 2023	914,827
2		
3	Add:	
4	Depreciation of Fixed Assets ^{1,2}	74,536
5	Amortization of Contributions - Government - Return 7	124
6	Amortization of Contributions - Customers - Return 7	2,357
7	Salvage	409
8		<u>77,426</u>
9		
10		
11	Deduct:	
12	Cost of Removal (net of income tax)	10,991
13	Retirements	23,334
14		<u>34,325</u>
15		
16	Closing Balance - December 31, 2023 ³	<u>957,928</u>

¹ The depreciation rates for 2023 are from the 2019 Depreciation Study based on plant in service at December 31, 2019 and approved in Order No. P.U. 3 (2022).

Hydro	2.35%
Diesel	4.73%
Gas Turbine	5.60%
Substations	3.10%
Transmission	3.10%
Distribution	3.09%
General Property	2.99%
Transportation	9.43%
Telecommunications	4.48%
Customer Information System	5.56%
Computer Software	10.00%
Computer Hardware	20.00%

² A reconciliation of depreciation of fixed assets to the amount shown in Return 1 follows

Depreciation and amortization shown in Return 1	82,407
Less: Tax on Cost of Removal (recognized as income tax for financial reporting purposes)	<u>(7,871)</u>
2023 Depreciation of Fixed Assets	<u>74,536</u>

³ The accumulated depreciation shown in Return 1 (Note 9 to the Financial Statements) is before adjustment for contributions in aid of construction, site restoration costs and intangibles.

	(\$000s)
Accumulated Depreciation shown in Return 1 (Note 9 to Financial Statements)	726,103
Add: Accumulated Amortization classified as Intangibles (Note 10 to Financial Statements)	29,671
Add: Amortization of Contributions - Return 7	74,960
Add: Site Restoration Costs Return 1 (Note 7 to Financial Statements)	208,722
Less: Deferred Income Tax Asset included in Site Restoration Costs	<u>(81,528)</u>
2023 Accumulated Depreciation for Average Rate Base	<u>957,928</u>

Newfoundland Power Inc.
Contributions in Aid of Construction
For The Year Ended December 31, 2023
(\$000s)

	<u>Customers</u>	<u>Government</u>	<u>Total</u>
1 Gross Contributions to January 1, 2023	90,570	27,080	117,650
2			
3 Add: Contributions Received in 2023	<u>5,197</u>	<u>-</u>	<u>5,197</u>
4			
5 Gross Contributions to December 31, 2023	<u>95,767</u>	<u>27,080</u>	<u>122,847</u>
6			
7			
8 Amortizations to January 1, 2023	48,950	23,529	72,479
9			
10 Add: Amortization in 2023	<u>2,357</u>	<u>124</u>	<u>2,481</u>
11			
12 Amortizations to December 31, 2023	<u>51,307</u>	<u>23,653</u>	<u>74,960</u>
13			
14			
15 Unamortized Contributions to December 31, 2023	<u>44,460</u>	<u>3,427</u>	<u>47,887</u>

Newfoundland Power Inc.
Deferred Charges
For The Year Ended December 31, 2023
(\$000s)

	Balance January 1 2023	Additions During 2023	Reductions During 2023	Balance December 31 2023
1 Deferred Pension Costs ¹	95,095	1,515	(4,820)	101,430
2				
3 Deferred Credit Facility Issue Costs ²	101	44	37	108
4				
5 Deferred Charges	95,196	1,559	(4,783)	101,538

¹ The December 31, 2023 balance is comprised of the following amounts:

	<u>(\$000s)</u>
Defined Benefit Pension asset shown in Return 1 (Balance Sheet)	47,509
Employee Future Benefits ("EFBs") shown in Return 1 (Note 7 to the Financial Statements)	9,215
Amount in EFBs related to OPEBs in Return 1 (Note 11 to the Financial Statements)	44,701
Less: Amount in EFBs related to SERP and PUP Plans	5
	<u>101,430</u>

² In August 2023, Newfoundland Power extended the term of its committed short-term credit facility agreement to August 2028 at a cost of \$44,000.

Newfoundland Power Inc.
Regulatory Deferrals
For The Year Ended December 31, 2023
(\$000s)

	Balance	Additions	Reductions	Balance
	January 1	During	During	December 31
	2023	2023	2023	2023
1 Cost Recovery Deferrals				
2 Deferred Costs - Conservation Program ¹	19,359	4,311	2,962	20,708
3 Deferred Costs - 2022 Revenue Shortfall ²	459	-	230	229
4 Deferred Costs - Electrification ³	1,119	249	-	1,368
5 Deferred Costs - Load Research and Retail Rate Design Review ⁴	20	169	-	189
6 Deferred Costs - Pension Capitalization ⁵	-	999	200	799
7	<u>20,957</u>	<u>5,728</u>	<u>3,392</u>	<u>23,293</u>

¹ In Order No. P.U. 13 (2013), the Board approved (i) the deferral of costs incurred in implementing the CDM Program Portfolio and (ii) the seven-year amortization of recovery of those costs through the Rate Stabilization Account. In Order No. P.U. 3 (2022), the Board approved the increase in the amortization period for CDM program costs from seven to ten years, with effect on January 1, 2021.

² In Order No. P.U. 3 (2022), the Board approved the amortization over a 34-month period of a forecast revenue shortfall for 2022 of \$930,000 resulting from the March 1, 2022 implementation of rates.

³ In Order No. P.U. 3 (2022), the Board approved the deferral of costs incurred in implementing electrification initiatives approved by the Board.

⁴ In Order No. P.U. 3 (2022), the Board approved the deferral of costs incurred in conducting a Load Research Study and a Retail Rate Design Review.

⁵ In Order No. P.U. 3 (2022), the Board approved (i) the deferral of \$1,427,000 related to income tax impacts of pension capitalization and (ii) the amortization of these costs over a five-year period, both commencing in January 2023.

Newfoundland Power Inc.
Other Rate Base Assets and Liabilities
For The Year Ended December 31, 2023
(\$000s)

	Balance January 1 2023	Change During 2023	Balance December 31 2023
1 Assets			
2 Customer Finance Programs ¹	1,472	(273)	1,199
3			
4 Liabilities			
5 Accrued Pension Obligation ²	5,300	97	5,397
6			
7 Customer Security Deposits ³	1,270	(617)	653
8			
9 Net OPEBs Liability ⁴	80,151	4,206	84,357
10			
11 Refundable Investment Tax Credits ⁵	-	292	292
12			
13 Excess Earnings Account ⁶	-	3,714	3,714

¹ Comprised of loans provided to customers related to customer conservation programs and contributions in aid of construction.

² Executive and Senior Management supplemental pension benefits comprised of a defined benefit plan (PUP) and a defined contribution plan (SERP). The PUP was closed to new entrants in 1999. The December 31, 2023 balance is comprised of the following amounts:

	(\$000s)
Defined Benefit Pension liability shown in Return 1 (Balance Sheet)	264
DB Pension liability related to SERP and PUP Plans shown in Return 1 (Balance Sheet)	5,128
Amount in EFBs related to SERP and PUP Plans (Return 8)	5
	<u>5,397</u>

³ Security deposits received from customers for electrical service in accordance with the Board approved *Schedule of Rates, Rules and Regulations*.

⁴ The December 31, 2023 balance is comprised of the following amounts:

	(\$000s)
OPEBs liability shown in Return 1 (Balance Sheet)	46,664
Amount in EFBs related to OPEBs (Return 8)	44,701
OPEBs Regulatory Asset shown in Return 1 (Note 7 to the Financial Statements)	(7,008)
	<u>84,357</u>

⁵ Refundable investment tax credit related to the scientific research and experimental development (SR&ED) tax incentive.

⁶ The Excess Earnings account definition is prescribed in the Company's System of Accounts. For 2023, this balance represents regulated earnings in excess of the upper limit of the allowed range of return on rate base of 6.57% as approved by the Board in Order No. P.U. 3 (2022). As described in the account definition, the disposition of any balance in this account shall be as determined by the Board.

Newfoundland Power Inc.
Materials and Supplies Allowance
For The Years Ended December 31
(\$000s)

	<u>2023¹</u>	<u>2022¹</u>
1 Opening - January 1	17,176	11,041
2 January	16,578	11,323
3 February	16,954	11,776
4 March	17,573	12,706
5 April	17,945	13,637
6 May	18,896	15,640
7 June	19,140	15,820
8 July	19,432	14,911
9 August	19,651	15,132
10 September	19,441	17,560
11 October	18,535	18,217
12 November	18,308	17,481
13 December	17,780	17,176
14 Total	<u>237,409</u>	<u>192,420</u>
15		
16 Average	18,262	14,802
17		
18 Less: Expansion	<u>3,484²</u>	<u>2,824²</u>
19		
20 Materials and Supplies Allowance	<u>14,778</u>	<u>11,978</u>

¹ The 2023 and 2022 materials and supplies allowance calculation reflects a 13-month average, as approved in Order No. P.U. 32 (2007).

² The expansion factor for 2023 and 2022 is 19.08% and was used to calculate the 2023 and 2022 Test Year average rate base approved in Order No. P.U. 3 (2022).

Newfoundland Power Inc.
Cash Working Capital Allowance¹
For The Years Ended December 31
(\$000s)

	<u>2023</u>	<u>2022</u>
1 Gross Operating Costs ²	594,981	556,396
2 Current Income Taxes - Return 22	(3,484)	14,055
3 Municipal Taxes Paid	18,398	17,646
4 Non-Regulated Expenses (net of income taxes)	<u>(2,091)</u>	<u>(2,264)</u>
5		
6 Total Operating Expenses	607,804	585,833
7		
8 Cash Working Capital Factor ³	<u>1.199%</u>	<u>1.137%</u>
9	7,289	6,661
10		
11 HST Adjustment	<u>15</u>	<u>44</u>
12		
13 Cash Working Capital Allowance	<u>7,304</u>	<u>6,705</u>

¹ The cash working capital allowance for 2023 and 2022 is calculated based on the methodology used in the calculation of the 2023 and 2022 Test Year average rate base approved in Order No. P.U. 3 (2022).

² In accordance with the method used to calculate the Test Year average rate base for 2023 and 2022, approved in Order No. P.U. 3 (2022), gross operating costs used in the calculation of the cash working capital allowance are net of non-cash amortizations.

³ The 2023 cash working capital factor of 1.199% was used to calculate the 2023 Test Year Average Rate Base approved in Order No. P.U. 3 (2022). The 2022 cash working capital factor of 1.137% was used to calculate the 2022 Test Year Average Rate Base approved in Order No. P.U. 3 (2022).

Newfoundland Power Inc.
Return on Average Rate Base¹ & Determination of Excess Earnings
For The Years Ended December 31
(\$000s)

	<u>2023</u>	<u>2022</u>
1 Net Earnings from Return 1	45,996	45,650
2 Excess Earnings Adjustment at December 31, 2023	3,714	-
3 Add: Non-Regulated Expenses (net of income taxes) from Return 12	2,091	2,264
4	<u>51,801</u>	<u>47,914</u>
5 Finance Costs		
6 Interest on Long-Term Debt from Return 25	36,673	35,597
7 Other Interest from Return 25	2,543	453
8 Amortization of Debt Issue Expenses from Return 25	218	215
9 AFUDC ²	(2,669)	(1,498)
10	<u>36,765</u>	<u>34,767</u>
11		
12 Regulated Earnings	88,566	82,681
13		
14 Average Rate Base from Return 3	1,290,079	1,230,434
15		
16 Rate of Return on Average Rate Base	6.87%	6.72%
17		
18		
19 Average Rate Base from Return 3	1,290,079	1,230,434
20 Adjustment for 2023 Excess Earnings Liability ³	1,857	-
21 Average Rate Base for Excess Earnings Calculation	<u>1,291,936</u>	<u>1,230,434</u>
22		
23 Upper Limit of the Allowed Range of Return on Average Rate Base ⁴	6.57%	6.79%
24		
25 Upper Limit of Allowed Regulated Earnings	84,880	83,546
26		
27 Regulated Earnings	<u>88,566</u>	<u>82,681</u>
28		
29 Excess Earnings (net of income taxes)	3,686	-
30		
31 Adjustment for 2023 Excess Earnings included in Financial Statements ⁵	28	-
32	<u>3,714</u>	<u>-</u>
33 Excess Earnings for 2023	<u>3,714</u>	<u>-</u>

¹ The return on average rate base is calculated in accordance with the methodology approved in Order No. P.U. 32 (2007).

² For financial reporting purposes, the equity component of AFUDC is reported as other income in Return 1.

³ Adjustment to remove the Excess Earnings account from average rate base for purposes of calculating the 2023 Excess Earnings amount (\$3,714,000 / 2 = \$1,857,000).

⁴ Based on a return on rate base for 2023 of 6.39% and a 2022 return on rate base of 6.61%, both approved in Order No. P.U. 3 (2022) plus the approved range of 0.18% for each year.

⁵ Final 2023 Excess Earnings as calculated above were \$28,000 lower than the amount of the Excess Earnings Adjustment of \$3,714,000 booked at December 31, 2023. The Company did not revise the 2023 Excess Earnings Account for this difference.

Newfoundland Power Inc.
Details of Normalized Sales and Revenue
For The Years Ended December 31

		2023			2022			
		Gigawatt Hours	Year End Customer Accounts	Revenue (\$000s)	Gigawatt Hours	Year End Customer Accounts	Revenue (\$000s)	
1	Revenue From Rates							
2	Domestic							
3	Domestic	1.1	3,644.1	238,501	465,098	3,536.3	237,054	453,663
4	Domestic - Seasonal	1.1S	12.1	1,247	1,597	11.7	1,299	1,560
5	Total Domestic		3,656.2	239,748	466,695	3,548.0	238,353	455,223
6								
7	General Service:							
8	0 - 100 kW	2.1	788.9	23,168	96,962	781.3	23,069	95,983
9	110 - 1000 kVA	2.3	1,060.8	1,287	110,832	1,034.6	1,258	107,955
10	1000 kVA and Over	2.4	397.8	61	37,230	392.6	59	36,923
11	Total General Service		2,247.5	24,516	245,024	2,208.5	24,386	240,861
12								
13	Street & Area Lighting	4.1	24.2	11,200	16,536	28.0	11,025	16,725
14	Forfeited Discounts		-	-	2,809	-	-	2,635
15								
16	Revenue From Rates		5,927.9	275,464	731,064	5,784.5	273,764	715,444
17								
18	Adjustments and Transfers							
19	Energy Supply Cost Variance Deferral ¹				29,228			3,814
20	Pension Expense Variance Deferral ²				1,355			(757)
21	OPEBs Variance Deferral ³				(1,110)			(75)
22	Deferred CDM Program Costs ⁴				4,232			3,709
23	Excess Earnings ⁵				(5,305)			-
24	Total Adjustments and Transfers				28,400			6,691
25								
26	Other Revenue							
27	Pole Attachment				2,579			2,483
28	Provisioning Work				7,067			9,053
29	Wheeling Revenue				675			765
30	Interest on Overdue Customer Accounts				1,871			1,212
31	Other Non-Electrical Revenue				2,207			107
32	Total Other Revenue				14,399			13,620
33								
34	Total Revenue - Return 1				773,863			735,755

¹ The Energy Supply Cost Variance Deferral Account was approved in Order No. P.U. 32 (2007).

² The Pension Expense Variance Deferral Account was approved in Order No. P.U. 43 (2009).

³ The OPEBs Variance Deferral Account was approved in Order No. P.U. 31 (2010).

⁴ Deferred CDM Program Costs were approved in Order No. P.U. 13 (2013) and a subsequent increase in the amortization period from seven to ten years was approved in Order No. P.U. 3 (2022).

⁵ The Excess Earnings Account was approved in Order No. P.U. 3 (2009).

Newfoundland Power Inc.
Normalized Production and Sales Statistics
For The Years Ended December 31
(GWh)

	<u>2023</u>	<u>2022</u>
1 Purchased	5,806.3	5,650.4
2		
3 Produced	425.6	436.9
4		
5		
6 Total Purchased & Produced	<u>6,231.9</u>	<u>6,087.3</u>
7		
8		
9 Sold & Used	5,939.0	5,795.2
10		
11		
12 Losses	<u>292.9</u>	<u>292.1</u>
13		
14 Losses Expressed as a Percentage of		
15 Total Purchased & Produced	<u>4.7%</u>	<u>4.8%</u>
16		
17 Purchased Power Annual Billing Demand in kW	<u>1,344,691</u>	<u>1,253,062</u>

Newfoundland Power Inc.
Rate Stabilization Account
For the Period Ended December 31, 2023
(\$000s)

Month	Opening Balance	Adjustments	RSA Billed During Month	Municipal Taxes	Excess Fuel Costs	CDM Recovery	Interest Costs	Project Cost Recovery Rider	Transfer To (From) NL Hydro	Closing Balance
1 January	(10,265.5)	-	(1,912.4)	-	30.4	225.2	(56.5)	5,134.0	(148.0)	(6,992.8)
2										
3 February	(6,992.8)		(1,927.5)	-	(1.8)	240.0	(38.5)	5,471.3	(157.7)	(3,407.0)
4										
5 March	(3,407.0)	(5,070.5) ¹	(2,018.8)	-	13.4	234.2	(18.8)	5,338.7	(153.9)	(5,082.7)
6										
7 April	(5,082.7)	-	(1,785.7)	-	6.0	190.2	(28.0)	4,335.8	(125.0)	(2,489.4)
8										
9 May	(2,489.4)	-	(1,506.1)	-	7.4	157.5	(13.7)	3,591.2	(103.5)	(356.6)
10										
11 June	(356.6)	-	(1,237.3)	-	74.0	129.4	(2.0)	2,949.5	(85.0)	1,472.1
12										
13 July	1,472.1	-	(2,475.1)	-	21.7	46.1	7.8	2,449.9	1,522.8	3,045.3
14										
15 August	3,045.3	-	(3,612.7)	-	6.0	45.1	16.2	2,400.6	1,492.1	3,392.6
16										
17 September	3,392.6	-	(3,592.5)	-	10.2	46.4	18.1	2,467.1	1,533.5	3,875.2
18										
19 October	3,875.2	-	(4,007.5)	-	24.9	58.1	20.6	3,093.1	1,922.5	4,986.9
20										
21 November	4,986.9	-	(5,287.6)	-	10.6	83.2	21.3	4,424.0	2,749.8	6,988.2
22										
23 December	6,988.2	29,227.8 ²	(6,811.0)	(1,228.9) ³	46.5	95.7	37.2	5,093.6	3,165.9	36,615.0
24										
25		<u>24,157.3</u>	<u>(36,174.2)</u>	<u>(1,228.9)</u>	<u>249.3</u>	<u>1,551.1</u>	<u>(36.3)</u>	<u>46,748.8</u>	<u>11,613.5</u>	

¹ Adjustments in March 2023 include (i) -\$9,393,910 for the 2022 year end balance in the Weather Normalization Reserve Account and related income tax effects, approved in Order No. P.U. 13 (2013); (ii) \$4,232,204 for the amortization of deferred customer energy conservation program costs as approved in Order No. P.U. 3 (2022); (iii) \$1,354,243 for the disposition of the difference in forecasted vs. test year defined benefit pension costs, approved in Order No. P.U. 43 (2009); (iv) -\$1,109,620 for the disposition of the difference in forecasted vs. test year OPEBs expense, approved in Order No. P.U. 16 (2013); (v) -\$153,435 for the 2022 year end balance in the Demand Management Incentive Account and related income tax effects approved in Order No. P.U. 8 (2023).

² The Energy Supply Cost Variance was approved in Order No. P.U. 32 (2007) and approved for continued use in Order No. P.U. 43 (2009). The operation of this account resulted in an adjustment of \$29,227,767 in December 2023 to transfer the year-end balance in the Energy Supply Cost Variance Account to the RSA.

³ This is the difference between total municipal taxes collected from customers through rates and the total taxes paid to municipalities for 2023.

Newfoundland Power Inc.
Weather Normalization Reserve
For The Year Ended December 31, 2023
(\$000s)

	Opening Balance	Additions During 2023	Transfer to RSA During 2023	Closing Balance
1 Weather Normalization Reserve	(6,576)	6,321 ¹	6,576 ²	6,321 ³

¹ Additions during the year include the following:

Degree Day Normalization Reserve Transfer

Revenue Adjustment

Heating Degree Days	322
Cooling Degree Days	-
Wind Speed Adjustments	(193)
Total Revenue Adjustment	129

Less: Power Purchased Adjustment

Heating Degree Days	561
Cooling Degree Days	-
Wind Speed Adjustments	(313)
Total Power Purchased Adjustment	248

Net Adjustment (Before Tax) (119)

Less: Income Tax @ 30.0% (36)

Net Adjustment (83)

Hydro Production Equalization Reserve Transfer

Transfer (To) From Reserve (Before Tax) 9,149

Less: Income Tax @ 30.0% 2,745

Net Adjustment 6,404

Net Transfer (To) From Weather Normalization Reserve **6,321**

² In Order No. P.U. 13 (2013), the Board approved the transfer of the annual balance in the Weather Normalization Reserve to the Rate Stabilization Account.

³ A positive balance in the Weather Normalization Reserve reflects amounts to be recovered from customers in future periods. A negative balance in the Weather Normalization Reserve reflects amounts owed to customers.

Newfoundland Power Inc.
Demand Management Incentive Account
For The Year Ended December 31, 2023
(\$000s)

1	Demand Management Incentive Account Transfer	
2		
3	Demand Supply Cost Variance	2,148
4		
5	Demand Management Incentive (+/-) ¹	<u>751</u>
6		
7	Supply Cost Variance Outside Deadband	1,397
8		
9	Less: Income Tax @ 30.0%	<u>419</u>
10		
11	Net Transfer (To) From Demand Management Incentive Account	<u>978</u>
12		
13		
14		
15	Demand Management Incentive Account Balance	
16		
17	Balance at January 1, 2023	(107)
18		
19	Transfers to the RSA	107
20		
21	Net Transfer (To) From Demand Management Incentive Account	<u>978</u>
22		
23	Balance at December 31, 2023	<u>978</u>

¹ The demand management incentive of \$750,631 is plus/minus 1% of test year wholesale demand charges. The Demand Management Incentive Account definition was approved in Order No. P.U. 32 (2007).

Newfoundland Power Inc.
Pension Expense Variance Deferral Account &
OPEBs Cost Variance Deferral Account
For The Year Ended December 31, 2023
(\$000s)

1	Pension Expense Variance Deferral Account ("PEVDA")¹	
2		
3	2023 Actual Pension Expense ²	(5,914)
4		
5	2023 Test Year Forecast Pension Expense	<u>(7,268)</u>
6		
7	PEVDA Variance (A)	<u>1,354</u>
8		
9	OPEBs Cost Variance Deferral Account ("OPEVDA")³	
10		
11	2023 Actual OPEBs Expense ²	6,833
12		
13	2023 Test Year Forecast OPEBs Expense	<u>7,943</u>
14		
15	OPEVDA Variance (B)	<u>(1,110)</u>
16		
17	Amount Transferred to the RSA⁴ (A+B)	<u>244</u>

¹ In Order No. P.U. 43 (2009), the Board approved a Pension Expense Variance Deferral Account, which is charged or credited with the amount by which the annual pension expense differs from that approved for the establishment of revenue requirement from rates for a test year.

² Pension expense and OPEBs expense are net of capitalization.

³ In Order No. P.U. 31 (2010), the Board approved an OPEBs Cost Variance Deferral Account, which is charged or credited with the amount by which the OPEBs expense differs from that approved for the establishment of revenue requirement from rates for a test year.

⁴ In Order No. P.U. 43 (2009) and in Order No. P.U. 31 (2010), the Board ordered that Newfoundland Power shall charge or credit any amounts in the PEVDA and OPEVDA to the Rate Stabilization Account as of the 31st day of March in the year in which the difference arises.

Newfoundland Power Inc.
Statement of Operating & General Expenses
For the Years Ended December 31
(\$000s)

	2023	2022	2023/2022 Variances ¹
1 Operating Expenses			
2			
3 Purchased Power	511,983	479,527	32,456
4 Power Produced	3,871	4,008	(137)
5 Administrative and Engineering Support	9,705	8,931	774
6 Environmental Policy	368	203	165
7 Substations	2,460	2,318	142
8 Transmission	1,426	1,143	283
9 Distribution	10,812	11,297	(485)
10 Telecommunications	1,654	1,489	165
11 Fleet Operating and Maintenance Expense	1,944	2,189	(245)
12	<u>544,223</u>	<u>511,105</u>	<u>33,118</u>
13			
14 General Expenses			
15			
16 Customer Service	17,117	15,935	1,182
17 Financial Services	2,207	1,776	431
18 Information Systems	7,610	6,431	1,179
19 Pension Costs	(6,959)	(6,909)	(50)
20 Other Post Employment Benefits	6,015	6,283	(268)
21 Corporate and Employee Services	23,106	23,299	(193)
22	<u>49,096</u>	<u>46,815</u>	<u>2,281</u>
23			
24			
25 Total Operating & General Expenses	593,319	557,920	35,399
26			
27 Transfers to General Expenses Capitalized	(3,356)	(5,370)	2,014
28 Deferred CDM Program Costs	(6,158)	(5,227)	(931)
29 Deferred Electrification Program Costs	(99)	(28)	(71)
30 Other Contract Expenses	5,222	6,826	(1,604)
31 Pension Expense Current Services	2,920	6,846	(3,926)
32 OPEB Expenses Current Services	759	1,432	(673)
33 Amortization of Deferred CDM Costs	4,232	3,709	523
34			
35 Total Expenses ²	<u>596,839</u>	<u>566,108</u>	<u>30,731</u>

¹ Variances are explained in Return 21.

² This is equal to the total of purchased power costs, operating expenses and employee future benefit costs shown in Return 1.

Newfoundland Power Inc.
Explanation of Expense Variances
2023 versus 2022
(\$000s)

	<u>2023</u>	<u>2022</u>	<u>Increase (Decrease)</u>
1 Total Expenses	596,839	566,108	30,731
2			
3 The increase in total expenses for 2023 was primarily the result of higher purchased power costs and lower transfers to			
4 general expenses capitalized partially offset by lower current service costs of employee future benefits.			
5			
6 The following is an explanation of significant variances for individual operating and general expense classes.			
7			
8			
9 Purchased Power	511,983	479,527	32,456
10			
11 Purchased Power costs were higher in 2023 primarily as a result of higher energy purchases and billing demand			
12 charges from Hydro.			
13			
14			
15 Power Produced	3,871	4,008	(137)
16			
17 Power Produced costs for 2023 were lower than 2022 as a result of lower generation taxes and lower external			
18 consultant costs associated with hydro plant inspections.			
19			
20			
21 Administrative and Engineering Support	9,705	8,931	774
22			
23 Administrative and Engineering Support costs for 2023 were higher than 2022 primarily as a result of labour costs associated			
24 with the System Control Centre due to a change in general expenses capitalized, and increased safety clothing and small tool purchases.			
25			
26			
27 Environmental Policy	368	203	165
28			
29 Environmental Policy costs for 2023 were higher than 2022 due to permitting fees, costs associated with the Company's			
30 external safety & environment audit and sustainability report, and increased labour costs.			
31			
32			
33 Substations	2,460	2,318	142
34			
35 Substation costs for 2023 were higher than 2022 primarily as a result of an increase in substation maintenance costs.			
36			
37			
38 Transmission	1,426	1,143	283
39			
40 Transmission costs for 2023 were higher than 2022 primarily as a result of increased transmission maintenance costs			
41 including increased vegetation management activity.			
42			
43			
44 Distribution	10,812	11,297	(485)
45			
46 Distribution costs for 2023 were lower than 2022 primarily as a result of decreased overtime costs for distribution maintenance.			

Newfoundland Power Inc.
Explanation of Expense Variances
2023 versus 2022
(\$000s)

	<u>2023</u>	<u>2022</u>	<u>Increase (Decrease)</u>
1 Telecommunications	1,654	1,489	165
2			
3 Telecommunications costs for 2023 were higher than 2022 primarily as a result of increased external costs from			
4 third-party service providers.			
5			
6			
7 Fleet Operating and Maintenance Expense	1,944	2,189	(245)
8			
9 Fleet Operating and Maintenance Expense costs for 2023 were lower than 2022 primarily as a result of lower fuel costs.			
10			
11			
12 Customer Service	17,117	15,935	1,182
13			
14 Customer Service costs for 2023 were higher than 2022 primarily as a result of higher customer energy conservation costs			
15 including higher external consultant costs.			
16			
17			
18 Financial Services	2,207	1,776	431
19			
20 Financial Services costs for 2023 were higher than 2022 as a result of increased labour costs as well as higher other			
21 company fees.			
22			
23			
24 Information Systems	7,610	6,431	1,179
25			
26 Information Systems costs for 2023 were higher than 2022 primarily as a result of increased licensing and support costs for			
27 third-party hardware and software solutions, including cybersecurity, increased other company fees and higher labour costs.			
28			
29			
30 Employee Future Benefits	(944)	(626)	(318)
31			
32 Employee Future Benefits includes Pension Costs and Other Post-Employment Benefits ("OPEBs"). Costs were lower in			
33 2023 due to a higher expected return on defined benefit pension plan assets and a higher discount rate at December 31, 2022,			
34 partially offset by higher interest costs.			
35			
36			
37 Corporate and Employee Services	23,106	23,299	(193)
38			
39 Corporate and Employee Services costs for 2023 were lower than 2022 primarily as a result of lower corporate labour costs,			
40 partially offset by higher consultant costs associated with regulatory activity and increased insurance premiums.			
41			
42			
43 Transfers to General Expenses Capitalized	(3,356)	(5,370)	2,014
44			
45 Transfers to General Expenses Capitalized decreased in 2023 over 2022 as a result of changes in the calculations as approved			
46 in Order No. P.U. 3 (2022), which primarily reflects the inclusion of pension as a labour loader.			

Newfoundland Power Inc.
Explanation of Expense Variances
2023 versus 2022
(\$000s)

	<u>2023</u>	<u>2022</u>	<u>Increase (Decrease)</u>
1 Deferred CDM Program Costs	(6,158)	(5,227)	(931)
2			
3 Deferred CDM Program costs for 2023 were higher than 2022 as a result of higher spending on customer energy			
4 conservation programs including higher external consultant costs.			
5			
6			
7 Deferred Electrification Program Costs	(99)	(28)	(71)
8			
9 Deferred Electrification Program costs for 2023 were consistent with 2022.			
10			
11			
12 Other Contract Expenses	5,222	6,826	(1,604)
13			
14 Other Contract Expenses were lower in 2023 primarily as a result of decreased third party work for telecommunication companies.			
15			
16			
17 Pension Expense Current Service	2,920	6,846	(3,926)
18			
19 Pension Expense Current Service costs for 2023 were lower than 2022 primarily as a result of the inclusion of pension			
20 as a labour loader as approved in Order No. P.U. 3 (2022) as well as the impact of a higher discount rate at			
21 December 31, 2022 partially offset by increased Group RRSP costs.			
22			
23			
24 OPEB Expense Current Service	759	1,432	(673)
25			
26 OPEB Expense Current Service costs for 2023 were lower than 2022 primarily as a result of the impact of a higher discount			
27 rate at December 31, 2022.			
28			
29			
30 Amortization of Deferred CDM Costs	4,232	3,709	523
31			
32 In Order No. P.U. 13 (2013), the Board approved the deferred recovery, over a seven-year period, of annual costs associated with			
33 customer energy conservation programming. Amortization of this deferral commenced in 2014. In Order No. P.U. 3 (2022),			
34 the Board approved an increase in the amortization period from seven to ten years. Amortization of this deferral is higher in 2023			
35 due to the inclusion of the ninth year of deferred customer energy conservation programming costs.			
36			
37	<u>596,839</u>	<u>566,108</u>	<u>30,731</u>

Newfoundland Power Inc.
Calculation of Taxable Income and Income Tax Expense
For The Year Ended December 31, 2023
(\$000s)

1	Earnings Before Income Taxes from Return 1		57,388
2			
3	Add: Depreciation of capital assets	82,407	
4	Difference in pension funding and accounting cost	(7,066)	
5	Difference in OPEBs payments and accounting cost	3,452	
6	Non-deductible compensation expense	(431)	
7	Business meals & related expenses	342	
8	Amortization of debt discount & expenses	181	
9	Amortization of credit facility costs	37	
10	Small tools in excess of \$500	650	
11	Other non deductible costs	203	<u>79,775</u>
12			
13	Less:		
14	Capital cost allowance	107,322	
15	General expenses capitalized	5,100	
16	Interest charged to construction	2,669	
17	Net capital gain on sale of land	42	
18	Deferred credit facility costs	44	
19	Bond issue expenses	283	
20	Dismantling	15,701	
21	Regulatory mechanisms and deferrals	17,614	<u>148,775</u>
22			
24	Taxable Income		<u>(11,612)</u>
25			
26	Income Tax - Part 1 @ 30%		(3,484)
27	Income Tax - true up estimate		<u>220</u>
28			
29	Current Income Tax Expense		(3,264)
30			
31	Deferred income tax from Return 23		12,533
32	Deferred tax on regulatory mechanisms and deferrals		<u>2,123</u>
33	Deferred Income Tax Expense		14,656
34			
35	Total Income Tax Expense		<u>11,392</u>

Newfoundland Power Inc.
Accumulated Deferred Income Taxes
For The Year Ended December 31, 2023
(\$000s)

1	Plant Investments		
2	Balance on January 1, 2023		40,275
3			
4	Add: CCA claimed on all property, plant and equipment - from Return 22	107,322	
5	Less: Amortization expense on all property, plant and equipment		
6	(GEC excluded from post-1986 additions)	69,158	
7	Difference	<u>38,164</u>	
8			
9	Deferred Income Tax Rate @ 30%		<u>11,449</u>
10			
11	Balance on December 31, 2023 (if negative enter 0)		<u>51,724</u>
12			
13	Pension and Early Retirement Costs		
14	Balance on January 1, 2023		(1,715)
15			
16	Add: Pension Funding	1,325	
17	Less: Pension Expense	(5,741)	
18	Difference	<u>7,066</u>	
19			
20	Deferred Income Tax Rate @ 30%		<u>2,120</u>
21			
22	Balance on December 31, 2023		<u>405</u>
23			
24	Other Post Employment Benefits ("OPEBs")		
25	Balance on January 1, 2023		(20,484)
26			
27	Add: OPEBs Payments	3,322	
28	Less: OPEBs Expense	6,774	
29	Difference	<u>(3,452)</u>	
30			
31	Deferred Income Tax Rate @ 30%		<u>(1,036)</u>
34			
35	Balance on December 31, 2023		<u>(21,520)</u>
36			
37			
38	Total Accumulated Deferred Income Taxes		<u><u>30,609</u></u>

Newfoundland Power Inc.
Average Regulated Capital Structure
For The Year Ended December 31, 2023
(\$000s)

1 **Average Book Capital Structure**

2

3

4

5

6

7

8

9

10

11

12

13 **Average Regulated Capital Structure³**

14

15

16

17

18

19

	Year End December 31 2023	Year End December 31 2022	Average	Percent
Total Debt ¹	773,166	684,407	728,787	56.41%
Common Equity ²	582,601	543,932	563,267	43.59%
	<u>1,355,767</u>	<u>1,228,339</u>	<u>1,292,054</u>	<u>100.00%</u>

	Average 2023	Percent
Total Debt	728,787	56.41%
Common Equity	563,267	43.59%
	<u>1,292,054</u>	<u>100.00%</u>

¹ A reconciliation of the 2023 debt to Return 1 is as follows:

	(\$000s)
2023 Total Debt	773,166
Add: Unamortized Credit Facility Costs (Note 12 to Financial Statements)	108
Add: Cash (Return 1)	3,126
Less: Short-Term Borrowings (Return 1)	(32,000)
Less: Current Portion of Long-Term Debt (Return 1)	(8,450)
2023 Long-Term Debt (Return 1)	<u>735,950</u>

² A reconciliation of the 2023 retained earnings to Return 1 is as follows:

	(\$000s)
2023 Common Share Equity	582,601
Less: Common Shares (Return 1)	(70,321)
2023 Retained Earnings (Return 1)	<u>512,280</u>

³ In Order No. P.U. 19 (2003), the Board ordered that the proportion of common equity in the regulated capital structure shall not exceed 45%. In years where the average common equity percentage is below 45% of the average invested capital, the average regulated capital structure will equal the average book capital structure.

Newfoundland Power Inc.
Cost of Embedded Debt
For The Years Ended December 31
(\$000s)

		<u>2023</u>	<u>2022</u>
1 Debt			
2 Bonds		747,535	665,985
3 Credit Facilities and Short-Term Borrowings		32,000	21,361
4 Less: Cash		<u>(3,126)</u>	<u>-</u>
5		776,409	687,346
6			
7 Debt Discount and Issue Expenses		<u>(3,243)</u>	<u>(2,939)</u>
8			
9		<u>773,166</u>	<u>684,407</u>
10			
11 Average Debt	A	728,787	661,762
12			
13 Interest Expense¹			
14 Interest on Bonds		36,673	35,597
15 Interest on Credit Facilities		2,511	390
16 Interest on Bank Indebtedness		32	63
17 Amortization of Debt Discount and Issue Costs		<u>218</u>	<u>215</u>
18			
19	B	39,434	36,265
20			
21 Embedded Cost of Debt	B/A	<u>5.41%</u>	<u>5.48%</u>

¹ Total financing costs for 2023 and 2022 reported in Return 1 are as follows:

	<u>2023</u>	<u>2022</u>
Interest Expense (B) from above	39,434	36,265
Add: Interest on Security Deposits	76	23
Add: Interest on Tax Return	1	-
Less: AFUDC (Debt portion only)	<u>(1,468)</u>	<u>(824)</u>
Finance Charges reported in Return 1	<u>38,043</u>	<u>35,464</u>

Newfoundland Power Inc.
Explanation of Variances in Cost of Debt
For The Year Ended December 31
(\$000s)

	<u>Actual 2023</u>	<u>Test Year 2023</u>	<u>Variance</u>
1 Average Debt	728,787	708,191	20,596 ¹
2			
3 Embedded Cost of Debt	5.41%	4.67%	0.74% ¹
4			
5 Details of the Embedded Cost of Debt			
6 Interest on Bonds	36,673	34,945	1,728 ²
7 Interest on Credit Facilities	2,511	909	1,602 ¹
8 Interest on Bank Indebtedness	32	-	32
9 Amortization of Debt Discount and Issue Costs	218	183	35
10			
11	<u>39,434</u>	<u>36,037</u>	<u>3,397</u>

¹ Embedded cost of debt is higher than the 2023 Test Year due primarily to higher short-term interest rates and higher average borrowings related to an increase in purchased power costs.

² Interest on long-term debt is higher than the 2023 Test Year due to timing of Series AS bond issuance.

Newfoundland Power Inc.
Regulated Return on Average Common Equity
For The Years Ended December 31
(\$000s)

	2023	2022
1 Average Common Equity		
2		
3 Common Equity at December 31, 2023	582,601	
4		
5 Common Equity at December 31, 2022	543,932	543,932
6		
7 Common Equity at December 31, 2021		526,444
8		
9 Average Common Equity	563,267	535,188
10		
11		
12 Regulated Return on Average Common Equity		
13		
14 Earnings Applicable to Common Shares	45,996	45,650
15		
16 Add: Non-Regulated Expenses (net of income taxes) - Return 12	2,091	2,264
17		
18	48,087	47,914
19		
20		
21 Regulated Return on Average Common Equity	8.54%	8.95%

Newfoundland Power Inc.
Assessable Revenue
(s. 13 of the *Public Utilities Act*)
For The Year Ended December 31, 2023
(\$000s)

1	Revenue From Rates from Return 14	731,064	
2			
3	Weather Normalization Revenue Adjustment from Return 17	<u>(129)</u>	
4			
5		730,935	
6			
7	Municipal Taxes Billed	19,627	
8			
9	Billing per the Rate Stabilization Account from Return 16	<u>36,174</u>	
10			
11	Total Electrical Revenue Billed		786,736
12			
13	Other Revenue from Return 14		<u>14,399</u>
14			
15	Assessable Revenue		<u>801,135</u>

NEWFOUNDLAND POWER INC.

**System of Accounts
Revised**

March 28, 2024

NEWFOUNDLAND POWER INC.

SYSTEM OF ACCOUNTS

	<u>Section No.</u>	<u>Page</u>
General Instructions	1	1
Contents of Accounts:		
Assets	2	9
Capital Stock and Liabilities	3	18
Plant Accounts	4	23
Operating Revenues	5	31
Income Deductions	6	33
Operating Expenses	7	35
Annual Returns	8	45

General Instructions

1.01 In the following general instructions and data relating to the content of the accounts comprising the system of accounts:

the "Company" means Newfoundland Power Inc.;

the "Board" means the Board of Commissioners of Public Utilities of the Province of Newfoundland and Labrador;

"Regulated Value" means the value of plant established in accordance with the provisions of the *Public Utilities Act* which provides in Section 64 (2):

"The Board may determine the value of the property and assets of a public utility in accordance with the following rules:

- (a) Where the property and assets were
 - (i) held by the public utility before January 1, 1950, or
 - (ii) acquired by the public utility on or after that date, but were in physical existence before that date,

the value shall be determined on the basis of the fair depreciated value of such property and assets at that date, with subsequent depreciation.

- (b) Where the property and assets are new property and assets created or acquired on or after January 1, 1950, the value shall be determined on the basis of the prudent original cost, with depreciation since the date of creation or acquisition.
- (c) Where the property and assets are property and assets other than those referred to in paragraphs (a) and (b) and were acquired on or after January 1, 1950, the value shall be determined on the basis of the prudent cost at the time of such acquisition, with depreciation since the date of acquisition."

- 1.02 Accounts shall be maintained on an accrual basis and items to be included in any account shall be those which, under generally accepted accounting principles applicable to electric utilities, are considered reasonably to fall under the account headings described therein.
- 1.03 The classification included in this system of accounts is for the purpose of recording transactions and the approval of the Board for this purpose does not preclude the Board from consideration of alternatives for calculation of tariffs or other purposes.
- 1.04 The following accounts shall be used in the general ledger of the Company for the classification of transactions:

Summary of Accounts

<u>Description</u>	<u>Account Number</u>	<u>Contents Paragraph</u>
Assets		
Electric Plant in Service	101xx	2.01
General Expenses Capital - Costs	197xx	2.02
General Expenses Capital - Recoveries	198xx	2.02
Construction Work in Progress	7xxxx	2.03
Capitalized Overhead on Work in Progress	107xx	2.03
Accumulated Depreciation of Electric Plant in Service	102xx	2.04
Retirement Work in Progress	8xxxx	2.04
Cash and Short-Term Investments	131xx	2.05
Consumer Accounts Receivable	142xx	2.06
RSA Credit July 2020	14205	2.07
Accounts Receivable - Accrued Revenue	14225	2.08
Interest Assistance Program	14226	2.09
Other Accounts Receivable	143xx	2.10
Accumulated Provision for Uncollectible Accounts	144xx	-
Income Tax Receivable	146xx	-
Transactions with Associated Companies	1437x-1439x	2.10
Customer Jobbing	90xxx/92xxx/93xxx	2.10
Materials and Supplies	150xx	2.11
Prepayments	165xx	-
Extraordinary Property Losses	180xx	2.12
Unamortized Debt Discount and Expense	181xx	-
Unamortized Share Issue Expenses	182xx	-
Deferred Charges Related to Employee Future Benefits and Miscellaneous Items	186xx	2.13
Deferred Work Orders	91xxx	2.13
Rate Stabilization Account	14500/18647	2.14
CDM Cost Deferral Account	188xx	2.15

Payroll and Stores Related Overheads	19xxx	2.16
Municipal Tax Account	14502	2.17
Conservation Program Loans	148xx	2.19
Employee Future Benefits Regulatory Assets Account	1864x/1451x	2.20
Load Research and Rate Design Cost Deferral Accounts	18400/18401	2.21
Electrification Cost Deferral Account	189xx	2.22
Pension Capitalization Cost Deferral Account	18500/18501	2.23

Capital Stock and Liabilities

Common Stock Issued	201xx	-
Preference Stock Issued	204xx	-
Retained Earnings and Dividends Declared	215xx	3.01
Long Term Debt - First Mortgage Bonds	221xx	-
Hydro Production Equalization Reserve	274xx	3.02
Degree Day Normalization Reserve	275xx	3.02
Contributions in Aid of Construction	271xx	3.03
Deferred Income Taxes	273xx	3.04
Excess Earnings Account	284xx	3.05
Other Post-Employment Benefits (OPEB)	22400/23502	3.06
OPEB Cost Variance Deferral Account	24222	3.07
Pension Expense Variance Deferral Account (PEVDA)	24228	3.08
Defined Benefit Pension Plans and Other Liabilities	242xx/2350x	3.09
Demand Management Incentive Account	23257/24230	3.10
Cost Recovery Deferral	24229/22410	3.12
Revenue Requirement Shortfall or Surplus	22423	3.13
Bank Loans and Credit Facility Borrowings	231xx	-
Accounts Payable	232xx	-
Current Portion of Long-Term Debt	233xx	-
Provision for Income Taxes	236xx	-
Interest Accrued on Long-Term Debt	237xx	-
Dividends Payable	238xx	-

Plant Accounts

Steam Production		
Land and Land Rights	310xx	4.01
Hydro Production		
Land, Land Rights and Clearing	320xx	4.09
Roads, Trails, Bridges and Road Diversion and Protective Works	321xx	4.10
Buildings and Structures	322xx	4.11

Canals, Penstocks, Surge Tanks and Tailraces	323xx	4.12
Dams and Reservoirs	324xx	4.13
Prime Movers, Generators and Auxiliaries	325xx	4.14
Switching, Metering and Control Equipment	326xx	4.15
Miscellaneous Power Plant Equipment	327xx	4.16
Internal Combustion Production		
Land and Land Rights	330xx	4.17
Buildings and Structures	331xx	4.18
Electrical Plant	332xx	4.19
Prime Movers, Generators and Auxiliaries	333xx	4.20
Fuel Holders	334xx	4.21
Miscellaneous Power Plant Equipment	335xx	4.22
Substations		
Land and Land Rights	340xx	4.23
Buildings and Structures	341xx	4.24
Equipment	342xx	4.25
Transmission		
Land and Land Rights	350xx	4.26
Survey Cost and Easements	351xx	4.27
Roads, Trails and Bridges	352xx	4.28
Overhead Conductors and Underground Cables	353xx	4.29
Submarine Cables	354xx	4.30
Poles, Towers, Fixtures and Insulators	355xx	4.31
Manholes	356xx	4.32
Ducts	357xx	4.33
Distribution		
Land and Land Rights	360xx	4.34
Overhead Conductors and Underground Cables	361xx	4.35
Poles and Fittings	362xx	4.36
Street Lighting	363xx	4.37
Transformers and Transformer Mountings	364xx	4.38
Services	365xx	4.39
Meters	366xx	4.40
Manholes	367xx	4.41
Duct Banks	368xx	4.42
General Properties		
Land and Land Rights	370xx	4.43
Buildings and Structures	371xx	4.44
Office Equipment	372xx	4.45
Stores Equipment	373xx	4.46
Shop Equipment	374xx	4.47
Laboratory and Testing Equipment	375xx	4.48

Miscellaneous Equipment	376xx	4.49
Engineering Equipment	377xx	4.50
Transportation Equipment	378xx	4.51
Computer Hardware and Software	379xx	4.52
Telecommunications		
Land and Land Rights	380xx	4.53
Mobile Radios	381xx	4.54
Radio Sites	382xx	4.55
Radio Equipment	383xx	4.56
Cables and Protection	384xx	4.57
Multiplex Equipment	385xx	4.58
SCADA Master	386xx	4.59
RTU and Supervisory	387xx	4.60
Standby Power	388xx	4.61
Telephone Equipment	389xx	4.62
Power Line Carrier	390xx	4.63
Test Equipment	391xx	4.64

Operating Revenues

Domestic	1.1	4x110	-
Domestic All Electric	1.1	4x112	-
Domestic Seasonal – Optional	1.1S	4x15x	-
General Service 0-10 kW	2.1	4x21x	-
General Service 10-100 kW (110 kVA)	2.2	4x22x	-
General Service 110 kVA - 1000 kVA	2.3	4x23x	-
General Service over 1000 kVA	2.4	4x24x	-
Street and Area Lighting	4.1	4x410	-
Forfeited Discounts		4x400	-
Miscellaneous Non-Consumer Revenue		4x5xx/40700	5.01
Pole Related Revenues and Joint Use Revenues		416xx/4x590	5.02
Accrual of Unbilled Revenue		41113	5.03
Deferred Revenues – PEVDA		41114	5.04
Deferred Revenues – OPEB Variance Deferral Account		41115	5.05
Deferred Revenues – CDM Cost Recovery Transfer		41117	5.06

Income Deductions

Interest on Long-Term Debt	40000	-
Other Interest	401xx	6.01
Debt Component of AFUDC	402xx	6.02
Amortization of Debt Discount and Issue Expenses	403xx	-

Depreciation and Amortization	409xx	6.03
Weather Normalization Reserve	408xx	6.04
Excess Earnings Account	40Rxx	6.05
Extraordinary Income or Expenses	40Sxx	6.06
Provision for Income Tax	406xx	-
Other Contract Expenses	417xx	6.07
Dividends - Common Shares	2151x	-
Dividends - Preference Shares	2152x	-

Operating Expenses

Power Purchased	500xx	7.01
Transfer (to) from Rate Stabilization Account	50004	7.02
Power Produced		
Generation Plan	510xx	7.03
Hydro Production	512xx	7.04
Internal Combustion Plants	513xx	7.05
Wind Turbines	514xx	7.06
Administrative and Engineering Support		
Supervisory and Administrative Support	5200x	7.07
System Operations	522xx	7.08
Tools, Equipment, Safety Clothing and Company Uniforms	525xx	7.09
Engineering and Technical Support	5205x	7.11
Environmental Policy	53xxx	7.12
Substations	54xxx	7.13
Transmission		
Line Maintenance and Repairs	550xx	7.14
Line Inspections	554xx	7.16
Line Vegetation Management	555xx	7.17
Distribution		
Repair / Maintain Lines	561xx	7.18
Repair / Maintain Services	563xx	7.19
Repair / Maintain Street Lights	564xx	7.20
Pre-Issue of Materials	565xx	7.22
Maintain Transformers	566xx	7.23
Maintain Meters	567xx	7.25
Line Inspections	574xx	7.32

Line Vegetation Management	577xx	7.33
Telecommunications		
Supervision and Miscellaneous	580xx	7.37
Repeater Sites	581xx	7.38
Mobile Radios	582xx	7.39
Communication Cables	583xx	7.40
Leased Facilities	584xx	7.41
Supervisory Control Systems	585xx	7.42
Telephone Systems	586xx	7.43
Wide Area Networks	587xx	7.44
Customer Service		
Supervision and Miscellaneous	605xx	7.45
Customer Accounting	607xx	7.46
Credit and Collections	608xx	7.47
Call Centre	609xx	7.48
Curtable Rates	62550	7.68
Conservation Programs and Energy Services Costs	626xx-629xx	7.49
Uncollectible Bills	61521	7.50
Financial Services		
Finance	612xx	7.51
Risk Management	615xx	7.52
Employee Future Benefits – Pensions	642xx	7.53
Amortization of Conservation Costs	690xx	7.54
OPEB Costs	643xx	7.79
Information Systems		
Supervision and Miscellaneous	630xx	7.57
Computer Operations	631xx	7.58
Systems Development and Support	632xx	7.59
Infrastructure	633xx	7.60
Corporate and Employee Services		
Printing Services	617xx	7.65
Corporate Communications	621xx	7.67
Corporate Offices	650xx	7.70
Internal Audit	653xx	7.71
Miscellaneous Administrative Costs	655xx	7.72
Mail Costs	61610	7.73
Regulatory and Legal Affairs	65700	7.74
Human Resources Planning and Administration	64020	7.75
Health, Safety and Training	6403x	7.76
Employee Relations	64040	7.77
Miscellaneous Employee Related Costs	64xxx	7.78
Building Operations and Maintenance	67xxx	7.81

Municipal Taxes and PUB Assessments	656xx	7.82
Individual Vehicle Operating and Maintenance Costs	59000	7.85
Vehicle Service Centre	37xxx	7.85

- 1.05 Subdivisions of any account prescribed in paragraph 1.04 may be kept, provided that such subdivisions do not impair the integrity of the prescribed accounts.
- 1.06 If in order to record a transaction, account numbers need to be added or deleted, such numbers together with the appropriate descriptions of contents will be referred to the Board, and unless notification to the contrary is received within 30 days, these changes shall be considered accepted by the Board and this system of accounts amended accordingly.
- 1.07 The Company shall so keep its books of account and all other books, records and memoranda which support in any way the entries in such books as to be able to furnish readily full information as to the nature of any item included in any account.
- 1.08 The Company shall maintain a work order system to show the nature of each addition to or retirement of electric plant, the source or sources of cost and the electric plant account or accounts to which charged or credited.

The Company shall also maintain records in which, for each plant account, the amounts of the annual additions and retirements are classified so as to show the number and cost of the various units of property in service.

- 1.09 A description of the contents of the accounts has not been prepared for each account but only for those where doubt might exist as to the nature of the items to be included therein.

CONTENTS OF ACCOUNTS

Assets

2.01 Electric Plant In Service 101xx

- (a) This account, used for report purposes, is the total of the balances included in electric plant accounts 310 to 391 inclusive.
- (b) The plant accounts 310 to 391 are designed to show the regulated value of the plant in service determined in accordance with the provisions of the *Public Utilities Act*. (See general instructions 1.01.)

The values assigned to the physical plant as of June 30, 1966 and approved by Board Order No. P.U. 9 (1967), shall be the basis for the Company's plant accounting records as of that date.

- (c) Electric plant accounts shall be charged with all costs of construction after June 30, 1966. These include labour, engineering, transportation, materials and supplies, contracted work, cost of accidents or damages, permits and right of way, interest and insurance during construction, supply expenses, motor vehicle expenses and general expenses.
- (d) When any item of property is worn out, lost, sold, destroyed, abandoned, becomes permanently unserviceable or is withdrawn from service, the amount in the plant account applicable to the item shall be credited to the appropriate plant account. In the case of depreciable plant, the corresponding debit will be made to the accumulated depreciation account.
- (e) For the purpose of avoiding undue refinement in accounting for additions to and retirements and replacements of electric plant, all property shall be considered as consisting of (1) unit of property and (2) minor items of property.
- (f) Units of Property
 - (i) When a unit of property is added to electric plant, the cost thereof shall be added to the appropriate electric plant account.
 - (ii) When a unit of property is retired from electric plant, with or without replacement, the value thereof shall be credited to the electric plant account in which it is included, determined in the manner set forth in paragraph (h) below. If the unit of property is of a depreciable class, the cost of the unit retired and credited to electric plant shall be charged to accumulated depreciation provided for such property.

- (g) Minor Items of Property
- (i) When a minor item of property which did not previously exist is added to plant, the cost thereof shall be accounted for in the same manner as for the addition of a unit of property as set forth above, if a substantial addition results, otherwise the charge shall be to the appropriate operating expense account.
 - (ii) When a minor item of property is retired and not replaced, the book value thereof shall be credited to the electric plant account in which it is included; and, in the event the minor item is a part of depreciable plant, accumulated depreciation shall be charged with the value and cost of removal (net of tax) and credited with the salvage. If, however, the value of the minor item retired and not replaced has been or will be accounted for by its inclusion in the unit of property of which it is a part when such unit is retired, no separate credit to the property account is required when such minor item is retired.
 - (iii) When a minor item of depreciable property is replaced independently of the unit of which it is a part, the cost of replacement shall be charged to the maintenance account appropriate for the item, except that if the replacement effects a substantial betterment (the primary aim of which is to make the property affected more useful, more efficient, of greater durability, or of greater capacity), the excess cost of the replacement over the estimated cost at current prices of replacing without betterment shall be charged to the appropriate electric plant account.
- (h) Determination of cost - The value of electric plant retired shall be the amount at which such property is included in the electric plant accounts, including all components of construction costs. The value shall be determined from the utility's records and if this cannot be done, it shall be estimated. When it is impractical to determine the value of each item, due to the relatively large number or small cost thereof, the average value of the items, with due allowance for any differences in size and character, shall be used for the items retired.

2.02	General Expenses Capital - Costs	197xx
	General Expenses Capital - Recoveries	198xx

These accounts will be charged with expenses which arise in connection with capital expenditure but cannot, from their nature, be charged to a specific item or project. Such charges include a portion of the salaries and associated expenses, such as travel, office supplies, vehicle expenses, equipment rentals and building maintenance, of finance, corporate and employee services, engineering and operations supervisory staff. In addition, a portion of the expenses related to small tools and equipment, pre-issued materials and pension plan expenses will be charged to these accounts. These accounts will be cleared by a percentage charge to capital expenditure by class of property.

2.03	Construction Work in Progress	7xxxx
	Capitalized Overhead on Work in Progress	107xx

These accounts shall include the total of the balances of work orders for electric plant in progress of construction, including an allowance for funds used during construction (AFUDC) and an applicable portion of general expenses.

2.04	Accumulated Depreciation of Electric Plant in Service	102xx
	Retirement Work in Progress	8xxxx

(a) These accounts shall be credited with amounts concurrently charged to account 409xx depreciation.

(b) At the time of retirement of depreciable electric plant, these accounts shall be charged with the amount in the plant accounts applicable to that item of property retired plus the cost of removal (8xxxx) (net of tax) and shall be credited with the salvage value and insurance recovered.

(c) For purposes of analysis, the Company shall maintain subsidiary records in which the depreciation reserve is broken down into component parts corresponding to the primary electric plant accounts which include depreciable plant. These subsidiary records shall show the current credits and debits in detail for each primary plant account.

(d) Depreciation charges shall be computed by applying on a straight-line basis the annual percentage rates applicable to the value of the plant recorded in accordance with orders issued by the Board for each class of depreciable property.

2.05	Cash and Short-Term Investments	131xx
------	---------------------------------	-------

This account shall include all cash balances and the cost of investments acquired for the purpose of temporarily investing cash.

2.06	Consumer Accounts Receivable	142xx
------	------------------------------	-------

This account shall include amounts due from customers for utility service.

2.07	RSA Credit July 2020	14205
------	----------------------	-------

This account shall include transactions related to the One-Time Customer Bill Credit resulting from Order in Council OC2020-081.

2.08	Accounts Receivable - Accrued Revenue	14225
------	---------------------------------------	-------

This account will be debited with the estimated amount of unbilled electric revenue.

- | | | |
|------|--|--|
| 2.09 | Interest Assistance Program | 14226 |
| | This account shall include transactions related to the Government of Newfoundland and Labrador's interest assistance program in response to the COVID-19 pandemic. | |
| 2.10 | Other Accounts Receivable
Transactions with Associated Companies
Customer Jobbing | 143xx
1437x-1439xx
90xxx/92xxx/93xxx |
| | These accounts shall include amounts due from customer jobbing and contract work (90xxx/92xxx/93xxx); other accounts receivable excluding amounts due from customers for utility service (143xx); and, receivables resulting from transactions with associated companies (1437x-1439x). | |
| 2.11 | Materials and Supplies | 150xx |
| | <p>(a) This account shall include the cost of materials purchased for use in the electric utility business for construction, maintenance or operation purposes.</p> <p>(b) It shall also include the cost of materials salvaged in connection with construction, maintenance or retirement of property, the corresponding credit being to construction, maintenance or accumulated depreciation respectively.</p> <p>(c) Materials and supplies issued shall be credited hereto and charged to the appropriate construction, operating expense or other account on the basis of a cost price determined by the use of average method of calculation applied consistently.</p> <p>(d) Physical inventory shall be taken at least annually and necessary adjustments made to bring this account into agreement with the actual inventory.</p> <p>(e) This account shall also include the cost of renewable energy credits available for sale in the ordinary course of business operations. Renewable energy credits are associated with the production of clean electricity at the Company's hydroelectric generation stations.</p> | |
| 2.12 | Extraordinary Property Losses | 180xx |
| | <p>(a) This account shall include, when so authorized or directed by the Board, losses in service value of property abandoned or otherwise retired from service which are not provided for by the accumulated depreciation or reserves and which could not reasonably have been foreseen and provided for. It shall include also, when so authorized or directed by the Board, extraordinary losses such as unforeseen damages to property which could not reasonably have been anticipated and which are not covered by reserves or by insurance.</p> <p>(b) The entire loss in service value of depreciable property retired shall be charged to accumulated depreciation. If all, or a portion, of the loss in service value is to be</p> | |

included in this account, accumulated depreciation shall then be credited and this account charged with the amount properly chargeable thereto.

- (c) This account shall be so maintained that convenient itemization may be made of all amounts included herein.
- (d) Application to the Board for permission to use this account for each particular loss shall be accompanied by a statement giving a complete explanation of the nature and cause of the property loss together with a description of the property, the period over which and the accounts to which it is proposed to write off the charges, and other pertinent information.

2.13	Deferred Charges Related to Employee Future Benefits and Miscellaneous Items	186xx
	Deferred Work Orders	91xxx

These accounts shall include assets related to the Company's defined benefit pension plan, other employee future benefits costs, other deferred costs as approved from time to time by the Board and all debits not elsewhere provided for in other accounts. These costs are expected to be recovered through customer rates in the future.

2.14	Rate Stabilization Account	
	Long Term	18647
	Current	14500

These accounts shall be increased (charged) or reduced (credited) with amounts as defined by the Rate Stabilization Clause in the Company's Schedule of Rates, Rules and Regulations as approved from time to time by the Board of Commissioners of Public Utilities.

2.15	CDM Cost Deferral Account	
	Long Term	18801
	Current	18804

These accounts shall be charged with the costs incurred in implementing the Conservation and Demand Management ("CDM") Program Portfolio.

These costs include the CDM Program Portfolio costs incurred by the Company for detailed program development, promotional materials, advertising, pre and post customer installation checks, incentives, processing applications and incentives, training of employees and trade allies, and program evaluation costs.

These accounts shall also be charged the costs of major CDM studies such as comprehensive customer end use surveys and CDM potential studies that cost greater than \$100,000.

Account 18801 also includes a true-up of historical CDM costs resulting from Board Order No. P.U. 3 (2022) which increased the amortization period of deferred CDM costs from seven to ten years.

Transfers to, and from, these accounts will be tax effected.

These accounts will maintain a linkage of all costs recorded in the account to the year the cost was incurred.

Recovery of annual amortization of costs in this account shall be through the Company's Rate Stabilization Account or as otherwise ordered by the Board.

2.16 Payroll and Stores Related Overheads 19xxx

These accounts shall include all debits and credits to the various overhead accounts and rechargeable accounts. These overhead accounts include the following:

- Payroll Overhead Suspense 19001/19010/19100/19200

These accounts shall include the costs related to payroll such as; (i) company portion of C.P.P. and E.I., (ii) Payroll Taxes, (iii) W.H.S.C.C. Assessment, (iv) current premiums for Health and Group Life Insurance Plans, (v) current cost of vacation and statutory holidays, (vi) costs associated with personal illness and doctor's appointments, (vii) OPEB current service cost and (viii) Pension current service cost.

- Recovery - Payroll Overhead 19050/19150/19250

These accounts shall include the credit entry whereby payroll overhead costs are applied to all other direct labour costs using a predetermined percentage allocation.

- Materials Management & Stores 196xx

These accounts shall include the salaries and expenses of materials management, salaries and expenses of the central and area stores, purchase adjustments and cartage. Included also are charges allocated from Information Systems (account 63x) and from Building Operations and Maintenance (account 67x).

- Recoveries - Stores Overhead 196R1

This account shall include the credit entry whereby issues from inventory and purchases processed through materials management department are charged with a predetermined overhead percentage.

2.17 Municipal Tax Account 14502

This account shall include the costs of municipal property and business taxes levied by various municipalities applicable to company owned property. Included also are the accruals for municipal revenue taxes based on using a predetermined percentage of total electrical revenue for the current year. The account is credited on a monthly basis using the amounts derived from the "Municipal Tax Adjustment" included in the electrical rates to reflect taxes charged to the company by municipalities and recoverable from all customers.

2.19 Conservation Program Loans 148xx

This account shall include the net costs of loans, to the electric service customers, used to finance the cost incurred by the customer for various Demand Side Management programs as offered by the company from time to time. The customer balances shall be credited on a monthly basis with the principal portion of the monthly payment.

2.20 Employee Future Benefits Regulatory Assets Account
 Long Term 1864x
 Current 1451x

These accounts will reflect unamortized amounts associated with the Company’s employee future benefits plans as calculated in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). These accounts will include historical amounts, amounts recognized on transition to U.S. GAAP and amounts that arise in the future. For tracking purposes, these accounts will include segregated sub-accounts for each of the Company’s:

- (i) Defined Benefit Pension Plan;
- (ii) Pension Uniformity Plan; and
- (iii) OPEB Plan.

2.21 Load Research and Rate Design Cost Deferral Accounts 18400/18401

This account shall be charged with the costs incurred in conducting a Load Research Study and a Retail Rate Design Review (collectively, the “Studies”).

These costs include: the development of a detailed framework for each of the Studies in 2022 and costs to conduct each of the Studies in accordance with the framework.

Transfers to, and from, the proposed account will be tax-effected.

The disposition of any balance in this account will be subject to a future order of the Board.

2.22	Electrification Cost Deferral Account	
	Long Term	18900/18901/18902/18909
	Current	18903/18904/18905/18906

This account shall be charged with the costs incurred in implementing the Customer Electrification Program Portfolio in accordance with Board orders and approved electric vehicle charging infrastructure capital costs until otherwise ordered by the Board.

Electrification program costs include: detailed program development, promotional materials, advertising, pre and post customer installation checks, incentives, processing applications and incentives, training of employees and trade allies, program evaluation costs and the costs to operate Company-owned charging stations.

This account shall also be charged the costs of major studies such as pilot programs, comprehensive customer surveys and potential studies that cost greater than \$100,000.

This account shall be credited with the receipt of government funding related to electrification programs and electric vehicle charging infrastructure as well as any revenues associated with the operation of Company-owned charging stations.

The account shall exclude electrification expenditures that are general in nature and not associated with a specific electrification program, such as costs associated with providing electrification awareness, and general planning, research and supervision costs.

The account shall be increased (reduced) by an interest charge (credit) on the balance in the account at the beginning of the month, at a monthly rate equivalent to the mid-point of the Company's allowed rate of return on rate base. The account will not be included in the Company's calculation of rate base until otherwise ordered by the Board.

Transfers to, and from, the proposed account will be tax-effected.

This account will maintain a linkage of all costs recorded in the account to the year the cost was incurred.

Recovery of annual amortizations of costs in this account shall be through the Company's Rate Stabilization Clause or as otherwise ordered by the Board.

2.23	Pension Capitalization Cost Deferral Account	
	Long Term	18501
	Current	18500

This account shall be charged with amounts equal to cost impacts resulting from the change in capitalizing pension costs from the indirect method via general expenses capitalized to the direct method via a labour loader, effective January 1, 2023.

Charges to the account will be amortized over a five-year period commencing January 1, 2023.

Transfers to, and from the account will be tax-effected.

Capital Stock and Liabilities

3.01 Retained Earnings and Dividends Declared 215xx

- (a) This account shall be credited with the net income each year (after dividends) or charged with the net deficit (after dividends).
- (b) This account shall be charged or credited with material adjustments which have all four of the following characteristics:
 - (i) Are specifically identified with and directly related to the business activities of particular prior periods.
 - (ii) Are not attributable to economic events occurring subsequent to the date of the financial statements of such prior periods.
 - (iii) Depend primarily on decisions or determinations of persons other than management.
 - (iv) Could not be reasonably established prior to such decisions or determinations.
- (c) This account shall also be charged or credited with the income tax effect of the transactions referred to in (b) above.

3.02 Weather Normalization Reserve

This account will include the balance of both:

(a) Hydro Production Equalization Reserve 274xx

This account shall include the net balance of the amounts credited or charged to it in connection with Order No. P.U. 15 (1967) of the Board, paragraph 13 of which reads as follows:

“The Company shall maintain and create a reserve fund to which it shall credit the value of additional kilowatt hours generated in its hydro plants in years when the total precipitation is above average and to which it shall debit the cost of purchasing additional kilowatt hours in years when the total precipitation is below average. For the purpose of determining the amounts to be credited or debited to the fund, kilowatt hours shall be valued at the rate being paid in the year concerned for energy purchased by the Company from the Newfoundland and Labrador Hydro Corporation.”

(b) Degree Day Normalization Reserve 275xx

By Board Order No. P.U. 1 (1974) the Company was ordered to create and maintain a reserve to which it shall credit the value of additional kilowatt hours sold for space heating when the temperature is below the normalized average temperature and to which it shall debit the value of kilowatt hours not sold due to an above normalized average temperature. On March 29, 1995, the Board approved the introduction of a coefficient to represent the estimated kilowatt hour change in energy usage, per customer, for each kilometre per hour of wind speed difference from normal. For the purpose of determining the amounts to be credited or debited to the fund, kilowatt hours shall be valued at the rate being paid in the year concerned for energy purchased by the Company.

(c) This account shall be debited for any amortizations of the balance in the weather normalization account as approved by the Board from time to time.

(d) This account shall consist of a combination of the balances in (a) and (b) above net of respective income tax effects and amortizations.

(e) By Board Order No. P.U. 13 (2013), the Company is required on March 31st of each year to transfer to the RSA, the balance in the Weather Normalization Reserve accrued in the previous year.

3.03 Contributions in Aid of Construction 271xx

(a) This account shall include donations, contributions in cash, services, or property from governments or others for construction purposes.

(b) Subsidiary accounts shall be maintained to show separately contributions from governments, intangible assets and other contributions.

(c) This account shall be amortized annually by applying a rate equal to the depreciation rate on the plant for which the contributions were made.

3.04 Deferred Income Taxes 273xx

This account shall include the accumulated amounts by which income taxes have been affected by:

(a) Claiming capital cost allowance for determination of taxable income in excess of depreciation charged in determining corporate income, exclusive of the impact of General Expenses Capitalized;

(b) The difference between pension funding for determination of taxable income and pension expense used in determining corporate income;

(c) The difference between claiming other post-employment benefits premiums and

retirement allowances for determination of taxable income and other post-employment benefits expense charged in determining corporate income.

3.05 Excess Earnings Account 284xx

This account shall be credited with any regulated earnings in excess of the upper limit of the allowed range of return on rate base as determined by the Board. The established range of return on rate base is 36 basis points. For any year, all earnings in excess of 18 basis points above the approved rate of return on rate base shall, unless otherwise ordered by the Board, be credited to this account. Disposition of any balance in this account shall be as determined by the Board. This account shall also be debited with the income tax effect of the excess earnings transactions.

3.06 Other Post-Employment Benefits (OPEB) 22400
 Long Term 23502
 Current

These accounts will be credited with the actuarially determined accrued benefit obligation associated with OPEB which is measured for accounting purposes as at December 31 each year.

3.07 OPEB Cost Variance Deferral Account 24222

These accounts shall be charged or credited with the amount by which the OPEB expense for any year differs from that approved for the establishment of revenue requirement from rates.

OPEB expense for the year is the total of (i) the OPEB expense for regulatory purposes for the year, and (ii) the amortization of OPEB regulatory asset for the year.

Disposition of any Balance in this Account

Newfoundland Power shall charge or credit any amount in this account to the Rate Stabilization Account as of the 31st day of March in the year in which the difference arises.

If there is an application before the Board for rates based on a new test year that is anticipated to be outstanding as of the 31st day of March in a year in which the new rates are expected to become effective, then Newfoundland Power shall apply to the Board for determination of the amount to be charged or credited to the account for that year and the timing thereof.

3.08 Pension Expense Variance Deferral Account (PEVDA) 24228

This account shall be charged or credited with the amount by which the annual pension expense computed in accordance with generally accepted accounting principles for any year differs from the annual pension expense approved most recently for the establishment of revenue requirement from rates for a test year.

Disposition of any Balance in this Account

Newfoundland Power shall charge or credit any amount in this account to the Rate Stabilization Account as of the 31st day of March in the year in which the difference arises.

If there is an application before the Board for rates based on a new test year that is anticipated to be outstanding as of the 31st day of March in a year in which the new rates are expected to become effective, then Newfoundland Power shall apply to the Board for determination of the amount to be charged or credited to the account for that year and the timing thereof.

3.09	Defined Benefit Pension Plans and Other Liabilities	242xx
	Long Term	2350x
	Current	

These accounts shall include liabilities related to the Company's defined benefit pension plans, other deferred liabilities as approved from time to time by the Board and refunds associated with refundable investment tax credits that are recognized into income in a manner that is consistent with the amortization of the capital assets to which they relate. These amounts are expected to be credited to customers in future rates.

3.10	Demand Management Incentive Account	23257
	Long Term	24230
	Current	

These accounts shall be charged or credited with the amount by which the Demand Supply Cost Variance exceeds the Demand Management Incentive. The Demand Management Incentive equals ±1% of test year wholesale demand charges.

The Demand Supply Cost Variance expressed in dollars shall be calculated as follows:

$$(A - B) \times C$$

Where:

A = actual demand supply cost in dollars per kWh determined by dividing in the calendar year by the weather normalized kWh purchases for that year (as will be reported in Return 15 of Newfoundland Power's Annual Report to the Board).

B = test year demand supply cost in dollars per kWh determined by dividing the test year wholesale demand charges by the test year kWh purchases.

C = the weather normalized annual purchases in kWh.

The amount charged or credited to these accounts shall be adjusted for applicable income taxes calculated at the statutory income tax rate.

Newfoundland Power shall file an Application with the Board no later than the 1st day of March each year for the disposition of any balance in this account.

3.12	Cost Recovery Deferral	
	Long Term	22410
	Current	24229

These accounts shall be debited or credited with amounts from time to time resulting from specific Board directives. Disposition of these amounts is subject to Board directives.

3.13	Revenue Requirement Shortfall or Surplus	22423
------	--	-------

This account shall be debited or credited with the estimated revenue requirement shortfall or surplus resulting from timing differences associated with the implementation of revised customer rates. Disposition of these amounts is subject to Board directives.

Plant Accounts

- 4.01 Steam Production - Land and Land Rights 310xx
- This account shall include the regulated value of all land devoted to steam power operations. Included also shall be the regulated value of water rights and riparian land used, or to be used, for steam power operations, where such rights have lives exceeding one year. Such regulated values shall include surveys, examination and registration of title.
- 4.09 Hydro Production - Land, Land Rights and Clearing 320xx
- This account shall include the regulated value of all land for power house, canal right-of-way, pipelines, water and reservoir rights, including survey examination, registration of title and clearing of all land devoted to the development including clearing of reservoir area, dam sites, canals, pipelines and powerhouses.
- Subsidiary accounts shall be maintained to show the regulated value of each separate hydro plant.
- 4.10 Hydro Production - Roads, Trails, Bridges and Road Diversion and Protective Works 321xx
- This account shall include the regulated value of all permanent roads, trails, bridges, etc. used primarily in production including protective works and the regulated value of diverting or raising roads, the property of others, necessitated by the development.
- 4.11 Hydro Production - Buildings and Structures 322xx
- This account shall include the regulated value of all permanent buildings and improvements and their appurtenant fixtures devoted to hydro production.
- 4.12 Hydro Production - Canals, Penstocks, Surge Tanks and Tailraces 323xx
- This account shall include the regulated value attributed to the construction of these items.
- 4.13 Hydro Production - Dams and Reservoirs 324xx
- This account shall include the regulated value of all dams, etc. devoted to the storage and regulation of water. This includes gates, hoisting apparatus, spillways, etc.
- 4.14 Hydro Production - Prime Movers, Generators and Auxiliaries 325xx
- This account shall include the regulated value of turbines, governors, and associated equipment and generators, exciters, other auxiliaries and their cooling equipment.

4.15 Hydro Production – Switching, Metering and Control Equipment 326xx

This account shall include the regulated value of generator leads, station bus, circuit breakers, station service transformers, regulators, lightning arrestors, control boards, instruments and protective devices, and cables leading from switchboard to substation.

4.16 Hydro Production - Miscellaneous Power Plant Equipment 327xx

This account shall include the regulated value of all other power plant equipment not included above such as first cost of tools, etc. for general plant use and the installed regulated value of power and control lines to forebay and intake control.

4.17 Internal Combustion Production - Land and Land Rights 330xx

This account shall include the regulated value of all land for power houses, fuel tanks, pipeline and reservoir rights including cost of survey, examination and registration of title.

Subsidiary accounts shall be maintained to show the regulated value for each separate diesel plant.

4.18 Internal Combustion Production - Buildings and Structures 331xx

This account shall include the regulated value of all permanent buildings and improvements and their appurtenant fixtures devoted to internal combustion production.

4.19 Internal Combustion Production - Electrical Plant 332xx

This account shall include the regulated value of all electrical equipment for conduction, control, transformation and distribution of energy delivered by the generators, from generator terminals to the point of delivery to the transmission or general distribution system. This includes generator leads, station bus, station service transformers, regulators, lightning arrestors, circuit breakers and other associated protective devices, lines and cable.

4.20 Internal Combustion Production - Prime Movers, Generators and Auxiliaries 333xx

This account shall include the installed regulated value of internal combustion engines and connected generating apparatus used primarily in connection with the generation of electrical energy. This includes the regulated value of specially prepared foundations, belts, counter shafts, pulleys and other appliances between engines and generators, inlet valves, governors, ignition and starting apparatus, mufflers and exhaust silencing equipment.

- 4.21 Internal Combustion Production - Fuel Holders 334xx
- This account shall include the regulated value of all equipment used for storage of fuel for internal combustion engines from the point of delivery of the supplies to the point of delivery of the fuel to the engine. This includes the regulated value of pipelines, pumps and storage tanks for liquid fuel.
- 4.22 Internal Combustion Production - Miscellaneous Power Plant Equipment 335xx
- This account shall include the regulated value of all other plant equipment not previously listed, such as first cost of tools for general plant use.
- 4.23 Substations - Land and Land Rights 340xx
- This account shall include the regulated value of land devoted to use of substations, including cost of survey, examination and registration of title, etc.
- Subsidiary accounts shall be maintained to show the regulated value for each separate substation.
- 4.24 Substations - Buildings and Structures 341xx
- This account shall include the regulated value of all permanent substation buildings and structures and their appurtenances.
- 4.25 Substations - Equipment 342xx
- This account shall include the regulated value of substation equipment including specially provided foundations, switchboards, transformers, switches and other apparatus used solely to transform from one transmission voltage to another. It includes such items as tools, office furniture, fixtures, appliances permanently assigned to the substation and foundations, supporting framework, safety fences, etc.
- 4.26 Transmission - Land and Land Rights 350xx
- This account shall include the regulated value of all land clearing and land, including examination, registration of title, etc. used, or to be used in connection with the transmission line system.
- 4.27 Transmission - Survey Cost and Easements 351xx
- This account shall include the regulated value of right of way including surveys, cost of negotiations pertaining to easements and preparations of related documents.

- 4.28 Transmission - Roads, Trails and Bridges 352xx
This account shall include the regulated value of all permanent roads, trails, bridges and gates, used primarily in connection with operation and maintenance of the transmission system.
- 4.29 Transmission - Overhead Conductors and Underground Cables 353xx
This account shall include the regulated value of all overhead conductors, ties, armour, splices, etc. and direct buried underground cable and other related devices such as splices and potheads including associated trenching, embedding backfill and site restoration.
- 4.30 Transmission - Submarine Cables 354xx
This account shall include the regulated value of cable, potheads, etc., and labour to install.
- 4.31 Transmission - Poles, Towers, Fixtures and Insulators 355xx
This account shall include the regulated value of all transmission line poles, crossarms, insulator pins, braces, brackets, guys and other fixtures and supports and labour to install steel towers and foundations and the regulated value of transmission line insulators including labour to install.
- 4.32 Transmission - Manholes 356xx
This account shall include the regulated value of manholes and handholes in place including backfill, site restoration and equipment directly related thereto.
- 4.33 Transmission - Ducts 357xx
This account shall include the regulated value of ducts including related trenching, embedding, backfill and site restoration.
- 4.34 Distribution - Land and Land Rights 360xx
This account shall include the regulated value of surveys and easements and clearing distribution line right of way.
- 4.35 Distribution - Overhead Conductors and Underground Cables 361xx
This account shall include overhead insulated and bare wires and cables including drop wires to transformer connectors and direct buried underground cable and other related devices such as splices and potheads including associated trenching, embedding backfill and site restoration.

- 4.36 Distribution - Poles and Fittings 362xx
This account shall include the regulated value of distribution poles and fittings.
- 4.37 Distribution - Street Lighting 363xx
This account shall include the regulated value of fixtures including luminaries, relays, brackets and ballasts used exclusively for street lights.
- 4.38 Distribution - Transformers and Transformer Mountings 364xx
This account shall include the regulated value of transformers including initial filling with oil and the regulated value of transformer foundation pads and grounding bus for use with pad mounted transformers.
- 4.39 Distribution - Services 365xx
This account shall include the regulated value of services, including conductors, insulators and supports leading from the last main line distribution pole to the point of connection with the customer's wiring. It also includes the regulated value of underground services from point of connection to secondary circuit to point of entrance to customer's building including conductor, trenching, embedding, backfill and site restoration.
- 4.40 Distribution - Meters 366xx
This account shall include the regulated value of meters including the first government test, metering tanks, instrument transformers and metering cabinets. This account shall also include the first cost of installation of new or used meters.
- 4.41 Distribution - Manholes 367xx
This account shall include the regulated value of manholes and handholes in place including backfill and site restoration and equipment directly related thereto.
- 4.42 Distribution - Duct Banks 368xx
This account shall include the regulated value of ducts and related trenching, embedding, backfill and site restoration for all primary and secondary circuit installations.
- 4.43 General Properties - Land and Land Rights 370xx
This account shall include the regulated value of all land not assignable to any other account in this classification such as land for office buildings.

- 4.44 General Properties - Buildings and Structures 371xx
This account shall include the regulated value of all buildings and structures not assignable to any other account in this classification such as office buildings, storage sheds, etc.
- 4.45 General Properties - Office Equipment 372xx
This account shall include the regulated value of all office service equipment not permanently attached to buildings such as desks, chairs, tables, moveable safes, filing cabinets, drafting room equipment, etc. This account shall also include the cost value of paintings and the regulated value of all training equipment.
- 4.46 General Properties - Stores Equipment 373xx
This account shall include the regulated value of equipment used in shipping, handling and storing supplies.
- 4.47 General Properties - Shop Equipment 374xx
This account shall include the regulated value of all equipment and tools that cannot be properly allocated to any other account, such as motors, welding equipment, power tools, frames, hoist and like shop equipment.
- 4.48 General Properties - Laboratory and Testing Equipment 375xx
This account shall include the regulated value of all meter and other testing apparatus and laboratory equipment not provided for elsewhere.
- 4.49 General Properties - Miscellaneous Equipment 376xx
This account shall include the regulated value of any other miscellaneous equipment not provided for elsewhere.
- 4.50 General Properties - Engineering Equipment 377xx
This account shall include the regulated value of equipment obtained for the exclusive use of the Engineering staff.
- 4.51 General Properties - Transportation Equipment 378xx
This account shall include the regulated value of automobiles, trucks, trailers, tractors, snowmobiles, etc. and garage equipment.

4.52 General Properties - Computer Hardware and Software 379xx

This account shall include the regulated value of network infrastructure and personal computers including all associated equipment and also the regulated value of all systems and application software packages.

4.53 Telecommunications - Land and Land Rights 380xx

This account shall include the regulated value of all land clearing and land, including examination, registration of title, etc. used, or to be used in connection with the telecommunications system.

4.54 Telecommunications - Mobile Radios 381xx

This account shall include the regulated installed value of mobile and fixed transceivers used for purposes of communicating between company owned vehicles and fixed locations including portable radios, pagers, base stations and radio switches.

4.55 Telecommunications - Radio Sites 382xx

This account shall include the regulated value of the infrastructure required to house equipment for the broadcasting of radio communications signals including roads, buildings, towers and antennas.

4.56 Telecommunications - Radio Equipment 383xx

This account shall include the regulated installed value of electronic equipment required to broadcast radio communications signals and interface to other systems including VHF radio repeaters, UHF links and telephone trunk interfaces.

4.57 Telecommunications - Cables and Protection 384xx

This account shall include the regulated installed value of all cables, including metallic and fibre optic, and associated protective equipment used for carrying communications signals between specific or different locations.

4.58 Telecommunications - Multiplex Equipment 385xx

This account shall include the regulated installed value of equipment used to combine multiple varied communications signals into one aggregate communications signal for transmission across the system including data concentrators, fibre optic link equipment and wide area network equipment.

4.59 Telecommunications - SCADA Master 386xx

This account shall include the regulated installed value of equipment required for remote control of the power system that is housed in a control centre including computers, software, display systems, auxiliaries, switches, modems, mimic boards, consoles and chart recorders.

4.60 Telecommunications - RTU and Supervisory 387xx

This account shall include the regulated installed value of remote terminal units and hardwired supervisory equipment required for remote control of the power system and located in company substations and generating plants.

4.61 Telecommunications - Standby Power 388xx

This account shall include the regulated installed value of equipment used for the purpose of supplying continuous power to telecommunications equipment including battery chargers, battery banks, inverters, generators and uninterruptible power supplies.

4.62 Telecommunications - Telephone Equipment 389xx

This account shall include the regulated installed value of company owned equipment used for the purpose of providing telephone service to company offices and locations including handsets and telephone switching equipment.

4.63 Telecommunications - Power Line Carrier 390xx

This account shall include the regulated installed value of equipment used to pass communications signals over power lines including protective relay interfaces and high voltage interface equipment.

4.64 Telecommunications - Test Equipment 391xx

This account shall include the regulated value of telecommunications test equipment used in installing and maintaining the telecommunications system.

Operating Revenues

5.01 Miscellaneous Non-Consumer Revenue 4x5xx
40700

These accounts shall include:

- (a) Rental of electric plant leased to others.
- (b) Revenues derived from electric energy supplied to consumers for any classifications not otherwise provided for or to other utilities.
- (c) Fees and charges for changing, connecting and disconnecting service.
- (d) Profit or sale of material and supplies not ordinarily purchased for resale.
- (e) Wheeling charges.
- (f) Statement preparation fees.
- (g) NSF cheque charges.
- (h) Income from customer jobbing and contract work.
- (i) Rentals from leased property other than electric plant.
- (j) Interest revenues derived from:
 - operation of Rate Stabilization Fund
 - contributions country homes
 - income tax refunds
 - conservation and demand management programs
 - interest on overdue customer accounts as defined within the Rates, Rules and Regulations
 - interest on cash balances and other cash investments.
- (k) Amortizations of deferred revenues as approved time to time by the Board.
- (l) The cost of funds used for construction purposes based upon a calculation whereby construction work in progress and expansion inventory are financed based on the Company's weighted average cost of equity as approved by the Board for ratemaking purposes. AFUDC shall be charged to the work upon which the funds are expended and the amount of materials and supplies inventory identified as expansion inventory. The period for which cost of equity is capitalized shall be limited to the period of construction. No cost of equity shall be included with expenditures for construction projects which have been abandoned.

- (m) Interest charged (credited) on the balance in the electrification cost deferral account at the beginning of the month, at a monthly rate equivalent to the mid-point of the Company's allowed rate of return on rate base.

5.02	Pole Related Revenues	416xx
	Joint Use Revenues	4x590

These accounts shall include joint use revenue related billings to the CATV companies and revenues related to pole installations and other work as required by telecommunications companies. These accounts shall also include revenue related to the sale of renewable energy credits.

5.03	Accrual of Unbilled Revenue	41113
------	-----------------------------	-------

This account will be credited or debited with the change in the estimated amount of accrued unbilled electric revenue on a monthly basis.

5.04	Deferred Revenues – PEVDA	41114
------	---------------------------	-------

This account shall be credited with the current year revenue impact of the amount by which the annual pension expense computed in accordance with generally accepted accounting principles for any year differs from the annual pension expense approved most recently for the establishment of revenue requirement from rates for a test year.

5.05	Deferred Revenues – OPEB Variance Deferral Account	41115
------	--	-------

This account shall be credited with the current year revenue impact of the amount by which the annual OPEB expense computed in accordance with generally accepted accounting principles for any year differs from the annual OPEB expense approved most recently for the establishment of revenue requirement from rates for a test year.

5.06	Deferred Revenues - CDM Cost Recovery Transfer	41117
------	--	-------

This account shall be credited with the amortization of annual customer energy conservation program costs. In accordance with Board Order No. P.U. 3 (2022), commencing January 1, 2021, annual customer energy conservation program costs are deferred and amortized over the subsequent ten-year period.

Income Deductions

- 6.01 Other Interest 401xx
- This account shall include interest paid or accrued on credit facility loans, bank loans, promissory notes, other unfunded debt of the utility and customer deposits.
- 6.02 Debt Component of AFUDC 402xx
- This account shall include the cost of funds used for construction purposes based upon a calculation whereby construction work in progress and expansion inventory are financed based on the Company's weighted average cost of debt as approved by the Board for ratemaking purposes. AFUDC shall be charged to the work upon which the funds are expended and the amount of materials and supplies inventory identified as expansion inventory. The period for which interest is capitalized shall be limited to the period of construction. No interest shall be included with expenditures for construction projects which have been abandoned.
- 6.03 Depreciation and Amortization 409xx
- This account shall include the Depreciation and Amortization expense for the period covered by the income accounts applicable to property, plant and equipment in service. The account will be credited with the amount of contributions in aid of construction amortized (see paragraph 3.03) and debited/credited by any depreciation/amortizations or adjustments for depreciation reserve variances as determined through a Depreciation Reserve Study and approved by the Board.
- 6.04 Weather Normalization Reserve 408xx
- This account shall include the amounts transferred to and from the Weather Normalization Reserve referred to in paragraph 3.02.
- 6.05 Excess Earnings Account 40Rxx
- This account shall be charged or credited with a transfer to or from Excess Earnings Account as the Board directs from time to time.
- 6.06 Extraordinary Income or Expenses 40Sxx
- This account shall include only material gains or losses which by nature are not typical of the Company's normal business activities, are not expected to occur regularly over a period of years and are not considered as recurring factors in any evaluation of the ordinary operating processes of the business.

6.07 Other Contract Expenses

417xx

This account shall include operating expenses associated with contracts from customers, as identified in Accounting Standard Codification (ASC) Topic 606.

Operating Expenses

- | | | |
|------|--|-------|
| 7.01 | Power Purchased | 500xx |
| | This account shall include the cost of all firm and secondary power purchased from Newfoundland and Labrador Hydro and applicable amortizations as approved by the Board from time to time. | |
| 7.02 | Transfer (to) from Rate Stabilization Account | 50004 |
| | This account shall include the transfer to or from account 14500 (Rate Stabilization Account) in order to provide a proper matching of revenue and expenses as a result of changes to the Rate Stabilization Plan between the Company and Newfoundland and Labrador Hydro as approved annually by the Board. | |
| 7.03 | Power Produced - Generation Plan | 510xx |
| | This account shall include the salaries and expenses of Company personnel, and any other expenses incurred in the development of generation expansion policy, integrated resource planning and least cost planning. | |
| 7.04 | Power Produced - Hydro Production | 512xx |
| | This account shall include the salaries and expenses of plant supervision and operators engaged in operating the plants. Included also are the cost of supplies, tools and maintenance of buildings, structures, grounds and equipment used in the production process. Taxes and assessments in lieu of rentals, and rentals paid for the use of and/or rights to the use of water used for generation of electrical energy are also included. | |
| 7.05 | Power Produced - Internal Combustion Plants | 513xx |
| | This account shall include the salaries and expenses of plant superintendents and operators engaged in operating the plants. Included also are the costs of fuel, lubricants, supplies, tools, maintenance of buildings, structures, grounds and equipment used in the production process. | |
| 7.06 | Power Produced - Wind Turbines | 514xx |
| | This account shall include the salaries and expenses of personnel engaged in the operation and maintenance of wind energy systems used to produce electrical energy. | |
| 7.07 | Supervisory and Administrative Support | 5200X |
| | This account shall include that portion of the salaries and expenses of the directors, supervisory engineers and supporting staff that are engaged in the operation of the electrical system generally and which cannot properly be allocated to any specific work order or account number. | |

7.08 System Operations 522xx

This account shall include the salaries and expenses of engineers and supporting staff, supervisors and operators engaged in operating the system control centre. Included also are the costs of fuel, supplies, tools, maintenance of buildings, grounds and load control centre equipment.

7.09 Tools, Equipment, Safety Clothing and Company Uniforms 525xx

This account shall include the repair or replacement of normally expendable tools, equipment, instruments, safety clothing and Company uniforms, and the salaries and expenses of personnel engaged in the testing of powerline technician's rubber gloves. Tools costing in excess of \$1,000 should not be charged to this subclass but to a capital work order designated for this purpose.

7.11 Engineering and Technical Support 5205X

This account shall include the salaries and expenses of the technical and supporting staff of the engineering departments that cannot properly be assigned to any specific work order or operating account.

7.12 Environmental Policy 53xxx

This account shall include:

- (a) the cost of labour and expenses incurred in connection with the management and development of environmental policies;
- (b) the cost of carrying out environmental audits;
- (c) the cost of cleaning up petroleum product spills, including those from oil-filled electrical equipment, storage tanks and vehicles;
- (d) the cost of disposal and decontamination of PCB and non-PCB insulating oil and of waste oil from equipment, including the cost of identification and new oil;
- (e) the cost of maintaining approved PCB storage sites, including routine inspections and correction of deficiencies;
- (f) the cost of any special environmental clean-up projects;
- (g) the cost of addressing enquiries and of remedial action taken concerning leaching from chemically-treated poles and timbers; and,
- (h) any and all costs incurred in addressing electromagnetic field (EMF) enquiries.

- 7.13 Substations 54xxx
- This account shall include the salaries and expenses of supervisors and operators engaged in the operation and maintenance of Company substations. Included also are the costs of fuel and supplies and the labour, materials and expenses in connection with the maintenance of buildings, structures, grounds, substation equipment, commissioning and protective relaying.
- 7.14 Transmission - Line Maintenance and Repairs 550xx
- This account shall include the cost of labour, material and expenses incurred in connection with the maintenance of overland and underground transmission lines, including maintenance and repair of transmission line conductors, insulators, poles and fixtures; transmission line cables, potheads and auxiliary equipment such as oil reservoirs and maintenance of conduits and manholes; and, the repair and/or replacement of normally expendable tools and instruments used for this work.
- 7.16 Transmission - Line Inspections 554xx
- This account shall be charged with cost of labour, material and expenses incurred in connection with the inspection of overland and underground transmission lines, including maintenance of and access to rights-of-way.
- 7.17 Transmission - Line Vegetation Management 555xx
- This account shall be charged with the cost of labour, material and expenses incurred in connection with the chemical treatment or mechanical clearing of transmission line right-of-way.
- 7.18 Distribution - Repair / Maintain Lines 561xx
- This account shall include the cost of labour, material and expenses incurred in connection with: repairs to poles, guys, fixtures, conductors, and insulators that are not properly chargeable to any other account. This includes replacement of items less than property unit size, such as wire under 3 spans (i.e. 3 spans of 1 wire or 1 span of 3 wires), insulators, pins, switches, crossarms, braces, conduit, and associated trouble calls; repairs to underground conductors and fittings, including circuit breakers, switches, cut-outs, relays & control wiring, conductors, splices, load break elbows, grounds, minor duct repairs, manholes, sewer connections, vaults, and repairing and moving junction boxes and potheads; repairs to submarine cables forming part of the Company's distribution system; and, the planned maintenance of overhead and underground distribution lines, i.e. itemized in long-range schedules such as the annual budget.
- 7.19 Distribution - Repair / Maintain Services 563xx
- This account shall include the cost of labour, material and expenses incurred in connection with the maintenance and testing of customers' services, and associated trouble calls.

7.20 Distribution - Repair / Maintain Street Lights 564xx

This account shall include the cost of labour, material and expenses incurred in connection with the maintenance of: overhead street lighting systems, including replacement of items less than unit property size such as bulbs, refractors, ballasts, overhead wiring used solely for street lighting, and associated trouble calls; and underground wiring applicable to street lighting systems.

7.22 Distribution - Pre-Issue of Materials 565xx

This account shall include the cost of all small Stores items that are available for use by line crews.

7.23 Distribution - Maintain Transformers 566xx

This account shall include the cost of labour, material and expenses incurred in connection with: the maintenance of transformers that are in service, including fusing, and the inspection and repair of transformers that have been removed from service; and, the replacement of distribution transformers (Note: The capital cost of transformers is not charged to this account). Maintenance of transformer mountings and maintenance or replacement of cut-outs used for sectionalizing lines shall be charged to 561xx. PCB testing of transformers shall be charged to 53xxx.

7.25 Distribution - Maintain Meters 567xx

This account shall include the cost of labour, material and expenses incurred in connection with: the maintenance of metering equipment, including the replacement of damaged meters and all charges associated with the area meter shops; and, Government Retest Orders and Compliance Retest Orders. (Note: (1) The cost of Government seals on new meters shall be charged to the appropriate capital work order. (2) The capital cost of new meters is not charged to this account.)

7.32 Distribution - Line Inspections 574xx

This account shall include the cost of labour, material and expenses incurred in connection with the inspection of distribution lines. Line inspections required to restore electrical service are properly chargeable to 561xx.

7.33 Distribution - Line Vegetation Management 577xx

This account shall include the cost of labour, material and expenses incurred in connection with: chemical treatment of distribution line right-of-way; pruning dangerous trees along distribution line right-of-way; and, mechanical clearing of distribution line right-of-way.

- 7.37 Telecommunications - Supervision and Miscellaneous 580xx
- This account shall include the salaries and expenses of the director and other supporting staff engaged in the operation and maintenance of the telecommunication system.
- 7.38 Telecommunications - Repeater Sites 581xx
- This account shall include the cost of labour, material and expenses incurred in connection with the maintenance of the Company owned radio equipment and sites. This shall include buildings, towers, antenna, standby power, repeaters and links.
- 7.39 Telecommunications - Mobile Radios 582xx
- This account shall include the cost of labour, material and expenses incurred in connection with the radio system mobile units. This shall include mobiles, fixed mobiles, portables, pagers and cellular phones.
- 7.40 Telecommunications - Communication Cables 583xx
- This account shall include the cost of labour, material and expenses incurred in connection with the maintenance of Company owned communication cables (metallic and fibre optic). This shall include terminations, protection and pole lines (when the line is for the exclusive use of the communication cable).
- 7.41 Telecommunications - Leased Facilities 584xx
- This account shall include labour and the cost of rental or lease for telecommunication facilities (excluding telephone systems) not owned by the Company. This shall include voice/data circuits (including FX lines), building and tower space.
- 7.42 Telecommunications - Supervisory Control Systems 585xx
- This account shall include the cost of labour, material and expenses incurred in connection with the maintenance of remote supervisory control systems including master stations, remote terminal units and standby power systems. This shall include the costs of computer maintenance and software support.
- 7.43 Telecommunications - Telephone Systems 586xx
- This account shall include the cost of labour, material and expenses incurred in connection with the maintenance of Company owned equipment used for the purpose of providing telephone service to Company offices and locations.

- 7.44 Telecommunications - Wide Area Networks 587xx
- This account shall include the cost of labour, material and expenses incurred in connection with the maintenance of Company owned equipment used for the purpose of consolidating communication voice/data traffic for transmission. This shall include concentrators, modems and bridges.
- 7.45 Customer Service - Supervision and Miscellaneous 605xx
- This account shall include the cost of salaries and expenses for supervisors and supporting staff involved in the administration of the Customer Service Department.
- 7.46 Customer Service - Customer Accounting 607xx
- This account shall include the cost of labour, materials and expenses incurred in association with: regulation, policy and systems; billing; meter reading; and cash control.
- 7.47 Customer Service - Credit and Collections 608xx
- This account shall include the cost of labour, materials and expenses incurred in connection with credit and collections.
- 7.48 Customer Service - Call Centre 609xx
- This account shall include the cost of labour, materials and expenses incurred in connection with activities relating to the operation of the customer call centre.
- 7.49 Customer Service - Conservation Programs and Energy Services Costs 626xx-629xx
- This account shall include the salaries and expenses of staff engaged in the internal and external programs promoting the wise and efficient use of electrical energy and associated consumer products. These accounts will also include education and outreach expenses, planning and administration expenses and specific conservation program costs. Charges for specific conservation program costs (629xx) in the year will be credited with a corresponding debit to the Deferred Conservation Program Costs Account (188xx) on an annual basis as approved by the Board.
- 7.50 Customer Service - Uncollectible Bills 61521
- This account shall include the cost of the annual provision for uncollectible bills.
- 7.51 Financial Services - Finance 612xx
- This account shall include the cost of labour, materials and expenses of the director and all other supporting staff performing the functions of the Head Office Finance Department including accounts payable, accounts receivable, payroll, cost and plant, general ledger and financial reporting and budgeting.

- 7.52 Financial Services - Risk Management 615xx
- This account shall include the cost of labour, materials and expenses incurred in connection with risk determination for the setting of insurance coverage and of claims processing. Insurance premiums and actual claims paid to customers shall be charged to account 655xx.
- 7.53 Financial Services - Employee Future Benefits - Pensions 642xx
- This account shall include the Company's costs of providing the various pension arrangements it has with its employees.
- 7.54 Financial Services - Amortization of Conservation Costs 690xx
- This account shall include the annual amortization of Conservation related costs. These deferred costs are charged initially to Account 188xx (Deferred Conservation Program Costs).
- 7.57 Information Systems - Supervision and Miscellaneous 630xx
- This account shall include the salaries and expenses of the director and supporting staff in supervising the activities for the efficient operation of the information systems department.
- 7.58 Information Systems - Computer Operations 631xx
- This account shall include the salaries and expenses of the personnel involved in the operation and maintenance of a central computer facility. Provide technical support and training to all parts of the company with respect to personal computers, information systems technology and computer-based applications.
- 7.59 Information Systems - Systems Development and Support 632xx
- This account shall include the salaries and expense of the personnel involved in the coordination and development of corporate information systems. This will also include the planning and managing, in conjunction with the user departments, of the design, acquisition, programming, testing, operation and maintenance of information systems.
- 7.60 Information Systems - Infrastructure 633xx
- This account shall include the salaries and expenses of the personnel involved in the support and maintenance of the Company's information technology infrastructure including operating systems, server hardware and computer networks. This will also include the planning and managing, in conjunction with user departments, of the design, acquisition, testing, operation and maintenance of information technology infrastructure.

7.65 Printing Services 617xx

This account shall include the salaries and expenses of personnel engaged in the operation of the Printing Services Department, including the cost of paper, materials and supplies used in photocopying and offset printing, and rental and maintenance cost of related equipment. The cost of printed forms and supplies used to produce forms in-house is initially charged to this account and recovered by way of a credit to the account as the completed forms are transferred to Inventory.

7.67 Corporate Communications 621xx

This account shall include the salaries and expenses of the manager and all other supporting staff engaged in the internal and external communications programs, advertising and public relations activities. This account shall also include other costs associated with corporate communications.

7.68 Customer Service - Curtailable Rates 62550

This account shall include the salaries and expenses associated with the administration of the curtailable rate program.

7.70 Corporate Offices 650xx

This account shall include the cost of management supervision. Included are the salaries and expenses of the President, Vice Presidents and their supporting staff and any other whose services are not assignable to any other department. Also included are costs related to directors' fees, trustees' fees, registrars' fees, external audit fees, and dividend and bond coupon expenses. This subclass includes any inter-company transactions between Fortis Inc. and the Company which are properly assignable.

7.71 Internal Audit 653xx

This account shall include the salaries and expenses of the senior manager and supporting staff to carry out an audit program designed to assess the accuracy and reliability of Company records, ensure the security and the prevention of the misuse of Company assets and help maintain and improve the efficiency of Company operations.

7.72 Miscellaneous Administrative Costs 655xx

This account shall include the costs of the following functions:

- Non-regulated expenses
- Public liability arising from claims, accidents and damages incurred in day-to-day operations which are not covered by insurance
- Insurance coverages
- Salaries, rentals and other expenses of operating the main office telephone system and associated equipment
- Bank charges
- Office equipment rentals and maintenance
- Employee share purchase plan discounts
- Depreciation studies

7.73 Mail Costs 61610

This account shall include the salaries and expenses of personnel engaged in the operation of the Head Office Mailroom. This subclass shall not include the direct costs for billing envelopes and postage which are included in subclass 607xx.

7.74 Regulatory and Legal Affairs 65700

This account shall include the salaries and expenses of the director and supporting staff engaged in legal and regulatory services, rate design and load research, statistical data and reports on customers, revenue and energy use, customer, energy and revenue forecasts and submissions for various studies and hearings.

7.75 Human Resources Planning and Administration 64020

This account shall include the salaries and expenses of the director and other supporting staff involved in supervision of the Human Resources Department and providing human resources services such as planning and administration.

7.76 Health, Safety and Training 6403x

This account shall include the salaries and expenses of the director and other supporting staff in providing human resources services such as health, safety and training.

7.77 Employee Relations 64040

This account shall include the salaries and associated expenses of the director and other supporting staff involved in employee relations activities.

7.78 Miscellaneous Employee Related Costs 64xxx

This account shall include costs related to the operation of the employees' associations; Company lunchrooms and cafeterias; research centre; and, all other miscellaneous employees' costs.

7.79 Financial Services – OPEB Costs 643xx

This account shall include costs related to providing various post-employment benefits arrangements to employees including payment of health and life insurance premiums, retirement allowances and other costs associated with employees' welfare. This account shall also include any amortizations of other post-employment benefits assets as approved from time to time by the Board of Commissioners of Public Utilities.

7.81 Building Operations and Maintenance 671xx
67000

These accounts shall include the rental of office space, salaries of property utility persons, light and furnace oil bills, cleaning and maintenance costs of head office and area and regional office buildings, warehouse and service buildings and fixtures, and other office expenses of a general nature not specifically chargeable to any other account. Cost categories exist within this account to track the cost of building rentals, building operations, building repairs, maintenance of grounds, snow clearing, warehouse operations and warehouse repairs.

7.82 Municipal Taxes and PUB Assessments 656xx

This account shall include the costs of taxes and assessments related to:

Transfers from the Municipal Tax Adjustment account 14502 in order to provide a proper matching of revenues and expenses on an annual basis.

Annual assessments levied by the Board against the revenue raised by the Company.

7.85 Individual Vehicle Operating and Maintenance Costs 59000
Vehicle Service Centre 37xxx

The 59000 account shall include all costs associated with the maintenance and operation of all company vehicles. Each vehicle in the fleet is assigned its own unique project number and all costs for the vehicle will be recorded using that number. A portion of these costs will be recharged (allocated) to capital projects based on labour.

The 37xxx accounts shall include all expenses associated with the operation of the vehicle service centre. These expenses are recovered by allocating to individual vehicles on a monthly basis. The balance in this account should be cleared to zero at year end.

**NEWFOUNDLAND POWER INC.
ANNUAL RETURNS
TO
THE BOARD OF COMMISSIONERS OF PUBLIC UTILITIES
PROVINCE OF NEWFOUNDLAND AND LABRADOR**

INSTRUCTIONS

- (1) In the following instructions relating to the annual returns to be rendered by Newfoundland Power Inc. to the Board of Commissioners of Public Utilities of the Province of Newfoundland and Labrador:
- the “Company” means Newfoundland Power Inc.;
 - the “Board” means the Board of Commissioners of Public Utilities for the Province of Newfoundland and Labrador.
- (2) In accordance with the provisions of Sections 58 and 59 of the *Public Utilities Act*, the Company shall submit to the Board, in each calendar year, the returns and information enumerated herein, which will relate to its business and affairs during the preceding calendar year.

<u>Return Number</u>	<u>Description</u>
1	Annual Report of the Company to Shareholders Together with the Report of the Auditors
2	Names and Places of Residence of Directors and Officers
3	Computation of Average Rate Base
4	Plant Investment
5	Capital Expenditure
6	Accumulated Depreciation
7	Contributions in Aid of Construction
8	Deferred Charges
9	Regulatory Deferrals
10	Other Rate Base Assets and Liabilities
11	Materials and Supplies Allowance
12	Cash Working Capital Allowance
13	Return on Average Rate Base & Determination of Excess Earnings
14	Details of Normalized Sales and Revenue
15	Normalized Production and Sales Statistics
16	Rate Stabilization Account
17	Weather Normalization Reserve
18	Demand Management Incentive Account
19	Pension Expense and OPEB Cost Variance Deferral Accounts
20	Statement of Operating and General Expenses
21	Explanation of Expense Variances
22	Calculation of Taxable Income and Income Tax Expense

23	Accumulated Deferred Income Taxes
24	Average Regulated Capital Structure
25	Cost of Embedded Debt
26	Explanation of Variances in Cost of Debt
27	Regulated Return on Average Common Equity
28	Assessable Revenue

- (3) Annual Report of the Company to Shareholders Together With the Report of the Auditors
- Return 1:

The Company shall provide the annual report of the Company to its shareholders, together with the report of its auditors on the financial statements contained therein.

- (4) Names and Places of Residence of Officers and Directors - Return 2:

The names and places of residence of officers and directors at December 31 in the report year shall be listed and any changes made up to filing the return.

- (5) Computation of Average Rate Base - Return 3:

This return will show the computation of the Company's rate base at December 31 and the average rate base for the year ended on that date. The rate base shall be calculated in accordance with the provisions of the *Public Utilities Act* and the rulings made by the Board.

(6) Plant Investment - Return 4:

This return shall include:

- (a) Analysis of plant accounts for the year as shown for each classification:
 - (i) balance at the beginning of year
 - (ii) adjustments during the year
 - (iii) additions during the year
 - (iv) retirements during the year
 - (v) balance at the end of the year as shown in the Company's financial statements.

- (b) Reconciliation of the balance shown in (a)(v) above with the plant investment included in the Company's average rate base (Return 3 above).

- (c) Reconciliation of the balance shown in (b) above with the capital assets in the Company's annual report (Return 1 above).

(7) Capital Expenditure - Return 5:

This return will include an analysis of actual capital expenditures for each plant classification, and compared to amounts approved by Board Orders for the year.

(8) Accumulated Depreciation - Return 6:

This return shall include the following:

- (a) Analysis of the accumulated depreciation account for the year showing:
 - (i) balance at the beginning of the year
 - (ii) provision for depreciation during the year
 - (iii) salvage credited to the account during the year
 - (iv) cost of removal charged to the account during the year
 - (v) retirements charged to the account during the year
 - (vi) balance at end of year as shown in the Company's financial statements.

- (b) Reconciliation of the accumulated depreciation shown in (a)(vi) above with the amount deducted in the Company's average rate base (Return 3 above).

- (c) Classified depreciation rates used to calculate the annual depreciation provision and method of calculation.

(9) Contributions in Aid of Construction - Return 7:

This return shall include:

- (a) An analysis of the account showing:
 - (i) balance of the account at the beginning of the year
 - (ii) contributions made during the year
 - (iii) amortization credited to operations during the year
 - (iv) balance at the end of the year as shown by the Company's financial statements.
- (b) A reconciliation of the balance shown in (a)(iv) above with the amount deducted from the Company's average rate base (Return 3).

(10) Deferred Charges - Return 8:

This return shall show for each deferment:

- (a) An analysis of the account showing:
 - (i) balance at the beginning of the year
 - (ii) amount deferred during the year
 - (iii) amount amortized during the year
 - (iv) balance at the end of the year as shown by the Company's financial statements (Return 1).

(11) Regulatory Deferrals - Return 9:

This return shall show for each asset and liability:

- (a) An analysis of the account showing:
 - (i) balance at the beginning of the year
 - (ii) amounts charged during the year
 - (iii) amounts amortized during the year
 - (iv) balance at the end of the year as shown by the Company's financial statements.

(12) Other Rate Base Assets and Liabilities - Return 10:

This return shall show for each asset and liability:

- (a) An analysis of the account showing:
 - (i) balance at the beginning of the year
 - (ii) changes to account balance during the year
 - (iii) balance at the end of the year as shown by the Company's financial statements.

(13) Materials and Supplies Allowance - Return 11:

This return shall include:

Details by month including the opening balances of materials and supplies included in the Company's average rate base (Return 3 above).

(14) Cash Working Capital Allowance - Return 12:

This return shall include:

The Company's calculation of the allowance for working capital included in the Company's average rate base (Return 3) for financing operating costs and current income tax expense.

(15) Return on Average Rate Base & Determination of Excess Earnings - Return 13:

This return shall show:

- (a) The net income of the Company after income taxes and transfers, as shown by the Company's financial statements.
- (b) The adjustments to the net income of the Company as shown in (a) above to reflect the regulated earnings of the company calculated in accordance with the provisions of the *Public Utilities Act* and the decisions of the Board related thereto.
- (c) The average rate base for the year.
- (d) The rate of return on the average rate base.
- (e) The maximum amount of allowed regulated earnings as determined by the upper limit of the allowed rate of return on rate base.
- (f) The actual regulated earnings of the Company.
- (g) Any regulated earnings in excess of the upper limit of the allowed range of return on rate base as determined by the Board.

(16) Details of Normalized Sales and Revenue - Return 14:

- (a) The operating revenues included in the financial statements of the Company (Return 1) shall be analyzed to show the major sources of revenue.

- (b) The return shall also show for each major class of customer:
 - (i) the kWh sales
 - (ii) the number of customers
 - (iii) the revenue.

(17) Normalized Production and Sales Statistics - Return 15:

This return shall show:

- (a) the kWh purchased and produced by the Company
- (b) the kWh sold and used by the Company
- (c) the kWh loss
- (d) the kWh loss expressed as a percent of the total produced and purchased.

(18) Rate Stabilization Account - Return 16:

This return shall show on a month to month basis an analysis of this account indicating:

- (a) Month
- (b) Opening balance
- (c) Revenue billed during month
- (d) Transfer of balance of Municipal Tax Account
- (e) Excess fuel costs
- (f) Secondary energy costs
- (g) Interest costs
- (h) Transfer to (from) Newfoundland and Labrador Hydro
- (i) Closing balance
- (j) Other adjustments as approved by the Board from time to time.

(19) Weather Normalization Reserve - Return 17:

This return shall include:

- (a) Analysis of the account showing:
 - (i) balance at the beginning of the year
 - (ii) amount added or deducted for "Degree Day Normalization" during the year
 - (iii) amount added or deducted for "Hydro Production Equalization" during the year
 - (iv) other adjustments and/or amortizations as approved by the Board from time to time
 - (v) balance at the end of the year as shown by the Company's financial statements

- (b) Details of the calculation of the amounts added to or deducted from the account during the year.
- (20) Demand Management Incentive Account - Return 18:
- This return shall show the dollar value of the variance amount by which the Demand Supply Cost Variance exceeds the Demand Management Incentive. The Demand Management Incentive equals $\pm 1\%$ of test year wholesale demand charges.
- (21) Pension Expense and OPEB Costs Variance Deferral Accounts - Return 19:
- An analysis of the account showing:
- (a) Actual pension and OPEBs costs for the year
 - (b) Test Year pension and OPEBs costs for the year
 - (c) Variance from test year for pension and OPEB's costs for the year
 - (d) Total variance amounts transferred to the Rate Stabilization Account in the year.

(22) Statement of Operating and General Expenses - Return 20:

(a) The operating expenses included in the Company's financial statements (Return 1) shall be analyzed to show the major categories of expense including:

- (i) purchased power
- (ii) power produced
- (iii) administrative and engineering support
- (iv) environmental policy
- (v) substations
- (vi) transmission
- (vii) distribution
- (viii) telecommunications
- (ix) fleet operating and maintenance expenses
- (x) customer service
- (xi) financial services
- (xii) information systems
- (xiii) pension costs
- (xiv) retirement allowances
- (xv) corporate and employee services
- (xvi) transfers to general expenses capital.

(b) A reconciliation of the above expenditures with those included in the Company's annual report (Return 1).

(23) Explanations of Expense Variances - Return 21:

This return shall provide explanations of variances between operating expenses for the year and those for the previous year, as outlined in Return 20.

(24) Calculation of Taxable Income and Income Tax Expense - Return 22:

This return shall show the reconciliation of the taxable income of the Company with the income shown by the Company's financial statements and the calculation of the income tax expense of the Company.

(25) Accumulated Deferred Income Taxes - Return 23:

This return shall include the following:

(a) Analysis of the accumulated deferred income taxes account showing:

- (i) balance at the beginning of the year
- (ii) increase for the year
- (iii) adjustments for the year
- (iv) balance at the end of the year as shown by the Company's financial statements.

(b) Reconciliation of the accumulated deferred tax shown in (a)(iv) above with the amount deducted in determining the Company's average rate base (Return 3 above).

(26) Average Regulated Capital Structure - Return 24:

This return shall show the year-end and average capital structure of the Company at December 31.

(27) Cost of Embedded Debt - Return 25:

This return shall show the annual cost of the embedded debt at December 31.

(28) Explanation of Variances in Cost of Debt - Return 26:

This return shall show the actual annual cost of embedded debt, the estimated annual cost of embedded debt included in the Company's current test year, the variance between the two, and an explanation of any significant variances.

(29) Regulated Return on Average Common Equity - Return 27:

This return shall show the calculation of the regulated average common equity at December 31 of each year, the earnings applicable to common shares as determined in the Company's annual report (Return 1), and an adjustment for non-regulated expenses net of income tax as determined by the Board. The regulated earnings are divided by the regulated average common equity to determine the rate of return on regulated average common equity for the year.

(30) Assessable Revenue - Return 28:

This return shall show the calculation of annual assessable revenue as determined by taking the weather normalized revenue from rates (from Return 14) and adding the weather normalization adjustment (from Return 17), municipal taxes billed, amounts billed to customers through the operation of the Rate Stabilization Account (from Return 16) and other revenue (from Return 14).

(31) The returns shall be filed and shall be accompanied by a certificate under oath of an authorized officer of the Company.

NEWFOUNDLAND POWER INC.

**System of Accounts
Summary of Revisions**

March 28, 2024

Changes to the System of Accounts

Accounts

1. The following accounts were added to capture transactions related to pension capitalization changes approved in Order No. P.U. 3 (2022):

Assets (section 2.16)	19100 and 19150 – Payroll Overhead Suspense and Recovery-Payroll Overhead. These accounts were added to capture transactions related to the recording of pension capitalization through a labour loader.
-----------------------	--

Assets (section 2.23)	18500/18501 – Pension Capitalization Cost Deferral Accounts. These accounts were added to capture the cost impacts resulting from the change in method of capitalizing pension costs.
-----------------------	---

2. The following accounts were removed as activity was already captured in section 7.85 Vehicle Service Centre.

Assets (section 2.18)	370xx/37500 – Fleet Overheads and Administration.
-----------------------	---

3. The following accounts required updated definitions to include new information:

Capital Stock and Liabilities (section 3.05)	284xx – Updated definition to include reference to income tax effects of excess earnings.
--	---

Capital Stock and Liabilities (section 3.09)	242xx/2350x – Updated definition to include reference to refundable investment tax credits.
--	---

4. Minor wording changes were made to some accounts in order to improve the clarity and accuracy of the account descriptions. Minor wording changes were also made to Return 13 and the instructions related to this Return, to add additional clarification on excess earnings.
5. Where appropriate the summary of accounts was updated to reflect the changes to the accounts noted above.

NEWFOUNDLAND POWER INC.

Load Research and Rate Design Update

March 28, 2024



Load Research and Rate Design Update March 28, 2024

TABLE OF CONTENTS

1.0 INTRODUCTION	1
2.0 BACKGROUND	1
3.0 LOAD RESEARCH	2
3.1 LOAD RESEARCH STUDY UPDATE	2
3.2 2024 LOAD RESEARCH ACTIVITIES.....	3
3.3 UPDATED LOAD RESEARCH STUDY COST ESTIMATE	4
4.0 RATE DESIGN	4
4.1 RATE DESIGN REVIEW UPDATE	5
4.2 2024 RATE DESIGN REVIEW ACTIVITIES	5
4.3 UPDATED RATE DESIGN REVIEW COST ESTIMATE	6

1.0 INTRODUCTION

On December 30, 2022, Newfoundland Power Inc. (“Newfoundland Power” or the “Company”) filed its *Load Research and Rate Design Framework* (the “Framework”) in accordance with Order No. P.U. 3 (2022).

In a letter dated January 23, 2023, the Board observed that the Load Research Study was anticipated to include the 2023-2024 and 2024-2025 winter seasons and possibly be extended to the 2025-2026 winter season. The Rate Design Review was planned to occur in two phases over the period 2023 to 2024 based on the expectation that the final commissioning of the Muskrat Falls Project and finalization of the provincial government rate mitigation plan would be completed in 2023.

In its letter, the Board requested that Newfoundland Power include an update on the progress of both studies as part of the Company’s annual reporting to the Board, commencing with the 2023 Annual Return.

2.0 BACKGROUND

Customer load research is periodically required to ensure the appropriate allocation of costs to Newfoundland Power’s customer rate classes. Periodic reviews of Newfoundland Power’s rate designs are necessary to ensure the Company’s rate designs are consistent with good rate making principles and consider utility cost dynamics. New load research and a review of Newfoundland Power’s rate designs are timely considering changing customer end use activities and changes to supply cost dynamics resulting from the integration of the Muskrat Falls Project into the provincial electricity system.

The anticipated integration of the Muskrat Falls Project into Newfoundland Power’s supply costs and customer rates has been further delayed since Newfoundland Power filed its Framework with the Board. The integration is dependent on the finalization of the Government of Newfoundland and Labrador’s rate mitigation plans and Newfoundland and Labrador Hydro’s (“Hydro”) next general rate application. Further clarity regarding the impact of the Muskrat Falls Project on Newfoundland Power’s supply costs and customer rates is anticipated in 2025 when Hydro files its next general rate application.¹

While the integration of Muskrat Falls Project costs into Newfoundland Power’s customer rates has been delayed, the Company has continued to advance its load research and rate design initiatives. Commencing the Load Research Study and initial phase of the Rate Design Review will be informative and will provide useful information to Newfoundland Power, the Board, and other stakeholders in advance of the full integration of Muskrat Falls Project costs into Newfoundland Power’s customer rates.

¹ See Hydro’s December 15, 2023 letter *Re: Quarterly Update – Items Impacting the Delay of Hydro’s Next General Rate Application*, page 2.

3.0 LOAD RESEARCH

Load research data is used to assess the reasonableness of cost recovery among customer rate classes. The information gathered is used to determine the portion of system demand costs that should be recovered from each customer class. Load research data provides estimates of class demand on the system at specific times.

The Island Interconnected System is a winter peaking system; customer demand requirements are approximately twice as high in winter months than in summer months. Generation and transmission demand costs are allocated by customer classes in the cost of service study based on each customer classes' contribution to the winter system peak (i.e., based on coincident peak).² Distribution demand costs are allocated based on the relative size of the class peak demands (i.e., based on non-coincident peak).

3.1 Load Research Study Update

Newfoundland Power commenced the Load Research Study in 2023. Key tasks completed since that time include: (i) retaining a load research consultant; (ii) developing a load research study plan; (iii) designing a statistically significant customer sample; (iv) procuring and testing the necessary meters; and (v) delivering load research training to the Board staff, Hydro and the Consumer Advocate (the "Parties").

Load Research Consultant

Newfoundland Power issued a request for proposals for a load research consultant in February 2023. DNV (the "Load Research Consultant") was the successful proponent, having the necessary expertise and experience in utility load research programs and analysis to assist Newfoundland Power in completing the Load Research Study. The Load Research Consultant has been assisting Newfoundland Power with the Load Research Study since April 2023.

Load Research Study Plan

DNV developed a comprehensive *Load Research Study Plan* (the "Study Plan") which was circulated to the Parties in June 2023. The Study Plan includes information relating to: (i) sample design and selection; (ii) customer recruitment; (iii) technology validation; (iv) data requirements for analysis and reporting; (v) data validation, editing and estimation; (vi) analysis of customer load data; (vii) project timing; (viii) presentation of results; and (ix) load research training.

Customer Sample Selection

The Load Research Consultant developed a sample of customers to be included in the Load Research Study. Sample selection was based on achieving $\pm 10\%$ precision at the 90% level of confidence. Comments from the Parties were received and included creation of additional

² This is referred to as the single coincident peak method (1 CP). For the purposes of the load research study, the system peak is based on the time of Hydro's system peak because the majority of Newfoundland Power's generation and transmission demand costs are related to Hydro's assets.

domains in the sampling of residential customers to account for electric vehicles, heat pumps, and electric furnaces. The comments were incorporated into the Study Plan.³

Following feedback from the Parties, the customer sample was established and comprises 849 customers including: 467 residential customers; 216 General Service Rate 2.1 customers; 108 General Service Rate 2.3 customers; and 58 General Service Rate 2.4 customers.

Meters

Consistent with the Framework and the Study Plan, Newfoundland Power plans to utilize meters that are capable of recording customer interval load data and are compatible with the Company's existing meter reading infrastructure and meter reading processes. Newfoundland Power ordered the necessary meters in 2023; however, due to supply chain constraints and associated delays, the Company was unable to acquire and install the meters for the 2023-2024 winter season.

Newfoundland Power received a small quantity of meters in 2024. The Company is in the process of testing the meters and integrating them into the current meter reading and billing systems. Greater quantities of meters are anticipated throughout the year with installation on customer premises anticipated for completion by the start of the 2024-2025 winter season.

Training

Newfoundland Power and the Load Research Consultant hosted an *Introduction to Load Research* virtual training session with the Parties in December 2023. The purpose of the training session was to educate the Parties on the principles of load research and develop a more comprehensive understanding of the ongoing load research study. The training session was attended by representatives from each of the Parties.⁴

3.2 2024 Load Research Activities

Key elements of the Load Research Study that are planned for the remainder of 2024 include completion of field testing of the interval data meters and integration into Newfoundland Power's metering and billing systems; receipt of all necessary meters from the vendor; completion of customer recruitment activities including contacting customers that have been selected as part of the sample and providing educational materials; and installation of the meters on the customer premises. Completion of these activities will enable Newfoundland Power to collect customer load data for the 2024-2025 and 2025-2026 winter seasons.

³ Following consultation with the Parties, an additional 75 residential customers were added to the sample group to account for residential customers with electric vehicles, heat pumps, and electric furnaces.

⁴ The virtual training session included 28 participants including the Load Research Consultant and representatives from Newfoundland Power, Hydro, the Consumer Advocate, and Board Staff.

3.3 Updated Load Research Study Cost Estimate

Newfoundland Power has updated its cost estimate to reflect Load Research Study progress to date. Table 1 provides the updated cost estimate.

Table 1: Updated Cost Estimate Load Research Study (\$000s)						
Description	2022	2023	2024	2025	2026	Total
Internal Labour	15	73	72	100	90	350
External Labour	--	42	68	120	110	340
Metering Costs	--	--	480	60	60	600
Total	15	115	620	280	260	1,290

A delay associated with acquiring the necessary meters to complete the Load Research Study has led to lower than anticipated costs in 2023. Costs associated with delivery of the meters and work associated with the integration of the meters into Newfoundland Power’s billing system is anticipated to be complete in 2024. This will permit Newfoundland Power to collect customer load data over the 2024-2025 and 2025-2026 winter seasons. The overall cost estimate for the Load Research Study remains consistent with the Framework.

4.0 Rate Design

Newfoundland Power serves approximately 275,500 customers. This includes approximately 239,800 Domestic Customers, 24,500 General Service Customers, and 11,200 Street and Area Lighting Customers. The majority of the Company’s Domestic customers’ rates include monthly Basic Customer Charges and a flat kWh energy rate.⁵ General Service customers’ rates include monthly Basic Customer Charges, demand charges that vary by season, and energy charges that vary depending on monthly consumption.⁶ Street and Area Lighting customers pay a monthly rate based on the type and size of equipment installed.

The standard for assessing the appropriateness of customer rate design is guided by the Criteria of Sound Rate Structure described by James Bonbright in *Principles of Public Utility Rates*.⁷ These criteria include effectiveness, practicality, stability, efficiency, and fairness. The Board has previously recognized these criteria in establishing customer rates.⁸

⁵ Approximately 1,300 of Newfoundland Power’s customers avail of the Domestic Seasonal – Optional rate which includes seasonal energy charges for consumption during December through April and May through November. Domestic Seasonal – Optional customers are charged the same monthly Basic Customer Charge as all other Domestic customers. Domestic customer Basic Customer Charges are dependent on the size of the customer’s service (i.e. those not exceeding 200 Amp Service, and those exceeding 200 Amp Service). Newfoundland Power’s Domestic customer rates also include a 1.5% early payment discount.

⁶ Newfoundland Power’s three General Service Rate Classes include: Rate 2.1 0-100 kW (110 kVA); Rate 2.3 110 kVA (100 kW) – 1000 kVA; and Rate 2.4 1000 kVA and Over. General Service customer charges also include a 1.5% early payment discount, a Minimum Monthly Charge, and a Maximum Monthly Charge.

⁷ Bonbright, *Principles of Public Utility Rates*, Public Utilities Reports, 1988, Pages 383-384.

⁸ See, for example, Order No. P.U. 19 (2003).

4.1 Rate Design Review Update

Newfoundland Power commenced the Rate Design Review in 2023. Key tasks completed since that time include: (i) developing a scope of work in consultation with the Parties; (ii) obtaining a rate design consultant; (iii) presentation of the Rate Design Study Plan to the Parties; and (iv) a phase-one Rate Design Review report.

Rate Design Review Scope of Work

Newfoundland Power developed the *2023 Rate Design Review Scope of Work* which was circulated to the Parties in July 2023. The Scope of Work outlined the purpose and objective of the Rate Design Review and provided specifications and work activities to be undertaken. Feedback from the Parties was received and incorporated into the Scope of Work which was subsequently included in the request for proposal for a rate design consultant.

Rate Design Consultant

Newfoundland Power issued a request for proposals for a rate design consultant in August 2023. Christensen Associates (the "Rate Design Consultant") was the successful proponent, having the necessary expertise and experience in utility rate design reviews to assist Newfoundland Power in completing the Rate Design Review. The Rate Design Consultant has been assisting Newfoundland Power with the Rate Design Review since September 2023.

Rate Design Study Plan

Newfoundland Power's Rate Design Consultant presented its Phase One Rate Design Study Plan to the Parties in October 2023. The Rate Design Consultant provided a background of its expertise and familiarity with the Newfoundland and Labrador electricity sector. The Rate Design Consultant also outlined near-term tasks including: (i) reviewing Newfoundland Power's current customer rates in anticipation of changing supply costs; (ii) reviewing customer rates in other jurisdictions; (iii) identifying possible alternative rate designs for Newfoundland Power; (iv) implementation considerations associated with possible alternative rate designs; and (v) preparing the Phase One Rate Design Review Report (the "Phase One Report").

Phase One Report

The Phase One Report was prepared by the Rate Design Consultant in late 2023 and early 2024 and is expected to be provided to the parties in April 2024. Consistent with the Rate Design Study Plan, it will include: (i) a review of Newfoundland Power's current customer rates in consideration of changing supply cost dynamics; (ii) a review rate designs in other jurisdictions; and (iii) a review of possible alternative rate designs for Newfoundland Power.

4.2 2024 Rate Design Review Activities

Newfoundland Power will engage the Parties for feedback on the Phase One Report beginning in the second quarter of 2024. The Parties will have an opportunity to provide a response to the Phase One Report which may include expert reports, and any additional data or analysis the Parties consider relevant to the issues. Newfoundland Power also plans to commence customer engagement activities in 2024 to gauge customer interest in alternative rate designs.

4.3 Updated Rate Design Review Cost Estimate

Newfoundland Power has updated its cost estimate to reflect Rate Design Review progress to date. Table 2 provides the updated cost estimate.

Table 2: Updated Cost Estimate Rate Design Review (\$000s)					
Description	2022	2023	2024	2025	Total
Internal Labour	13	57	65	65	200
External Labour	--	70	90	200	360
Customer Engagement	--	--	50	--	50
Total	13	127	205	265	610

The timing of the Rate Design Review is subject to matters that have not been finalized, including updated supply costs associated with the integration of Muskrat Falls Project costs into customer rates and updated load research data. As a result, Phase Two of the Rate Design Review is currently anticipated for 2025. Newfoundland Power will consult with the Parties on appropriate next steps for commencing Phase Two of the Rate Design Review. The overall cost estimate for the Rate Design Review remains consistent with the Framework.