

1 **Section 2: Customer Operation/Operating Costs**

2

3 **Q. (Exhibit 3) Please revise all tables in Exhibit 3 to include 2021 actuals.**

4

5 A. See Attachment A for the requested information.

**Exhibit 3
Revised to Include 2021 Actual**

Newfoundland Power Inc.

Financial Performance
2021 to 2026E
Statements of Income
(\$000s)

	Actual		Forecast ¹			
	2021	2022	2023	2024E	2025E	2026E
1 Revenue from rates	713,303	715,444	732,809	740,817	751,315	750,723
2 Transfers from the RSA	(12,565)	6,691	36,918	41,533	52,520	45,409
3 Excess Earnings Account	-	-	(5,094)	-	-	-
4	<u>700,738</u>	<u>722,135</u>	<u>764,633</u>	<u>782,350</u>	<u>803,835</u>	<u>796,132</u>
5						
6 Purchased power expense	463,310	479,373	517,940	522,821	533,716	531,779
7 Demand management incentive account adjustments	(1,917)	153	(1,000)	-	-	-
8	<u>461,393</u>	<u>479,526</u>	<u>516,940</u>	<u>522,821</u>	<u>533,716</u>	<u>531,779</u>
9						
10 Contribution	<u>239,345</u>	<u>242,609</u>	<u>247,693</u>	<u>259,529</u>	<u>270,119</u>	<u>264,353</u>
11						
12 Other revenue ²	<u>6,478</u>	<u>6,120</u>	<u>7,422</u>	<u>10,026</u>	<u>11,019</u>	<u>11,646</u>
13						
14 Other expenses:						
15 Operating expenses ³	64,286	68,869	73,473	78,775	81,394	84,156
16 Employee future benefit costs ⁴	14,596	7,652	2,763	3,010	8,122	1,812
17 Deferred cost recoveries and amortizations	(876)	(656)	(816)	(6,962)	492	492
18 Depreciation ⁵	67,546	70,662	74,869	79,557	83,143	86,691
19 Finance charges ⁶	34,863	34,790	37,313	41,607	42,240	43,427
20	<u>180,415</u>	<u>181,317</u>	<u>187,602</u>	<u>195,987</u>	<u>215,391</u>	<u>216,578</u>
21						
22 Income before income taxes	65,408	67,412	67,513	73,568	65,747	59,421
23 Income taxes ⁷	<u>19,130</u>	<u>19,498</u>	<u>20,020</u>	<u>22,399</u>	<u>20,037</u>	<u>18,010</u>
24						
25 Earnings applicable to common shares ⁷	<u>46,278</u>	<u>47,914</u>	<u>47,493</u>	<u>51,169</u>	<u>45,710</u>	<u>41,411</u>
26						
27 Rate of Return and Credit Metrics						
28 Rate of Return on Rate Base (%)	6.74	6.72	6.85	6.82	6.24	5.84
29 Regulated Return on Book Equity (%)	8.88	8.95	8.44	8.44	7.16	6.38
30 Interest Coverage (times)	2.5	2.5	2.4	2.4	2.2	2.0
31 CFO Pre-W/C + Interest / Interest (times)	5.2	4.4	3.6	2.9	2.9	2.8
32 CFO Pre-W/C / Debt (%)	23.0	17.4	12.9	10.2	9.6	9.0

¹ The 2024 through 2026 forecasts include the impact of the proposals in the 2024 Rate of Return on Rate Base Application filed with the Board on November 23, 2023.

² Shown after reclassification of other contract costs and equity portion of AFUDC.

³ Shown after adjustment for non-regulated expenses and reclassification of other contract costs and current portion of employee future benefit costs.

⁴ Shown after reclassification of current portion of employee future benefit costs.

⁵ Shown after reclassification of tax on cost of removal.

⁶ Shown after reclassification of equity portion of AFUDC.

⁷ Shown after adjustment for non-regulated expenses and reclassification of tax on cost of removal.

Newfoundland Power Inc.

Financial Performance
 2021 to 2026E
 Statements of Retained Earnings
 (\$000s)

	Actual		Forecast			
	2021	2022	2023	2024E	2025E	2026E
1 Balance - Beginning	445,330	456,123	473,611	511,425	560,890	574,736
2 Net income for the period	43,757	45,650	45,141	48,713	43,229	38,827
3 Allocation of Part VI.1 tax	520	735	-	752	752	752
4	<u>489,607</u>	<u>502,508</u>	<u>518,752</u>	<u>560,890</u>	<u>604,871</u>	<u>614,315</u>
5						
6 Dividends						
7 Common shares	<u>33,484</u>	<u>28,897</u>	<u>7,327</u>	<u>-</u>	<u>30,135</u>	<u>30,548</u>
8						
9 Balance - End of Period	<u>456,123</u>	<u>473,611</u>	<u>511,425</u>	<u>560,890</u>	<u>574,736</u>	<u>583,767</u>

Newfoundland Power Inc.

Financial Performance
2021 to 2026E
Balance Sheets
(S000s)

	<u>Actual</u>		<u>Forecast</u>			
	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024E</u>	<u>2025E</u>	<u>2026E</u>
1 Assets						
2 Current Assets						
3 Accounts receivable	72,603	69,551	79,246	73,504	73,612	72,720
4 Income taxes receivable	713	392	-	-	-	-
5 Materials and supplies	1,839	2,896	2,930	2,995	3,043	3,091
6 Prepaid expenses	2,745	3,738	3,782	3,866	3,928	3,990
7 Regulatory assets	7,578	5,439	31,584	56,460	58,628	61,196
8	<u>85,478</u>	<u>82,016</u>	<u>117,542</u>	<u>136,825</u>	<u>139,211</u>	<u>140,997</u>
9						
10 Property, plant and equipment	1,284,420	1,332,577	1,398,400	1,452,127	1,504,131	1,564,046
11 Intangible assets	35,922	48,221	65,676	63,516	66,020	66,506
12 Regulatory assets	287,925	309,124	319,879	337,783	342,197	343,563
13 Defined benefit pension plans	68,844	40,435	53,144	58,969	65,143	71,653
14 Other assets	1,855	1,573	1,522	1,501	1,484	1,474
15	<u>1,764,444</u>	<u>1,813,946</u>	<u>1,956,163</u>	<u>2,050,721</u>	<u>2,118,186</u>	<u>2,188,239</u>
16						
17						
18 Liabilities and shareholder's equity						
19 Current Liabilities						
20 Short-term borrowings	14,820	1,361	-	-	-	-
21 Accounts payable and accrued charges	90,279	96,022	103,034	97,003	97,946	97,748
22 Interest payable	6,517	6,856	8,478	8,271	8,176	9,304
23 Defined benefit pension plans	280	277	276	265	273	287
24 Other post-employment benefits	3,647	3,922	4,174	4,371	4,579	4,518
25 Regulatory liabilities	18,997	15,196	(1,768)	-	-	-
26 Current instalments of long-term debt	35,200	27,550	8,450	8,450	36,885	9,050
27	<u>169,740</u>	<u>151,184</u>	<u>122,644</u>	<u>118,360</u>	<u>147,859</u>	<u>120,907</u>
28						
29 Regulatory liabilities	203,976	205,003	213,716	227,876	243,992	259,648
30 Defined benefit pension plans	5,148	5,074	5,228	5,402	5,574	5,738
31 Other post-employment benefits	85,028	62,594	63,356	64,029	64,598	65,330
32 Other liabilities	1,401	1,270	1,562	1,544	1,526	1,508
33 Deferred income taxes	183,510	189,292	204,333	203,969	200,486	198,395
34 Long-term debt	589,197	655,597	763,578	798,330	809,094	882,625
35						
36						
37						
38 Shareholder's equity						
39 Common shares	70,321	70,321	70,321	70,321	70,321	70,321
40 Retained earnings	456,123	473,611	511,425	560,890	574,736	583,767
41	<u>526,444</u>	<u>543,932</u>	<u>581,746</u>	<u>631,211</u>	<u>645,057</u>	<u>654,088</u>
42	<u>1,764,444</u>	<u>1,813,946</u>	<u>1,956,163</u>	<u>2,050,721</u>	<u>2,118,186</u>	<u>2,188,239</u>

Newfoundland Power Inc.						
Financial Performance 2021 to 2026E Statements of Cash Flows (\$000s)						
	Actual		Forecast			
	2021	2022	2023	2024E	2025E	2026E
1 Operating Activities						
2 Net Earnings	43,757	45,650	45,141	48,713	43,229	38,827
3						
4 Items Not Affecting Cash:						
5 Depreciation of property, plant and equipment	69,739	73,712	76,456	81,351	84,988	88,568
6 Amortization of intangible assets and other	4,470	4,690	6,515	6,724	7,070	7,427
7 Change in long-term regulatory assets and liabilities	25,719	2,880	(33,891)	(46,611)	(47,556)	(46,530)
8 Deferred income taxes	889	(3,053)	14,082	(364)	(3,483)	(2,091)
9 Employee future benefits	3,421	(3,818)	(6,906)	(7,220)	(2,418)	(5,576)
10 Other	74	60	(1,077)	174	145	(11)
11	<u>148,069</u>	<u>120,121</u>	<u>100,320</u>	<u>82,767</u>	<u>81,975</u>	<u>80,614</u>
12						
13 Change in working capital	(6,861)	(12,080)	(26,603)	10,005	38,770	44,189
14	<u>141,208</u>	<u>108,041</u>	<u>73,717</u>	<u>92,772</u>	<u>120,745</u>	<u>124,803</u>
15						
16 Investing Activities						
17 Capital expenditures	(109,785)	(110,218)	(133,812)	(125,493)	(122,769)	(134,564)
18 Intangible asset expenditures	(9,583)	(16,774)	(23,752)	(4,339)	(9,353)	(7,695)
19 Contribution from customers and security deposits	2,823	2,773	3,500	2,500	2,500	2,500
20 Net repayment (advance) of related party receivable	8,000					
21 Other	-	-	380	-	-	-
22	<u>(108,545)</u>	<u>(124,219)</u>	<u>(153,684)</u>	<u>(127,332)</u>	<u>(129,622)</u>	<u>(139,759)</u>
23						
24 Financing Activities						
25 Change in short-term borrowings	8,092	(13,459)	(1,361)	-	-	-
26 Net proceeds (repayment) of committed credit facility	-	20,000	7,634	43,010	47,462	(16,511)
27 Proceeds from long-term debt	-	75,000	90,000	-	-	100,000
28 Repayment of long-term debt	(7,200)	(35,950)	(8,450)	(8,450)	(8,450)	(37,485)
29 Payment of debt financing costs	(71)	(516)	(529)	-	-	(500)
30 Dividends on Common Shares	(33,484)	(28,897)	(7,327)	-	(30,135)	(30,548)
31	<u>(32,663)</u>	<u>16,178</u>	<u>79,967</u>	<u>34,560</u>	<u>8,877</u>	<u>14,956</u>
32						
33 Change in Cash	-	-	-	-	-	-
34 Cash, Beginning of Year	-	-	-	-	-	-
35 Cash, End of Year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Newfoundland Power Inc.							
Financial Performance 2021 to 2026E Average Rate Base ¹ (\$000s)							
		Actual		Forecast			
		2021	2022	2023	2024E	2025E	2026E
1	Plant Investment	1,169,093	1,204,059	1,264,037	1,334,567	1,381,842	1,425,802
2							
3	Additions to Rate Base						
4	Defined Benefit Pension Costs	89,394	91,992	98,264	104,719	108,876	112,167
5	Deferred Credit Facility Costs	71	92	96	90	59	31
2	Cost Recovery Deferral - Conservation	16,735	17,890	20,223	21,473	22,010	22,242
3	Cost Recovery Deferral - Hearing Costs	124	-	-	-	-	-
4	Cost Recovery Deferral - 2022 Revenue Shortfall	-	230	344	115	-	-
5	Cost Recovery Deferral - 2024 Revenue Shortfall	-	-	-	2,353	4,706	4,706
6	Cost Recovery Deferral - Load Research and Retail Rate Design	-	10	174	513	800	902
3	Cost Recovery Deferral - Pension Capitalization	-	-	400	997	1,020	672
4	Demand Management Incentive Account	1,172	617	297	350	-	-
5	Customer Finance Programs	1,927	1,614	1,443	1,421	1,435	1,450
6		<u>109,422</u>	<u>112,445</u>	<u>121,241</u>	<u>132,031</u>	<u>138,906</u>	<u>142,170</u>
7							
4	Deductions from Rate Base						
5	Weather Normalization Reserve	2,877	4,298	2,091	(1,198)	-	-
6	Other Post-Employment Benefits	70,153	76,859	81,955	85,517	89,012	90,703
7	Customer Security Deposits	1,307	1,336	1,270	1,270	1,270	1,270
8	Accrued Pension Obligation	5,213	5,234	5,377	5,535	5,706	5,885
5	Accumulated Deferred Income Taxes	14,330	17,026	25,045	33,177	35,249	37,782
6	Cost Recovery Deferral - 2019 Revenue Surplus	307	-	-	-	-	-
7	Excess Earnings Account	-	-	1,783	3,566	3,566	3,566
8	Refundable Investment Tax Credits	-	-	146	283	265	247
9		<u>94,185</u>	<u>104,753</u>	<u>117,667</u>	<u>128,150</u>	<u>135,068</u>	<u>139,453</u>
6							
7	Average Rate Base Before Allowances	1,184,330	1,211,751	1,267,611	1,338,448	1,385,680	1,428,519
8							
9	Cash Working Capital Allowance	8,339	6,705	7,419	7,705	7,865	7,829
10							
7	Materials and Supplies Allowance	10,277	11,978	14,676	13,905	14,164	14,389
8							
9	Average Rate Base at Year End	<u>1,202,946</u>	<u>1,230,434</u>	<u>1,289,706</u>	<u>1,360,058</u>	<u>1,407,709</u>	<u>1,450,737</u>

¹ All amounts shown are averages.

Newfoundland Power Inc.

Financial Performance
2021 to 2026E
Weighted Average Cost of Capital
(\$000s)

	Actual		Forecast			
	2021	2022	2023	2024E	2025E	2026E
1 Average Capitalization						
2 Debt	638,598	661,762	728,164	789,314	826,322	868,798
3 Common Equity	521,048	535,188	562,839	606,479	638,134	649,573
4	<u>1,159,646</u>	<u>1,196,950</u>	<u>1,291,003</u>	<u>1,395,793</u>	<u>1,464,456</u>	<u>1,518,371</u>
5						
6 Average Capital Structure (%)						
7 Debt	55.07	55.29	56.40	56.55	56.43	57.22
8 Common Equity	44.93	44.71	43.60	43.45	43.57	42.78
9	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>
10						
11 Cost of Capital (%)						
12 Debt ¹	5.46	5.25	5.11	5.26	5.10	4.99
13 Common Equity	8.88	8.95	8.44	8.44	7.16	6.38
14						
15						
16 Weighted Average Cost of Capital (%)						
17 Debt	3.01	2.90	2.88	2.98	2.88	2.86
18 Common Equity	3.99	4.00	3.68	3.67	3.12	2.73
19	<u>7.00</u>	<u>6.90</u>	<u>6.56</u>	<u>6.65</u>	<u>6.00</u>	<u>5.59</u>

¹ Cost of debt is shown net of AFUDC. This is consistent with the cost of debt used in the calculation of return on rate base. For regulatory reporting purposes, the embedded cost of debt shown in Return 25 of the 2022 Annual Reports to the Board can be reconciled to the reported cost of debt above as follows:

	2021	2022
Cost of Debt (Line 14) (%)	5.46	5.25
AFUDC (%)	0.15	0.23
Cost of Debt - Return 25 (%)	<u>5.61</u>	<u>5.48</u>

Newfoundland Power Inc.

Financial Performance
2021 to 2026E
Rate of Return on Rate Base
(\$000s)

	Actual		Forecast			
	2021	2022	2023	2024E	2025E	2026E
1 Regulated Return on Equity	46,278	47,914	47,493	51,169	45,710	41,411
2 Excess Earnings Account	-	-	3,566	-	-	-
3	<u>46,278</u>	<u>47,914</u>	<u>51,059</u>	<u>51,169</u>	<u>45,710</u>	<u>41,411</u>
4						
5 Finance Charges						
6 Interest on Long-Term Debt	35,450	35,597	36,677	39,053	38,600	40,860
7 Other Interest	183	453	2,736	3,541	4,695	3,972
8 Amortization of Bond Issue Expenses	217	215	221	225	221	217
9 AFUDC	(995)	(1,498)	(2,393)	(1,285)	(1,350)	(1,696)
10	<u>34,855</u>	<u>34,767</u>	<u>37,241</u>	<u>41,534</u>	<u>42,166</u>	<u>43,353</u>
11						
12 Return on Rate Base	<u>81,133</u>	<u>82,681</u>	<u>88,300</u>	<u>92,703</u>	<u>87,876</u>	<u>84,764</u>
13						
14 Average Rate Base	<u>1,202,946</u>	<u>1,230,434</u>	<u>1,289,706</u>	<u>1,360,058</u>	<u>1,407,709</u>	<u>1,450,737</u>
15						
16 Rate of Return on Rate Base (%)	6.74	6.72	6.85	6.82	6.24	5.84

Newfoundland Power Inc.

**Financial Performance
 2021 to 2026E
 Inputs and Assumptions**

1	Energy Forecasts:	Energy forecasts are based on economic indicators taken from the Conference Board of
2		Canada Economic Forecast, dated August 2, 2023.
3		
4	Revenue Forecast:	The revenue forecast is based on the Customer, Energy and Demand forecast dated September 14, 2023.
5		
6		Revenue for 2022 through 2024 forecast reflects: (i) recovery through the RSA of amounts associated
7		with the Energy Supply Cost Variance Adjustment Clause; (ii) recovery through the RSA of amounts
8		associated with variances in employee future benefit costs; (iii) recovery through the RSA of amounts
9		associated with the Weather Normalization reserve; and (v) recovery through the RSA of certain
10		costs related to the implementation of the CDM program portfolio, all of which were approved by the
11		Board in Order Nos. P.U. 32 (2007), P.U. 43 (2009), P.U. 31 (2010), P.U. 8 (2011), P.U. 13 (2013),
12		P.U. 18 (2015), and P.U. 3 (2022).
13		
14	Purchased Power Expense:	Purchased power expense reflects Newfoundland & Labrador Hydro's rates approved by the Board
15		effective October 1, 2019 and the Customer, Energy and Demand Forecast dated September 14, 2023.
16		
17		Purchased power expense reflects the operation of the Demand Management Incentive Account
18		approved by the Board in Order No. P.U. 32 (2007). This mechanism provides for recovery of demand
19		costs that are in excess of unit demand costs included in the most recent test year.
20		
21	Employee Future Benefit Costs:	Pension funding is based on the actuarial valuation dated as at December 31, 2022.
22		
23		Pension discount rate is 2.60% for 2021, 3.20% for 2022, 5.30% for 2023 and 4.80% for 2024 through 2026.
24		
25		Expected return on pension plan assets is 4.50% for 2021 and 2022 and 5.75% for 2023 through 2026.
26		
27		OPEBs discount rate is 2.70% for 2021, 3.20% for 2022 and 5.30% for 2023 through 2026.
28		
29	Cost Recovery Deferrals:	The 2023 through 2026 forecasts include the deferred recovery over a 10-year period of certain
30		Conservation program costs.
31		
32		The 2023 and 2024 forecasts include the amortization over a 34-month period of a \$0.9 million
33		revenue shortfall beginning March 1, 2022 related to a March 1, 2022 rate implementation date.
34		
35		The 2023 through 2026 forecasts include deferral of Electrification costs, including applicable interest.
36		
37		The 2023 through 2026 forecasts include the deferral of costs related to the Load Research Study and
38		Retail Rate Design Review.
39		
40		The 2023 through 2026 forecasts include the deferral of \$5.1 million in revenue related to forecast Excess
41		Earnings in 2023.
42		
43		The 2024 through 2026 forecasts include the deferral of a \$6.7 million revenue shortfall related to a
44		July 1, 2024 rate implementation date proposed in the <i>2024 Rate of Return on Rate Base Application</i> filed with
45		the Board on November 23, 2023.

Newfoundland Power Inc.

Financial Performance
2021 to 2026E
Inputs and Assumptions

1	Cost Recovery Deferrals (cont'd):	The 2023 through 2026 forecasts include the amortization over a 60-month period of \$1.4
2		million in income tax impacts beginning on January 1, 2023 related to the change in pension
3		capitalization approved in the 2022/2023 <i>General Rate Application</i> .
4		
5		The 2024 through 2026 forecasts include the amortization over a 60-month period of \$1.1
6		million in income tax impacts beginning on January 1, 2024 related to the change in pension
7		capitalization approved in the 2022/2023 <i>General Rate Application</i> .
8		
9	Depreciation Rates:	Depreciation rates are based on the 2019 <i>Depreciation Study</i> .
10		
11	Operating Costs:	The operating forecast for 2023 reflects the most recent management estimates. Operating
12		forecasts for 2024 through 2026 reflect projected labour increases of 3.80% in 2024, 4.45% in 2025 and
13		4.50% in 2026, and non-labour increases based upon the GDP deflator.
14		
15	Capital Expenditures:	Capital Expenditures for 2023 are based on the 2023 <i>Capital Budget Application</i> , adjusted for known
16		carryovers, and the 2023 <i>Supplemental Capital Expenditure Application</i> .
17		Capital Expenditures for 2024 through 2026 are based on the 2024 <i>Capital Budget Application</i>
18		and the 2023 <i>Supplemental Capital Expenditure Application</i> .
19		
20	Short-Term Interest Rates:	Average short-term interest rates are forecast to be 5.97% for 2023, 5.54% for 2024 and 4.75% for
21		2025 and 2026.
22		
23	Long-Term Debt:	A \$90.0 million long-term debt issue was completed in August 2023. The debt was issued for 30 years
24		at a coupon rate of 5.122%. Debt repayments will be in accordance with the normal sinking
25		fund provisions for existing outstanding debt.
26		
27		A \$100.0 million long-term debt issue is forecast to be completed in March 2026. The debt is forecast for
28		30 years at a coupon rate of 5.50%. Debt repayments will be in accordance with the normal sinking
29		fund provisions for existing outstanding debt.
30		
31	Dividends:	Common share dividend payouts are forecast based on maintaining a target common equity component
32		near 45%.
33		
34	Income Tax:	Income tax expense reflects a statutory income tax rate of 30% for 2023 through 2026.