



NEWFOUNDLAND AND LABRADOR

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

120 Torbay Road, P.O. Box 21040, St. John's, Newfoundland and Labrador, Canada, A1A 5B2

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2024-01-11

Ms. Lindsay Hollett
Newfoundland Power Inc.
Senior Legal Counsel
55 Kenmount Road
P.O. Box 8910
St. John's, NL A1B 3P6

Dear Madam:

Re: Newfoundland Power Inc. - 2024 Rate of Return on Rate Base Application - RFIs - PUB-NP-009 to PUB-NP-019

Enclosed are Requests for Information PUB-NP-009 to PUB-NP-019 regarding the above-noted application.

If you have any questions, please do not hesitate to contact the Board's Legal Counsel, Jacqui Glynn, by email, jglynn@pub.nl.ca or telephone (709) 726-6781.

Sincerely,

Jo-Anne Galarneau
Board Secretary

JG/cj

ecc **Newfoundland Power Inc.**
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1 **IN THE MATTER OF** the **Public**
2 **Utilities Act**, (the “**Act**”); and
3
4 **IN THE MATTER OF** an application by
5 Newfoundland Power Inc. for the approval
6 of a 2024 forecast average rate base and
7 rate of return on rate base and to establish
8 customer electricity rates for 2024.

**PUBLIC UTILITIES BOARD
REQUESTS FOR INFORMATION**

PUB-NP-009 to PUB-NP-019

Issued: January 11, 2024

- 1 **PUB-NP-009** Appendix C, line 11, indicates an increase of \$2.296 million in the return on
2 equity for the 2024 Revised Revenue Requirement in comparison to the 2023
3 Test Year Revenue Requirement. Please provide the calculation to support the
4 \$2.296 million change in return on equity.
5
- 6 **PUB-NP-010** Appendix D, page 1 of 3, line 23, indicates that the revenue shortfall (net of
7 income taxes at 8.50% return on equity) is \$8.845 million. Please provide the
8 calculation to support the \$8.845 million.
9
- 10 **PUB-NP-011** Further to the responses to NLH-NP-004 and CA-NP-010:
11 a) The short-term borrowing rate forecast was prepared in September,
12 2023. Please update this forecast to reflect the most recent available
13 information (i.e., from the same financial sources used to develop the
14 forecast short-term borrowing rate used in the application). In the
15 response state the change in the forecast rate from the application to the
16 updated forecast.
17 b) Please provide a comparison of short-term borrowing costs in the original
18 calculation in the application to the short-term borrowing costs if
19 calculated based on the updated information provided in this response.
20 In this response, please include the details of the calculations.
21 c) What is the forecast 2024 interest expense impact of a reduction of 1% in
22 short-term borrowing rates?
23
- 24 **PUB-NP-012** Please provide a table that compares the normalized actual sales for 2019,
25 2020, 2022 and 2023 to the test year sales forecast for 2019, 2020, 2022 and
26 2023. In the analysis, please also provide the variance from the forecast test
27 year contribution (i.e. \$) from sales for each year.
28
- 29 **PUB-NP-013** Further to the response to NLH-NP-002 Attachment A, please restate 2024PF
30 before and after recovery of the proposed 1.5% rate increase under each of
31 the following scenarios:
32 a) Sales forecast for 2024 is increased by 1% for all rate classes;
33 b) Sales forecast for 2024 is decreased by 1% for all rate classes;
34 c) Sales forecast for 2024 is increased by 2% for all rate classes;
35 d) Sales forecast for 2024 is decreased by 2% for all rate classes;
36 e) Operating expenses for 2024 are decreased by 5%; and
37 f) Operating expenses for 2024 are decreased by 10%.
38
- 39 **PUB-NP-014** Response to NLH-NP-007 stated:
40 "Approval of the Company's 2024 Rate of Return on Rate Base Application will
41 revise Newfoundland Power's 2024 rate of return on rate base to account for
42 the higher debt costs experienced since the Company's last general rate
43 application."

- 1 a) Please confirm that the proposed \$11.8 million increase in revenue
 2 requirement reflects an increase of \$8.05 million in operating expenses
 3 relative to the 2023 Test Year (i.e., \$78.775 million less \$70.725 million,
 4 as provided in response to NLH-NP-001, Attachment A).
 5 b) Please explain why Newfoundland Power believes it is appropriate to
 6 include increased operating costs in determining the revenue
 7 requirement in the 2024 rate of return on rate base application which is
 8 targeted at recovery of higher debt costs.
 9 c) Please explain why Newfoundland Power's application does not strictly
 10 deal with the recovery of the higher finance costs since the approval of
 11 the 2023 Test Year.
 12 d) What increases in revenue requirement and customer rates would be
 13 required for 2024 to enable the full recovery of only the higher finance
 14 costs since the approval of the 2023 Test Year?
 15 e) Did increased sales relative to the test year forecast in 2023 enable
 16 Newfoundland Power to offset the \$4.2 million increase in debt costs for
 17 2023 and earn a reasonable rate of return? Please explain.
 18 f) What additional increase in sales in 2024 (relative to the 2024 forecast)
 19 would provide adequate contribution to fully offset the forecast \$4.4
 20 million increase in finance costs (i.e., 2024F to 2023)?
 21

PUB-NP-015

22 According to Newfoundland Power's Amended 2022-2023 General Rate
 23 Application, Exhibit 5 (1st Revision), page 6 of 9, the Weighted Average Cost of
 24 Capital ("WACC") of 6.39% was equal to the Rate of Return on Rate Base
 25 calculated for the 2023 Test Year. However, according to Appendix B of the
 26 2024 Rate of Return on Rate Base Application the proposed WACC is 6.67%
 27 and the proposed Rate of Return on Rate Base is 6.85%, a spread of 18 basis
 28 points.

- 29 a) Please provide a reconciliation of the difference between the WACC of
 30 6.67% and the rate of return on rate base of 6.85% including an
 31 explanation of the reason for the difference between the WACC and the
 32 Rate of Return on Rate Base.
 33 b) According to the calculation of the 2023 Test Year Rate Base, the Cash
 34 Working Capital Allowance was \$6.712 million and the Materials and
 35 Supplies Allowance was \$8.905 million. According to Appendix A of this
 36 Application the 2024 Forecast Cash Working Capital Allowance and the
 37 Materials and Supplies Allowance are \$7.705 million and \$13.905 million,
 38 respectively. Please provide a reconciliation and an explanation for the
 39 differences in the rate base allowances between the 2023 Test Year and
 40 the 2024 Forecast (After Recovery).
 41 c) Does the impact of the difference noted in (b) contribute to the proposed
 42 1.5% increase in rates? If so, please provide the impact on the proposed
 43 rate increase. If not, please explain why.
 44

- 1 **PUB-NP-016** Response to CA-NLH-005 Attachment A indicates that for 2023F under existing
2 rates Newfoundland Power earned 6.85% return on rate base (assuming the
3 inclusion of excess earnings of \$5.1 million before income taxes) and 8.44%
4 return on equity. Newfoundland Power is proposing an increase in revenue
5 requirement of \$11.8 million in revenue requirement to provide an
6 opportunity for it to earn a return on rate base of 6.85% in 2024 (with no
7 excess earnings forecast).
- 8 a) Given Newfoundland Power is proposing an \$11.8 million increase in
9 revenue requirement and existing rates provided excess earning of \$5.1
10 million to the benefit of customers in 2023, does Newfoundland Power’s
11 rate proposal effectively result in a \$16.9 million cost increase to
12 customers relative to 2023? Please explain your response and specifically
13 explain why such an increase is appropriate given the 2024 forecast cost
14 of debt is \$4.4 million higher than the 2023 forecast cost of debt.
- 15 b) Please provide proforma 2024 finance schedules (in the formats provided
16 in Appendix A to Appendix E) using the following scenario: Substitute the
17 2024 Forecast Return on Equity (\$) with the 2023 Actual Return on Equity
18 (\$) (i.e., with excess earnings removed) and reflect any impact on income
19 taxes.
- 20 c) Please provide proforma 2024 finance schedules (in the formats provided
21 in Appendix A to Appendix E) using the following scenario: Substitute the
22 2024 Forecast Return on Equity (\$) with the 2023 Actual Return on Equity
23 (\$) (i.e., with excess earnings removed); substitute the 2024 Forecast
24 Average Rate Base with the 2023 Actual Rate Base; and reflect any impact
25 on income taxes.
- 26 d) Please provide proforma 2024 finance schedules (in the formats provided
27 in Appendix A to Appendix E) using the following scenario: Substitute the
28 2024 Forecast Return on Equity (\$) with the 2023 Actual Return on Equity
29 (\$) (i.e., with excess earnings removed); substitute the 2024 Forecast
30 Average Rate Base with the 2023 Test Year Rate Base; and reflect any
31 impact on income taxes.
- 32
- 33 **PUB-NP-017** Further to Appendix B, Newfoundland Power’s 2024 WACC equals 6.67%:
- 34 a) In its evidence in its 2008 General Rate Application, Volume 1, page 61),
35 Newfoundland Power stated, “The appropriate arithmetic expression of
36 the Formula following the Company’s transition to the Asset Rate Base
37 Method is: $\text{Return on Rate Base} = \text{Rate Base} \times \text{WACC}$ ”. Why is
38 Newfoundland Power not proposing to apply this formula in the
39 determination of rate base for 2024 in their application? Please explain.
- 40 b) Please confirm that Schedule B, Attachment 2 to PUB Information
41 Request (ii) filed on November 28, 2023, provides analysis reflecting the
42 use of the 6.67% forecast WACC to compute the rate of return and
43 revenue requirements for 2024.

- 1 **PUB-NP-018** a) Please provide the application to set customer rates for 2011 using the
 2 automatic adjustment formula.
 3 b) Please confirm that in the application of the automatic adjustment
 4 formula for setting 2011 customer rates that the change in the weighted
 5 average cost of capital (WACC) resulting from updating the return on
 6 equity was applied to the test year rate base in computing the change in
 7 revenue requirement to be recovered through customer rates. If not
 8 confirmed, please explain.
 9 c) Please provide proforma 2024 finance schedules (in the formats provided
 10 in Appendix A to Appendix E) using the following scenario: A proforma
 11 2024 WACC is computed by updating the 2023 Test Year WACC to reflect
 12 the forecast % cost of debt for 2024 (with no other changes to the
 13 computation of WACC) and this 2024 pro-forma WACC is applied against
 14 the approved 2023 Test Year rate base to compute the required change
 15 in revenue requirement. In the response, please include the calculations.
 16 d) Does Newfoundland Power believe the approach presented in part c) to
 17 this question would reasonably reflect the change in 2024 revenue
 18 requirement associated with the increased cost of debt since the 2023
 19 test year? Please provide reasons for the response.
 20
- 21 **PUB-NP-019** Further to the response to PUB-NP-007:
 22 a) Please provide the 2023 year-end return on equity and a computation of
 23 the balance in the Excess Earnings Account as of December 31, 2023
 24 using 2023 actuals
 25 b) State whether Newfoundland Power is proposing to use the 2023 Excess
 26 Earnings to minimize the increase in rates resulting from this application.
 27 Please explain all the factors to be considered in determining which of
 28 the two options for the disposition of the balance in the Excess Earnings
 29 Account outlined in PUB-NP-007 should be selected.
 30 c) Please update all tables in the response to NLH-NP-001 Attachment A to
 31 reflect 2023 year-end financial results.

DATED at St. John's, Newfoundland this 11th day of January 2024.

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Per



Jo-Anne Galarneau
Board Secretary