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Board of Commissioners of Public Utilities Newfoundland Power Inc.

2019-2020 General Rate Application
Financial Consultants Amended Application Report

December 20, 2018

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1 Restrictions, Qualifications and Independence

2

3 This report is not intended for general circulation or publication nor is it to be reproduced or used
4 for any purpose other than that outlined herein without our prior written permission in each specific
5 instance. Notwithstanding the above, we understand that our report may be disclosed as a part of a
6 public hearing process. We have given the Board our consent to use our report for this purpose.

7

8 The procedures undertaken in the course of our review do not constitute an audit of Newfoundland
9 Power Inc.'s ("the Company") ("Newfoundland Power") financial information and consequently, we
10 do not express an opinion on the financial information provided by Newfoundland Power. In
11 preparing this report, we have relied upon information provided by Newfoundland Power.

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13 We acknowledge that the Board is bound by the Freedom of Information and Protection of Privacy
14 Act and agree that the Board may use its sole discretion in any determination of whether and, if so, in
15 what form, this Report may be required to be released under this Act.

16

17 We reserve the right, but will be under no obligation, to review and/or revise the contents of this
18 report in light of information which becomes known to us after the date of our report.

1 Introduction and Scope

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3 On June 1, 2018, Newfoundland Power submitted its 2019/2020 General Rate Application (the
4 “Original Application”) to the Board of Commissioners of Public Utilities (“the Board”).

5
6 On November 19, 2018, the Company submitted an amended Application and revised Exhibits (the
7 “Amended Application”) to the Board with respect to matters pertaining to the Settlement
8 Agreement (the “Settlement Agreement”) which was filed with the Board on November 14, 2018.

9
10 Grant Thornton LLP (“Grant Thornton”) has undertaken a review of the Amended Application
11 focusing on the changes to Newfoundland Power’s 2019 and 2020 test years’ forecast revenue
12 requirement, forecast average rate base and forecast rate of return on average rate base. In
13 conducting our review, we have performed the following procedures:

- 14
15 • reviewed the Amended Application to assess whether the matters contained in the Settlement
16 Agreement are appropriately reflected;
- 17
18 • reviewed and agreed the revised exhibits to supporting information provided by the Company
19 where appropriate;
- 20
21 • made enquiries and obtained additional documentation, where appropriate, to support the
22 revisions to 2019 and 2020 forecast revenue requirement, forecast average rate base and
23 forecast rate of return on average rate base;
- 24
25 • ensured the Company’s schedule of rates, tolls and charges as set out in Schedule A
26 incorporates the July 1, 2018 rate change and the Settlement Agreement; and,
- 27
28 • verified the calculation of the proposed rates necessary to meet the forecast revenue
29 requirement in the 2019 and 2020 test years as set out in the revised Exhibits, including a
30 recalculation of the forecast shortfall in 2019 and 2020.
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1 Observations and Findings

2 *Revenue Requirements*

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As a result of the Settlement Agreement and the July 1, 2018 rate change, the forecast revenue requirements from rates for the 2019 and 2020 test years included in the Company's Amended Application are calculated to be \$672,254,000 and \$673,846,000 respectively, which is a net increase of \$10,787,000 and \$9,728,000 respectively from those proposed by the Company in its Original Application filed June 1, 2018. The breakdown of these changes is as follows:

Change in 2019 Test Year Revenue Requirement	<u>2019</u>	
(000's)		
Revenue Requirement from rates, per Original Application	<u>\$ 661,467</u>	
Increase due to Order No. P.U. 20 (2018)	<u>16,445</u>	1
(Decrease) Increase due to Settlement Agreement		
Return on Rate Base	(5,288)	2
Power Supply Cost	678	3
Amortization of Deferred Cost Recoveries	1,103	4
Income Taxes	(2,239)	5
Energy Supply Cost Variance Adjustments	233	6
2019 Revenue Shortfall	<u>(145)</u>	7
	<u>(5,658)</u>	
Revenue Requirement from rates, per Amended Application	<u>\$ 672,254</u>	

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Note 1: This increase is due to an increase in 2019 forecast existing revenue requirement from rates as a result of the July 1, 2018 rate change approved by the Board in Order No. P.U. 20 (2018).

Note 2: Return on rate base has decreased by \$5,288,000 as a result of the change in return on equity from 9.5% to 8.5% pursuant to Clause 8 of the Settlement Agreement.

Note 3: Power Supply Cost increased by \$678,000 due to the reversal of the elasticity impact which was included in the Original Application Power Supply Costs. In the Amended Application there are no elasticity impacts as there are no rate changes from the classes impacted by elasticity.

Note 4: Amortization of deferred cost recoveries has increased by \$1,103,000. This is the result of a change in the 2019 revenue surplus due to a reduction in return on equity to 8.5%. The forecast revenue surplus of \$2,482,000 was agreed to Clause 16 of the Settlement Agreement. We have recalculated the 2019 revenue surplus and amortization.

	Original Application	Amended Application	Change
Total revenue surplus	\$ 919,000	\$ 2,482,000	\$ 1,563,000
2019 amortization	<u>(270,000)</u>	<u>(730,000)</u>	<u>(460,000)</u>
Revenue requirement impact	<u>\$ 649,000</u>	<u>\$ 1,752,000</u>	<u>\$ 1,103,000</u>

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- Note 5: Income taxes have decreased by \$2,239,000. This is due to the lower forecast return on common equity.
- Note 6: Energy Supply Cost variance adjustment increased by \$233,000 as a result of the July 1, 2018 rate change.
- Note 7: The 2019 Revenue Shortfall of \$145,000 is proposed to be recovered through the RSA and represents the revenue requirement shortfall in 2019 in order to avoid a rate increase in the Company's domestic customers on March 1, 2019 pursuant to Clause 21 of the Settlement Agreement. We have recalculated the shortfall presented in Exhibit 7 of the Amended Application.

Change in 2020 Test Year Revenue Requirement

(000's)

	<u>2020</u>	
Revenue Requirement from rates, per Original Application	<u>\$ 664,118</u>	
Increase due to Order No. P.U. 20 (2018)	<u>16,478</u>	1
(Decrease) Increase due to Settlement Agreement		
Return on Rate Base	(5,437)	2
Power Supply Cost	1,500	3
Amortization of Deferred Cost Recoveries	(552)	4
Income Taxes	(2,300)	5
Energy Supply Cost Variance Adjustments	297	6
2020 Revenue Shortfall	<u>(258)</u>	7
	<u>(6,750)</u>	
Revenue Requirement from rates, per Amended Application	<u>\$ 673,846</u>	

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- Note 1: This increase is due to an increase in 2020 forecast existing revenue requirement from rates as a result of the July 1, 2018 rate change approved by the Board in Order No. P.U. 20 (2018).
- Note 2: Return on rate base has decreased by \$5,437,000 as a result of the change in return on equity from 9.5% to 8.5% pursuant to Clause 8 of the Settlement Agreement.
- Note 3: Power Supply Cost increased by \$1,500,000 due to the reversal of the elasticity impact which was included in the Original Application Power Supply Costs. In the Amended Application there are no elasticity impacts as there are no rate changes from the classes impacted by elasticity.
- Note 4: Amortization of deferred cost recoveries has decreased by \$552,000. This is the result of a change in the 2019 revenue surplus due to a reduction in return on equity to 8.5%. The forecast revenue surplus of \$2,482,000 was agreed to Clause 16 of the Settlement Agreement. We have recalculated the 2020 amortization.

	Original Application	Amended Application	Change
Opening surplus	\$ 649,000	\$ 1,752,000	\$ 1,103,000
2020 amortization	<u>(324,000)</u>	<u>(876,000)</u>	<u>(552,000)</u>
Unamortized surplus	<u>\$ 325,000</u>	<u>\$ 876,000</u>	<u>\$ 551,000</u>
Revenue requirement impact	<u>\$ (324,000)</u>	<u>\$ (876,000)</u>	<u>\$ (552,000)</u>

- Note 5: Income taxes have decreased by \$2,300,000. This is due to the lower forecast return on common equity.

- 1 Note 6: Energy Supply Cost variance adjustment increased by \$297,000 as a result of the July 1, 2018 rate change.
2
3 Note 7: The 2020 Revenue Shortfall of \$258,000 is proposed to be recovered through the RSA and represents the
4 revenue requirement shortfall in 2020 in order to avoid a rate increase for the Company's domestic customers on
5 March 1, 2019 pursuant to Clause 21 of the Settlement Agreement. We have recalculated the shortfall presented
6 in Exhibit 7 of the Amended Application.
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8 **We have reviewed the forecast revenue requirement for 2019 and 2020 included in the**
9 **Amended Application and obtained appropriate evidence to support the revisions as a result**
10 **of the Settlement Agreement and the July 1, 2018 rate change approved in Order No. P.U. 20**
11 **(2018).**

Average Rate Base and Rate of Return on Average Rate Base

2019 forecast average rate base included in the Amended Application decreased by \$117,000 compared to the Original Application that was filed on June 1, 2018 (\$1,146,293,000 in the Original Application versus \$1,146,176,000 in the Amended Application).

2020 forecast average rate base included in the Amended Application decreased by \$302,000 compared to the Original Application that was filed on June 1, 2018 (\$1,179,357,000 in the Original Application versus \$1,179,055,000 in the Amended Application).

The decrease in the return on common equity from 9.5% to 8.5% resulted in a decrease in the forecast rate of return on average rate base for:

- 2019 from 7.47% in the Original Application to 7.01% in the Amended Application with a range of 6.83% to 7.19%; and,
- 2020 from 7.49% in the Original Application to 7.04% in the Amended Application with a range of 6.86% to 7.22%.

The decrease in forecast average rate base was due to the following:

Change in 2019 Forecast Average Rate Base

(000's)

	2019
Change in 2019 Revenue Surplus	\$ (386) ¹
Change in Cash Working Capital Allowance	269 ²
	\$ (117)

Change in 2020 Forecast Average Rate Base

(000's)

	2020
Change in 2019 Revenue Surplus	\$ (580) ¹
Change in Cash Working Capital Allowance	278 ²
	\$ (302)

Note 1: The change in 2019 Revenue Surplus was due to a reduction in ratemaking return on equity from 9.5% to 8.5%. The impact on 2019 and 2020 forecast average rate base was a decrease of \$386,000 and \$580,000, respectively.

Note 2: Increase in the cash working capital allowance was due to the recovery of increased purchase power costs.

1 ***Rates, Tolls and Charges***

2 We can confirm that the Company's schedule of rates as set out in Schedule A of the Amended
3 Application incorporates the rates approved in Order No. P.U. 20 (2018) and the terms of the
4 Settlement Agreement.

1 *Conclusion*

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3 Based on our review of the Amended Application and the completion of the procedures described in
4 the scope of our report, we present the following findings for the Board's consideration:
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- 6 • the revised forecast 2019 and 2020 test year revenue requirement to be recovered from
7 electrical rates, of \$672,254,000 and \$673,846,000 respectively, appropriately incorporates
8 the impact of the July 1, 2018 rate change approved in Order No. P.U. 20 (2018) and the
9 Settlement Agreement;
- 10 • the revised forecast 2019 and 2020 average rate base of \$1,146,176,000 and \$1,179,055,000,
11 respectively, appropriately incorporates the impact of the July 1, 2018 rate change approved
12 in Order No. P.U. 20 (2018) and the Settlement Agreement;
- 13 • the proposed revised rates of return on average rate base of 7.01% and 7.04% for 2019 and
14 2020, respectively, appropriately incorporates the impact of the July 1, 2018 rate change
15 approved in Order No. P.U. 20 (2018) and the Settlement Agreement; and,
- 16 • the forecast revenue requirement from rates, as proposed by the Company is calculated
17 based upon the proposed Schedule of Rates, Tolls and Charges effective March 1, 2019,
18 which is located in Schedule A of the 2019-2020 the Amended Application.
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26 St. John's, Canada
27 December 20, 2018

Chartered Professional Accountants