Doane Grant Thornton

Ms. Jo-Anne Galarneau
Board of Commissioners of Public Utilities
120 Torbay Road
Prince Charles Building
St. John's, NL A1A 5B2

Doane Grant Thornton LLP
Suite 300
15 International Place
St. John's, NL
A1A 0L4

T +1 709 778 8800
F +1 709 722 7892

September 5, 2025

Dear Ms. Galarneau,

Re: Newfoundland Power Inc.
2026 Capital Budget Application

We have completed our review as requested on July 18, 2025 relating to Newfoundland Power Inc.'s (the "Company's") 2026 Capital Budget Application (the "Application"). Specifically, we have considered the calculation of the 2024 actual average rate base and the calculations of rate base additions, deductions and allowances.

The procedures undertaken during our financial analysis do not constitute an audit of the Company's financial information and consequently, we do not express an opinion on the financial information.

The results of our review for each required task are noted below:

1 2024 Average rate base calculation

Pursuant to Order No. P.U. 32 (2007), the Board of Commissioners of Public Utilities (the "Board") approved the Company's proposal to complete its transition to the Asset Rate Base Method ("ARBM") commencing January 1, 2008. The actual average rate base for 2024 as calculated by the Company under the ARBM and provided in Schedule D of its Application is $1,357,191,000 which is an increase of $67,112,000 (5.2%) over the average rate base for 2023 of $1,290,079,000.

The net change in the Company's average rate base from 2023 to 2024 can be summarized as follows:

($000s)	2023	2024
Average rate base - opening balance	**1,230,434**	**1,290,079**
Change in average deferred charges and deferred regulatory costs	**9,028**	**8,714**
Average change in:		
Plant in service	**103,769**	**112,587**
Accumulated depreciation	**(44,253)**	**(44,931)**
Contributions in aid of construction	**(1,554)**	**(1,313)**
Weather normalization reserve	**4,171**	**1,840**
Other post-employment benefits	**(5,396)**	**(3,079)**
Deferred income taxes	**(7,317)**	**(7,606)**
Refundable investment tax credits	**(146)**	**(147)**
Rate base allowances	**3,399**	**212**
Customer finance programs	**(278)**	**(212)**
Demand management incentive account	**(182)**	**826**
Other rate base components (net)	**259**	**220**
Excess earnings	**(1,857)**	**-**
Average rate base - ending balance	**$ 1,290,079**	**$ 1,357,191**

Our procedures with respect to verifying the calculation of the average rate base were directed towards the verification of the data incorporated in the calculations and the methodology used by the Company. Specifically, the procedures we performed included the following:

- agreed all carry-forward data to supporting documentation including audited financial statements and internal accounting records, where applicable;
- agreed component data (capital expenditures; depreciation; etc.) to supporting documentation;
- checked the clerical accuracy of the continuity of the rate base for 2024; and
- agreed the methodology used in the calculation of the average rate base to the Public Utilities Act to ensure it is in accordance with Board Orders and established policy and procedure.

Doane Grant Thornton

Based upon the results of the above procedures we did not note any discrepancies in the calculation of the 2024 average rate base, and therefore conclude that the 2024 average rate base included in Schedule D of the Company's Application is in accordance with established practice and Board Orders.

2 Rate base additions, deductions and allowances

The report provides a review of all additions, deductions and allowances included in the rate base.

2.1 Rate base additions

The actual additions in 2023 and 2024 as presented by the Company are as follows:

($000's)	2023	2024
Deferred Pension Costs	101,430	108,293
Credit Facility Issue Costs	105	167
Cost Recovery Deferral – Conservation	20,708	21,280
Cost Recovery Deferral – Revenue Shortfall	229	-
Cost Recovery Deferral – Load Research and Retail Rate Design Review	189	635
Cost Recovery Deferral - Hearing Costs		874
Cost Recovery Deferral – Pension Capitalization	799	1,198
Customer Finance Programs	1,199	1,049
Total Additions	**$ 124,659**	**$ 133,496**

Source: Newfoundland Power Inc. - 2026 Capital Budget Application - Report on Rate Base: Additions, Deductions & Allowances - Table 1

Deferred Pension Costs

Deferred pension costs are the result of the pension funding exceeding the pension expense as determined in accordance with the recommendations of U.S. GAAP. As detailed in the table below, pension plan funding was $1,515,000 and $1,269,000 in 2023 and 2024, respectively. Pension plan recovery was an increase of $4,820,000 in 2023 and an increase $5,594,000 in 2024 to Deferred Pension Costs.

($000's)	2023	2024
Deferred Pension Costs, January 1	95,095	101,430
Pension Plan Funding	1,515	1,269
Pension Plan (Expense) Recovery	4,820	5,594
(Decrease)/ Increase in Deferred Pension Costs	6,335	6,863
Deferred Pension costs, December 31	**$ 101,430**	**$ 108,293**

Source: Newfoundland Power Inc. - 2026 Capital Budget Application - Report on *Rate Base: Additions, Deductions & Allowance*s - Table 2

Deferred pension costs represent the difference in Newfoundland Power's defined benefit pension plan funding and expense. Deferred pension recovery increased from $4,820,000 in 2023 to $5,594,000 in 2024 primarily due to lower interest costs. The pension expense amounts have been agreed to schedules provided by the Company's actuary.

Credit facility costs

The credit facility issue costs represent unamortized costs associated with credit facility amendments as these costs have not yet been reflected in the Company's revenue requirement.

In August 2024, the committed credit facility was renegotiated to extend its maturity date to August 2029 and increase the amount from $100 million to $130 million. Costs related to this amendment totalled $101,000 and are being amortized over the five-year life of the agreement, beginning in 2024.

Cost recovery deferral – Conservation

On April 17, 2013, the Board issued Order No. P.U. 13 (2013) and approved the deferral of annual customer energy conservation program costs and the amortization of annual costs over seven years beginning in 2014 with recovery through the Rate Stabilization Account ("RSA"). In Order No. P.U. 3 (2022), the Board approved the amortization of annual costs over 10 years, commencing January 1, 2021 for historical balances and annual charges.

Based on our review of deferred cost recovery relating to conservation and amortization of annual costs, we confirm that we have not noted any discrepancies or unusual items, and it is consistent with approved Board Orders.

Cost recovery deferral – Revenue shortfall

The Board's disposition of Newfoundland Power's 2022/2023 General Rate Application in Order No. P.U. 3 (2022) resulted in a $930,000 ($650,000 after-tax) shortfall in the recovery of the revenue requirements for 2022 (the "2022 Revenue Shortfall"). The Board approved recovery of this shortfall through a regulatory amortization beginning on March 1, 2022 and ending December 31, 2024.

In Order No. P.U. 24 (2024), the Board approved the deferred cost recovery of a forecast revenue shortfall for 2024 of $9.0 million ($6.3 million after-tax) resulting from the Company's 2024 Rate of Return on Rate Base Application and the subsequent transfer of the forecast revenue shortfall to the RSA on December 31, 2024.

Based on our review of the deferred cost recovery relating to the 2022 and 2024 Revenue Shortfall and amortization, we confirm that we have not noted any discrepancies or unusual items, and it is consistent with Order Nos. P.U. 3 (2022) and P.U. 24 (2024).

Cost recovery deferral – Load research and retail rate design review

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. In 2024, costs of $637,000 ($446,000 tax effected) have been deferred.

Cost recovery deferral – Hearing costs

The Board accepted the Settlement Agreement recommendation for forecast hearing costs of up to $1.0 million related to the Company's 2025/2026 General Rate Application in Order No. P.U. 3 (2025). These costs will be recovered in customer rates over the period of July 1, 2025 to December 31, 2027. Any difference between actual and estimated hearing costs will be reflected in the RSA.

As at December 31, 2024, actual hearing costs were $1,248,000 ($874,000 after tax). On January 1, 2025, the Company transferred $248,000 of the hearing costs to the RSA representing the difference between actual and estimated hearing costs of $1.0 million as approved in Order No. P.U. 3 (2025).

Cost recovery deferral – Pension capitalization

The Pension Capitalization Cost Deferral Account was approved in Order No. P.U. 3 (2022) to amortize the forecast revenue requirement increases. The 2024 annual increase amounted to $1,069,000 ($748,000 tax effected). Based on our review of deferred cost recovery relating to pension capitalization and amortization of annual costs, we confirm that we have not noted any discrepancies or unusual items, and it is consistent with approved Board Orders.

Customer finance programs

As indicated by the Company, Customer Finance Programs are loans provided to customers for purchase and installation of products and services related to conservation programs and contributions in aid of construction.

2.2 Rate base deductions

The actual figures for 2023 and 2024 as presented by the Company are as follows:

($000's)	2023	2024
Other Post-Employment Benefits ("OPEBs")	84,357	86,308
Customer Security Deposits	653	618
Accrued Pension Liabilities	5,397	5,512
Accumulated Deferred Income Taxes	30,609	33,287
Weather Normalization Reserve	(6,321)	2,896
Demand Management Incentive Account	(978)	(1,545)
Refundable Investment Tax Credits	292	294
Excess Earnings Account	3,714	-
Total Deductions	**$ 117,723**	**$ 127,370**

Source: Newfoundland Power Inc. – 2026 Capital Budget Application - Report on *Rate Base: Additions, Deductions & Allowance*s - Table 10.

Doane Grant Thornton

Our comments with respect to the deductions to rate base are noted below:

OPEBs liability

The Company's OPEBs are comprised of retirement allowances for retiring employees, as well as health, medical and life insurance for retirees and their dependents. In Order No. P.U. 31 (2010), the Board approved, beginning in 2011, the adoption of the accrual method of accounting for OPEBs and related income tax. In addition, the Board approved a 15-year straight line amortization of a transitional balance starting in 2011. The total amount of the deduction to rate base related to OPEBs for 2024 is $86,308,000. The 2023 and 2024 OPEBs are consistent with calculations provided by the Company's actuary.

Customer security deposits

Customer Security Deposits are provided by customers in accordance with the Schedule of Rates, Rules and Regulations. As part of the transition to ARBM, in 2008 the inclusion of Customer Security Deposits is required as a component of rate base.

Accrued pension obligation

Accrued pension obligation represent the executive and senior management supplemental pension benefits comprised of a defined benefit plan (Pension Uniformity Plan - PUP) and a defined contribution plan (Supplementary Employee Retirement Plan - SERP). The balance represents the cumulative costs of these unfunded plans, net of associated benefit payments.

As part of the transition to ARBM, in 2008 the inclusion of accrued pension liabilities was required as a component of rate base. The 2023 and 2024 PUP are consistent with calculations provided by the Company's actuary. The Company is the designated administrator responsible for the overall administration, interpretation, and application of the SERP. The liability is determined by the Company in accordance with the terms of the SERP.

Accumulated deferred income taxes

Deferred income taxes arise due to the Board's approval of the Company's use of tax accrual accounting related to plant investment, pension costs and other employee future benefit costs. Accumulated deferred income taxes increased from $30,609,000 in 2023 to $33,287,000 in 2024. We recalculated the accumulated deferred income tax balances and compared the result to the annual return filed by the Company. During this review we did not note any differences in the calculation or inconsistencies within the information provided by the Company.

Weather normalization reserve

The disposition of the December 31, 2024 balance in the Weather Normalization Reserve account to the RSA as of March 31, 2025 was approved by the Board in Order No. P.U. 15 (2025). Based on our review of the Weather Normalization Reserve, we confirm that it is in agreement with the approved Board Order No. P.U. 15 (2025).

Doane Grant Thornton

Demand management incentive account

The disposition of the December 31, 2024 balance in the Demand Management Incentive Account ("DMI") to the RSA as of March 31, 2025 was approved in Order No. P.U. 14 (2025). Based on our review of DMI, we confirm that we have not noted any discrepancies or unusual items, and it is in agreement with the approved Board Order No. P.U. 14 (2025).

Refundable investment tax credits

The Refundable Investment Tax Credit relates to the scientific research and experimental Development (SR&ED) tax incentives that are recognized into income in a way that is consistent with the amortization of the capital assets to which they relate. The Company's SR&ED claims were significantly larger in 2021 and 2022 than in prior years which resulted in a refund. This refund has been deferred and is being amortized into revenue over a period consistent with the depreciation period for the projects relevant to the claim.

Excess earnings account

The Board approved the definition of the Excess Earnings Account in Order No. P.U. 23 (2013). In 2023, Newfoundland Power's regulated earnings exceeded the upper limit of the range of return on rate base approved by the Board for 2023 by $3,714,000. Disposition of any balance in the Excess Earnings Account will be determined by the Board. In Order No. P.U. 24 (2024), the Board approved the transfer of the balance in the Excess Earnings Account as of December 31, 2023 to the RSA on December 31, 2024.

2.3 Rate base allowances

The cash working capital ("CWC") allowance, together with the materials and supplies allowance, make up the total allowances that are included in Newfoundland Power's rate base. It represents the average amount of investor-supplied working capital necessary to provide service. The CWC allowance for 2023 and 2024 is calculated based on the method used to calculate the 2023 Test Year average rate base approved by the Board in Order No. P.U. 3 (2022). Additionally, the 2023 and 2024 materials and supplies allowance used an expansion factor of 19.08% which is consistent with the factor used to calculate the 2023 Test Year average rate base approved in Order No. P.U. 3 (2022).

Based on our review of the rate base allowances, we have not noted any discrepancies or unusual items and 2024 is consistent with 2023 Test Year data.

We trust this is the information you requested. If you have any questions, please contact us.

Yours sincerely,
Doane Grant Thornton LLP

Barry Griffiths, CPA, CA,
Principal

Angie Brown, CPA, CA, CIA
Partner