

November 13, 2020

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

Attention: G. Cheryl Blundon
Director of Corporate Services
and Board Secretary

Dear Ms. Blundon:

Re: 2021 Rate of Return on Rate Base Application

A. General:

The 2021 Rate of Return on Rate Base Application

In Order No. P.U. 2 (2019) (the “2019/2020 General Rate Order”), the Board of Commissioners of Public Utilities (the “Board”) ordered, amongst other things, that Newfoundland Power file an application on or before November 15, 2020 for approval of its 2021 forecast average rate base and rate of return on rate base maintaining the ratemaking common equity ratio and return on common equity established in the 2019/2020 General Rate Order.

Enclosed please find an application (the “Application”) made in compliance with the direction of the Board contained in the 2019/2020 General Rate Order.

In accordance with the Board’s March 17, 2020 notice regarding the activation of its Business Continuity Plan to address the COVID-19 pandemic, Newfoundland Power is providing the Application in electronic format only.

Customer Rate Impacts

The Application does not propose any change in customer rates as a result of the 2021 forecast average rate base and rate of return on rate base. It proposes that existing customer rates continue in 2021 as approved by the Board in Order No. P.U. 31 (2019).

Newfoundland Power Inc.

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

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

B. Contents of the Application:

Newfoundland Power's evidence in support of the Application is contained in Schedule 1 to the Application. Schedule 1 presents a revised calculation of Newfoundland Power's 2021 forecast average rate base and rate of return on rate base in accordance with determinations made by the Board in the 2019/2020 General Rate Order.

C. Concluding:

We trust that the foregoing and enclosed are found to be in order. A draft order in respect of the Application is enclosed for the Board's convenience.

A copy of this letter, together with a copy of the enclosures, has been forwarded directly to Shirley Walsh of Newfoundland and Labrador Hydro and Dennis Browne, Consumer Advocate.

If you have any questions regarding the enclosed, please contact the undersigned at your convenience.

Yours very truly,



Kelly Hopkins
Corporate Counsel

Enclosures

cc. Shirley Walsh
Newfoundland and Labrador Hydro

Dennis Browne, Q.C.
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 • khopkins@newfoundlandpower.com

IN THE MATTER OF the *Public Utilities Act*, R.S.N.L. 1990, Chapter P-47 (the "Act"); and

IN THE MATTER OF an application by Newfoundland Power Inc. ("Newfoundland Power") to approve a 2021 forecast average rate base and a 2021 rate of return on rate base as required by Order No. P.U. 2 (2019).

TO: The Board of Commissioners of Public Utilities (the "Board")

THE APPLICATION OF Newfoundland Power Inc. ("Newfoundland Power") **SAYS THAT:**

1. Newfoundland Power is a corporation duly organized and existing under the laws of the Province of Newfoundland and Labrador, is a public utility within the meaning of the Act and is subject to the provisions of the *Electrical Power Control Act, 1994*.
2. By Order No. P.U. 2 (2019) (the "2019/2020 General Rate Order"), the Board ordered, amongst other things, that Newfoundland Power file an application on or before November 15, 2020 for approval of the 2021 forecast average rate base and rate of return on rate base maintaining the ratemaking common equity ratio and return on common equity established by the 2019/2020 General Rate Order.
3. By the 2019/2020 General Rate Order, the Board approved rates, tolls and charges ("customer rates") for Newfoundland Power effective March 1, 2019.
4. By Order No. P.U. 31 (2019), the Board approved, amongst other things, a revision to customer rates for a change in costs payable to Newfoundland and Labrador Hydro ("Hydro") for the supply of power as a result of a revised utility rate effective October 1, 2019.
5. Current customer rates approved by the Board in Order No. P.U. 31 (2019) continue to reflect the Board's determinations in the 2019/2020 General Rate Order, revised for the change in purchased power costs approved in Order No. P.U. 31 (2019).
6. Schedule 1 to this Application shows the calculation of Newfoundland Power's
 - a) 2021 forecast average rate base; and
 - b) 2021 forecast rate of return on rate base

which reflect the Board's determinations in the 2019/2020 General Rate Order.

7. Newfoundland Power requests, pursuant to Sections 70 and 80 of the Act and the 2019/2020 General Rate Order, that the Board make an Order approving:
 - a) a 2021 forecast average rate base for Newfoundland Power of \$1,206,106,000;
 - b) a just and reasonable 2021 rate of return on rate base for Newfoundland Power of 6.65% in a range of 6.47% to 6.83%; and
 - c) continuation in 2021 of the existing rates, tolls and charges approved by the Board in Order No. P.U. 31 (2019).
8. The Board should grant the Order requested because it gives effect to the requirements of the 2019/2020 General Rate Order in a manner consistent with longstanding regulatory practice.
9. Communications with respect to this Application should be forwarded to the attention of Liam P. O'Brien and Kelly Hopkins, Counsel to Newfoundland Power.

DATED at St. John's, Newfoundland and Labrador, this 13th day of November, 2020.

NEWFOUNDLAND POWER INC.



Liam P. O'Brien and Kelly Hopkins
Counsel to Newfoundland Power Inc.
P.O. Box 8910
55 Kenmount Road
St. John's, NL A1B 3P6

Telephone: (709) 737-5364
Telecopier: (709) 737-2974

IN THE MATTER OF the *Public Utilities Act*, R.S.N.L. 1990, Chapter P-47 (the "Act"); and

IN THE MATTER OF an application by Newfoundland Power Inc. ("Newfoundland Power") to approve a 2021 forecast average rate base and a 2021 rate of return on rate base as required by Order No. P.U. 2 (2019).

2021 Rate of Return on Rate Base
(filed in compliance with Order No. P.U. 2 (2019))

Table of Contents

	Page
1.0 Introduction.....	1
2.0 Regulatory Practice	1
2.1 Determining Annual Returns	1
2.2 Application Context	2
3.0 2021 Forecast Average Rate Base	3
4.0 2021 Rate of Return on Rate Base	3
4.1 2021 Forecast Rate of Return on Rate Base	3
4.2 Assessment of 2021 Rate of Return on Rate Base.....	4
4.3 2021 Rate of Return on Rate Base	5
5.0 Customer Rates	6
Appendix A: 2021 Forecast Average Rate Base	
Appendix B: 2021 Pro Forma Return on Rate Base	
Appendix C: 2021 Forecast Return on Rate Base	
Appendix D: 2021 Forecast Earnings	

1.0 Introduction

In Order No. P.U. 2 (2019) (the “2019/2020 General Rate Order”), the Board of Commissioners of Public Utilities (the “Board”) ordered, amongst other things, that Newfoundland Power Inc. (“Newfoundland Power” or the “Company”) file an application on or before November 15, 2020 for approval of the Company’s 2021 forecast average rate base and rate of return on rate base.¹

This application is filed in compliance with the 2019/2020 General Rate Order.

This application shows Newfoundland Power’s 2021 forecast average rate base is \$1,206,106,000. In addition, this application shows that a just and reasonable rate of return on rate base for the Company for 2021 is 6.65% in a range of 6.47% to 6.83%. Finally, this application shows that a change in Newfoundland Power’s customer rates is not required in 2021 for the Company to have an opportunity to earn the just and reasonable return determined by the Board in the 2019/2020 General Rate Order.

2.0 Regulatory Practice

2.1 Determining Annual Returns

Section 80 of the *Public Utilities Act* (the “Act”) provides, in effect, that a public utility is entitled to a reasonable opportunity to earn a just and reasonable return on its rate base in each year.² Since 1998, the Board has determined a just and reasonable return on rate base for Newfoundland Power on an annual basis.

The Board’s determinations of a just and reasonable return on rate base for Newfoundland Power for those years which are considered *test years* for ratemaking purposes are found in general rate orders.³ For most years that were not test years, the Board determined a just and reasonable return on rate base for the Company based upon the operation of the automatic adjustment formula (the “Formula”).⁴ Following suspension of the Formula in 2011, the Board determined a just and reasonable return on rate base for years that were not test years following an application by Newfoundland Power.⁵ For example, following the Company’s 2016/2017

¹ See Order No. P.U. 2 (2019), page 16, lines 34-37.

² See Section 80 of the Act and the 1998 opinion of the Newfoundland and Labrador Court of Appeal in a stated case (June 15th, 1998, Docket: 96/141).

³ See Order Nos. P.U. 36 (1998-99), P.U. 19 (2003), P.U. 32 (2007), P.U. 43 (2009), P.U. 13 (2013), P.U. 18 (2016) and P.U. 2 (2019).

⁴ See Order Nos. P.U. 20 (1999-2000), P.U. 30 (2000-2001), P.U. 28 (2001-2002), P.U. 50 (2004), P.U. 3 (2006), P.U. 40 (2006), P.U. 35 (2008) and P.U. 32 (2010).

⁵ See Order Nos. P.U. 25 (2011) and P.U. 13 (2013) for the Board’s decision to suspend operation of the Formula. See Order Nos. P.U. 17 (2012), P.U. 51 (2014) and P.U. 41 (2017) for establishment of a just and reasonable return for 2012, 2015 and 2018, respectively.

1 *General Rate Application*, Order No. P.U. 18 (2016) required that Newfoundland Power file an
 2 application for approval of (i) a forecast average rate base and (ii) a rate of return on rate base for
 3 2018.⁶ The Board approved the Company's application in Order No. P.U. 41 (2017).

4
 5 In the 2019/2020 General Rate Order, the Board ordered the continued suspension of the
 6 Formula for setting the allowed rate of return on average rate base for Newfoundland Power in
 7 years subsequent to 2020.⁷ Further, the Board ordered that Newfoundland Power file an
 8 application for approval of (i) a forecast average rate base and (ii) a rate of return on rate base for
 9 2021 which maintains the ratemaking common equity ratio of 45% and an 8.50% return on
 10 common equity.⁸

11
 12 Newfoundland Power's application for a just and reasonable return on rate base for 2021 is
 13 substantially the same in context as the application approved by the Board in
 14 Order No. P.U. 41 (2017).

15 16 **2.2 Application Context**

17
 18 The primary differences in Newfoundland Power's 2021 forecast average rate base when
 19 compared to the 2020 forecast average rate base used to establish existing customer rates are due
 20 to changes in plant investment and depreciation. Changes in plant investment reflect capital
 21 expenditures included in the Company's *2021 Capital Budget Application* currently before the
 22 Board. Changes in depreciation reflect depreciation rates specifically approved by the Board. In
 23 Order No. P.U. 2 (2019), the Board approved continuation of the depreciation rates described in
 24 Order No. P.U. 18 (2016).⁹

25
 26 Changes in additions to, and deductions from, rate base also affect the calculation of 2021
 27 forecast average rate base. These items include a combination of specific Board orders,
 28 operation of approved regulatory mechanisms and longstanding regulatory practice.¹⁰

⁶ See Order No. P.U. 18 (2016), page 10, lines 15, *et seq.*

⁷ See Order No. P.U. 2 (2019), page 15, line 13, *et seq.*

⁸ See Order No. P.U. 2 (2019), page 16, lines 34-37.

⁹ See Order No. P.U. 2 (2019), page 17, lines 3-5.

¹⁰ For example, 2021 forecast changes in employee future benefits balances result in a reduction of approximately \$12.3 million in 2021 average rate base compared to the 2020 forecast average rate base used to establish existing customer rates. The inclusion of employee future benefits in rate base was approved by the Board in Order Nos. P.U. 19 (2003) and P.U. 31 (2010). Similarly, Board approved regulatory mechanisms, such as the Demand Management Incentive, can impact the annual calculation of rate base. These changes are reflected in the calculation of the 2021 forecast average rate base. Smaller items, such as customer finance programs and customer security deposits, are determined in accordance with longstanding regulatory practice.

Newfoundland Power's 2021 forecast rate of return on rate base is lower than the 2020 rate of return on rate base used to establish existing customer rates. This primarily reflects a lower forecast cost of debt for 2021. This lower cost of debt is the result of financing arrangements which were specifically approved by the Board under Section 91 of the Act.¹¹

3.0 2021 Forecast Average Rate Base

Appendix A shows the calculation of Newfoundland Power's 2021 forecast average rate base of \$1,206,106,000.

The 2021 forecast average rate base reflects: (i) the Company's calculation of 2019 average rate base and (ii) forecast changes to the Company's average rate base for each of 2020 and 2021.¹² Forecast changes to the Company's average rate base principally reflect changes in (i) annual capital expenditures and (ii) depreciation expense.¹³

4.0 2021 Rate of Return on Rate Base

4.1 2021 Forecast Rate of Return on Rate Base

Appendix B shows a pro forma calculation of Newfoundland Power's 2021 rate of return on rate base. The pro forma 2021 rate of return on rate base of 6.65% reflects the specific requirements of the 2019/2020 General Rate Order of a common equity ratio not to exceed 45% and a rate of return on common equity of 8.50%.¹⁴

Appendix C shows Newfoundland Power's current 2021 *forecast* rate of return on rate base based upon existing customer rates. With revenues based upon existing customer rates, Newfoundland Power forecasts its 2021 rate of return on rate base will be 6.53%.

¹¹ In Order No. P.U. 9 (2020), the Board approved the Company's issue of 3.608% First Mortgage Bonds in an amount of \$100 million. The Company redeemed Series AG First Mortgage Bonds on October 1, 2020, which carried a coupon rate of 9.00%. In Order No. P.U. 22 (2008), the Board approved the Company's current committed short-term credit facility. Under this facility, the Company is forecasting 2021 short-term debt costs of approximately 1.8%. Both of these approved financing arrangements serve to reduce the Company's forecast cost of debt in 2021 when compared to the 2020 test year used to establish existing customer rates.

¹² Calculation of the Company's 2019 average rate base of \$1,153.6 million is set out in Schedule D to Newfoundland Power's 2021 *Capital Budget Application*. On September 9, 2020, Grant Thornton filed with the Board, its review of the Company's calculation of 2019 average rate base. Grant Thornton's review concluded that the 2019 average rate base is in accordance with established practice and Board Orders.

¹³ 2020 capital expenditures of \$96.6 million were approved in Order No. P.U. 5 (2020). Newfoundland Power's 2021 *Capital Budget Application*, which is currently under review by the Board, proposes capital expenditures of \$111.3 million. 2021 capital expenditures of \$9.9 million associated with the proposed *Customer Service System Replacement* project are not included in the calculation of the Company's average rate base until the system is used and useful, which is scheduled to be in 2023.

¹⁴ In addition, the pro forma 2021 rate of return on rate base of 6.65% reflects the lower cost of debt for 2021 described at 2.2 *Application Context*, page 3, lines 2-4.

The forecast 2021 rate of return on rate base is 0.12% less than the 6.65% 2021 pro forma return on rate base calculated in the manner required by the 2019/2020 General Rate Order. This 0.12% difference reflects the difference between the 2021 rate of return on common equity of 8.50% approved by the Board in the 2019/2020 General Rate Order and the Company's 2021 forecast rate of return on common equity.

Appendix D shows Newfoundland Power's 2021 forecast earnings based upon existing customer rates. With revenues based upon existing customer rates, Newfoundland Power forecasts its 2021 rate of return on common equity will be 8.25%. This is 0.25% less than the 8.50% rate of return on common equity approved in the 2019/2020 General Rate Order.

4.2 Assessment of 2021 Rate of Return on Rate Base

Table 1 shows a comparison of financial metrics associated with Newfoundland Power's rate of return on rate base for (i) the 2020 test year used to establish existing customer rates and (ii) the Company's 2021 forecast.¹⁵

Table 1
Rate of Return on Rate Base
Comparative Financial Metrics
2020 Test Year and 2021 Forecast

	2020T	2021F
Average Rate Base (\$000s)	1,179,055	1,206,106
Return on Rate Base (\$000s)	83,000	78,793
Rate of Return on Rate Base	7.04%	6.53%
Rate of Return on Common Equity	8.50%	8.25%

Newfoundland Power's 2020 test year rate base used to establish existing customer rates was \$1,179.1 million. The Company's 2021 forecast average rate base is \$1,206.1 million. As indicated above, the increase in the Company's rate base relates primarily to changes in (i) plant investment as a result of 2021 capital expenditures not reflected in the 2020 test year and (ii) depreciation expense computed using depreciation rates that have been specifically approved by the Board.

¹⁵ 2020 test year data is taken from *Exhibit 6 2019 and 2020 Forecast Average Rate Base (1st Revision)* and *Exhibit 8 2019 and 2020 Forecast Capital Structure and Return on Rate Base (1st Revision)* filed with the Board on November 19, 2018 in relation to the Settlement Agreement on the Company's 2019/2020 General Rate Application. 2021 forecast data is provided in Appendices A, C and D.

Newfoundland Power's 2020 return on rate base used to establish existing customer rates was \$83.0 million. The Company's 2021 forecast return on rate base is \$78.8 million. The difference is due to a lower forecast return on debt and a lower forecast return on common equity.

Newfoundland Power's 2020 rate of return on rate base used to establish existing customer rates was 7.04%. The Company's 2021 forecast rate of return on rate base is 6.53%. As indicated above, the lower forecast rate of return on rate base primarily reflects a lower forecast cost of debt for 2021 when compared to that used to establish existing customer rates. The sources of this lower cost debt have been specifically approved by the Board.¹⁶

Newfoundland Power's 2020 rate of return on common equity used to establish existing customer rates was 8.50%. The 2019/2020 General Rate Order approved this 8.50% rate of return on common equity for 2021. The Company's 2021 forecast rate of return on common equity is 8.25%. The lower forecast rate of return on common equity for 2021 is the result of a variety of differences between the Company's 2020 test year forecast and its 2021 forecast. This 0.25% difference in rate of return on common equity is, however, within the longstanding implied range of $\pm 0.40\%$ reflected by the Board's traditional range of rate of return on rate base of $\pm 0.18\%$.¹⁷

4.3 2021 Rate of Return on Rate Base

A pro forma Newfoundland Power rate of return on rate base for 2021 which reflects the common equity ratio and return on common equity approved in the 2019/2020 General Rate Order is 6.65%. Applying the range of rate of return on rate base of 36 basis points ($\pm 0.18\%$) maintained in the 2019/2020 General Rate Order indicates a 2021 range of rate of return on rate base of 6.47% to 6.83%.¹⁸

The Company's 2021 *forecast* rate of return on rate base is 6.53%. This rate of return on rate base reflects a forecast rate of return on common equity of 8.25%.

The 2021 forecast rate of return on rate base of 6.53% is within the range of Newfoundland Power's 2021 pro forma rate of return on rate base of 6.47% to 6.83%. In addition, the forecast 2021 rate of return on common equity of 8.25% is within the longstanding implied range of 80

¹⁶ See footnote 11.

¹⁷ This implied range in rate of return on common equity has been stable over time. See, for example, Order No. P.U. 19 (2003), page 76, where the Board noted that the implied range of return on regulated common equity was 81 basis points for 2003. Further, see Newfoundland Power's *2015 Return on Rate Base Application*, Schedule 1, Appendix A which shows the implied range was 80 basis points based on 2014 test year data. This observed stability is substantially a reflection of the stable capital structure of Newfoundland Power over time.

¹⁸ See Order No. P.U. 2 (2019), page 16, lines 31 – 32.

1 basis points ($\pm 0.40\%$) used by the Board to assess the reasonableness of forecast common equity
2 returns between test years.

3
4 **5.0 Customer Rates**

5
6 Existing customer rates are forecast to yield 2021 rates of return on rate base and common equity
7 which are within ranges historically used by the Board to assess the reasonableness of
8 Newfoundland Power's returns between test years. Continuing existing customer rates is
9 consistent with the Board's regulatory practice.

Newfoundland Power Inc.
2021 Forecast Average Rate Base
(\$000s)

	2021 ¹	2020 ¹
1 Net Plant Investment		
2 Plant Investment	2,106,498	2,019,612
3 Accumulated Depreciation	(871,987)	(831,443)
4 Contributions in Aid of Construction	(45,862)	(45,248)
5	1,188,649	1,142,921
6		
7 Additions to Rate Base		
8 Deferred Pension Costs	89,836	89,722
9 Deferred Credit Facility Costs	31	46
10 Cost Recovery Deferral - Hearing Costs	-	247
11 Cost Recovery Deferral - Conservation	19,531	17,539
12 Customer Finance Programs	2,588	2,541
13	111,986	110,095
14		
15 Deductions from Rate Base		
16 Weather Normalization Reserve	-	(2,648)
17 Other Post Employment Benefits	70,652	65,778
18 Customer Security Deposits	1,066	1,066
19 Accrued Pension Obligation	5,546	5,317
20 Accumulated Deferred Income Taxes	15,894	12,362
21 Demand Management Incentive Account	(346)	(347)
22 2019 Cost Recovery Deferral	-	613
23	92,812	82,141
24		
25 Year End Rate Base	1,207,823	1,170,875
26		
27 Average Rate Base Before Allowances	1,189,349	1,165,441
28		
29 Rate Base Allowances		
30 Materials and Supplies Allowance	6,033	5,982
31 Cash Working Capital Allowance	10,724	10,714
32		
33 Average Rate Base at Year End	1,206,106	1,182,137

¹ Forecast figures.

**Newfoundland Power Inc.
2021 Pro Forma Return on Rate Base**

1 Average Capitalization (\$000s) - 2021 Existing	
2 Debt	662,701
3 Preference Shares	-
4 Common Equity	538,633
5	<u>1,201,334</u>
6	
7 Average Capital Structure	
8 Debt	55.16%
9 Preference Shares	0.00%
10 Common Equity	44.84%
11	<u>100.00%</u>
12	
13 Cost of Capital	
14 Debt	5.19%
15 Preference Shares	0.00%
16 Common Equity	8.50%
17	
18 Weighted Average Cost of Capital	
19 Debt	2.86%
20 Preference Shares	0.00%
21 Common Equity	3.81%
22	<u>6.67%</u>
23	
24 Return on Rate Base (\$000s)	
25 Return on Debt	34,367
26 Return on Preference Shares	-
27 Return on Common Equity	45,841
28	<u>80,208</u>
29	
30 Average Rate Base (\$000s)	1,206,106
31	
32 Rate of Return on Rate Base	6.65%

¹ On January 2, 2020, the Company provided notice to shareholders of the redemption of all the issued and outstanding First Preference Shares. These shares comprised approximately \$8.8 million of the Company's capital structure as of the notice date. On February 3, 2020, the Company redeemed all of the issued and outstanding First Preference Shares.

² Newfoundland Power finances its rate base maintaining a capital structure of 55% debt and 45% common equity.

³ Cost of Debt shown is net of AFUDC.

⁴ Order No. P.U. 2 (2019) requires the rate of return on rate base to be calculated maintaining the ratemaking common equity of 8.50%.

⁵ Under the Asset Rate Base Method, differences between average invested capital and average rate base exist for the cash working capital allowance, the materials and supplies allowance and construction work in progress. For 2021, these differences result in the pro forma weighted average cost of capital of 6.67% differing by 0.02% from the pro forma rate of return on rate base of 6.65%.

⁶ From Appendix C.

⁷ The return on common equity is calculated as follows (\$000s):

Return on Common Equity from Appendix C	44,426
Add: Revenue Shortfall Net of Income Taxes (at 8.50% ROE) from Appendix D	1,415
Return on Common Equity (at 8.50% ROE)	<u>45,841</u>

⁸ From Appendix A.

Newfoundland Power Inc.
2021 Forecast Return on Rate Base
(\$000s)

1	Return on Common Equity (from Appendix D)	44,426
2	Return on Preferred Equity (from Appendix D)	-
3		<u>44,426</u>
4		
5	Return on Debt	
6	Interest on Long-term Debt	35,452
7	Other Interest	464
8	Amortization of Bond Issue Expenses	210
9	AFUDC	<u>(1,759)</u>
10		<u>34,367</u> ¹
11		
12	Return on Rate Base	<u>78,793</u>
13		
14	Average Rate Base (from Appendix A)	<u>1,206,106</u>
15		
16	Rate of Return on Rate Base	6.53%

¹ Total financing costs for 2021 forecast presented in Appendix D are as follows (\$000s):

Return on debt from above	34,367
Add: Interest on security deposits	<u>17</u>
Finance charges presented in Appendix D	<u>34,384</u>

Newfoundland Power Inc.
2021 Forecast Earnings
(\$000s)

1	Revenue	719,963
2	Purchased Power Expense	483,143
3	Contribution	<u>236,820</u>
4		
5	Other Revenue	<u>9,070</u>
6		
7	Other Expenses:	
8	Operating Expenses	77,333
9	Employee Future Benefit Costs	5,184
10	Deferred Cost Recoveries and Amortizations	(876)
11	Depreciation and Amortization	67,485
12	Finance Charges	<u>34,384</u>
13		<u>183,510</u>
14		
15	Income Before Income Taxes	62,380
16	Income Taxes	<u>17,954</u>
17		
18	Net Income	44,426
19	Preferred Dividends	<u>-</u>
20		
21	Regulated Earnings	<u>44,426</u>
22		
23		
24	Regulated Return on Equity (percentage)	8.25%
25		
26	Revenue Shortfall Net of Income Taxes (at 8.50% Regulated Return on Equity) ¹	1,415

¹ Revenue Shortfall Net of Income Taxes (at 8.50% Regulated Return on Equity) is calculated as follows (\$000s):

Revenue shortfall (at 8.50% regulated return on equity)	2,022
Less: Income taxes at 30%	<u>(607)</u>
Revenue shortfall net of income taxes	<u>1,415</u>

IN THE MATTER OF the *Public Utilities Act*, R.S.N.L. 1990, Chapter P-47 (the "Act"); and

IN THE MATTER OF an application by Newfoundland Power Inc. to approve a 2021 forecast average rate base and a 2021 rate of return on rate base as required by Order No. P.U. 2 (2019).

AFFIDAVIT

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

1. That I am Vice President, Finance & Chief Financial Officer of Newfoundland Power Inc.
2. To the best of my knowledge, information and belief, all matters, facts and things set out in this Application are true.

SWORN to before me at St. John's
in the Province of Newfoundland and
Labrador this 13th day of November, 2020:



Barrister



Paige London

NEWFOUNDLAND AND LABRADOR

AN ORDER OF THE BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

NO. P.U. __ (2020)

IN THE MATTER OF the *Public Utilities Act*, R.S.N.L. 1990, Chapter P-47 (the "Act"); and

IN THE MATTER OF an application by Newfoundland Power Inc. ("Newfoundland Power") to approve a 2021 forecast average rate base and a 2021 rate of return on rate base as required by Order No. P.U. 2 (2019).

WHEREAS Newfoundland Power filed its 2019/2020 General Rate Application with the Board of Commissioners of Public Utilities (the "Board") on June 1, 2018 for an Order of the Board approving, *inter alia*, proposed rates for the various customers of Newfoundland Power, to be effective March 1, 2019; and

WHEREAS on January 24, 2019 the Board issued Order No. P.U. 2 (2019) (the "2019/2020 General Rate Order") directing Newfoundland Power, *inter alia*, to file an application on or before November 15, 2020 for approval of its 2021 forecast average rate base and rate of return on rate base maintaining the ratemaking common equity ratio of 45% and an 8.50% return on common equity established in the 2019/2020 General Rate Order; and

WHEREAS on November 13, 2020, Newfoundland Power submitted an application in compliance with the 2019/2020 General Rate Order seeking an Order of the Board approving:

(i) a 2021 forecast average rate base of \$1,206,106,000; (ii) a just and reasonable forecast rate of return on average rate base for 2021 of 6.65% in a range of 6.47% to 6.83%; and

(iii) continuation of the existing customer rates approved by the Board in Order No.

P.U. 31 (2019); and

WHEREAS the Board has reviewed the Application and supporting evidence, and is satisfied that Newfoundland Power's forecast average rate base for 2021 of \$1,206,106,000 is calculated in accordance with and reflects prior Orders of the Board, that Newfoundland Power's proposed rate of return on rate base for 2021 of 6.65% in a range of 6.47% to 6.83%, as proposed in the Application, is just and reasonable and properly reflects the determinations of the Board in the 2019/2020 General Rate Order, and that continuation of the existing customer rates approved by the Board in Order No. P.U. 31 (2019) is consistent with regulatory practice of the Board.

IT IS THEREFORE ORDERED THAT:

1. Pursuant to Section 78 of the Act, the Board hereby approves Newfoundland Power's forecast average rate base for 2021 of \$1,206,106,000.
2. Pursuant to Section 80 of the Act, the Board hereby approves a just and reasonable rate of return on average rate base for 2021 for Newfoundland Power of 6.65% in a range of 6.47% to 6.83%.
3. Pursuant to Section 70 of the Act, the Board hereby approves continuation in 2021 of the rates, tolls and charges approved by the Board in Order No. P.U. 31 (2019).

DATED at St. John's, Newfoundland and Labrador, this day of • , 2020.

G. Cheryl Blundon
Director of Corporate Services
and Board Secretary