Q. (Reference 4.1 - Customer Correspondence Modernization, Appendix A- Net Present Value Analysis)
a) It appears from the table that the expenditure on the new software can be fully claimed against NP' s taxable income in the year in which it is incurred. Please confirm or clarify.
b) In Column G the income tax figures appear to be based on a 30% corporate income tax rate representing the combined federal and provincial corporate income tax rates. Please confirm or clarify.
c) In Column H, the figures appear to be the change in NP' s after-tax net income due to the project. Please confirm or clarify.
d) Why is a discount rate of 5.84% used in the analysis?
e) What would be the impact on the Present Value calculation if (i) a discount rate of 9.5% is used; or (ii) annual Net Operating Savings in 2028 to 2033 were 15% lower than anticipated in Column F?

A. a) The net present value analysis is calculated on the after-tax cash flows related to the *Customer Correspondence Modernization* project. The amounts included under Capital Additions (Column A) represent the expected cash outflows related to the new software purchases. The amounts included under After-Tax Cash Flow (Column H) is the net cash flow in each year for software additions, changes in operating costs and the associated income tax. The net operating savings over the 2028 to 2033 period are forecast to more than offset the total capital expenditures and associated financing and income tax impacts of the project as shown by the positive NPV analyses.[1]

b) It is confirmed.

c) See part a).

d) Newfoundland Power's discount rate for capital project evaluation is set to the Company's incremental weighted average cost of capital. The discount rate at the time the Company was preparing its *2026 Capital Budget Application* in early 2025 was 6.69%, or 5.84% after-tax.[2]

The after-tax weighted average cost of capital is comprised of: (i) the Company's rate of return on equity of 8.60% and a capital structure consisting of 45% common equity approved by the Board in Order No. P.U. 3 (2025); and (ii) the interest rate of 5.122% in the Company's issue of First Mortgage Bonds approved by the Board in Order No. P.U. 20 (2023).[3]

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1 Capital, financing and associated income tax related costs will be recovered from customers over the service life of the related assets.

2 (8.60% x 45%) + ((5.122% x 55%) = 6.69%. (8.60% x 45%) + ((5.122% x (1 – 30%)) x 55%) = 5.84%.

3 In August 2023, Newfoundland Power issued $90 million in 5.122% Series AS First Mortgage Bonds with a term of 30 years.

e) (i) A discount rate of 9.50%, or 7.81% after-tax, would result in an NPV of $79,248.[4]

(ii) A 15% decrease in annual net operating savings would result in an NPV of ($27,151).

[4] (8.60% x 45%) + ((10.230% x 55%) = 9.50%. (8.60% x 45%) + ((10.230% x (1 – 30%)) x 55%) = 7.81%. Since Newfoundland Power's return on equity of 8.60% and capital structure of 45% equity were approved by the Board in Order No. P.U. 3 (2025), a 9.50% discount rate implies a yield on the Company's next long-term debt issuance of 10.230%. In August 2025, Newfoundland Power issued $120 million in 4.913% Series AT First Mortgage Bonds with a term of 30 years.