

Newfoundland and Labrador

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

**ANNUAL REPORT
YEAR ENDING MARCH 31, 2018**

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MESSAGE FROM THE CHAIR AND CHIEF EXECUTIVE OFFICER

I am pleased to present the annual performance report of the Board of Commissioners of Public Utilities (the “Board”) for the fiscal year ending March 31, 2018. This report was prepared under my direction in accordance with the *Transparency and Accountability Act*. The Board is classified as a Category 3 entity and is required to submit annual performance reports to the House of Assembly on its success in achieving the objectives, measures and indicators as outlined in its multi-year performance-based activity plan. As Chair and Chief Executive Officer I am accountable for the results as outlined in this report.

The Board operates as an independent, quasi-judicial tribunal constituted under the *Public Utilities Act*. The regulatory mandate of the Board includes regulation and oversight of the electric utilities, regulation of automobile insurance rates, setting maximum prices for petroleum products in the Province, as well as limited responsibilities in the areas of motor carrier operations and expropriations. The Board’s strategic priorities are focused on improving the efficiency of its regulatory tools and streamlining its regulatory framework while ensuring appropriate resources are available to effectively deliver its mandated responsibilities.

Again 2017-2018 has proven to be very challenging for the Board and its success in meeting its strategic priorities is primarily due to the dedication and commitment of its staff and commissioners.



Darlene Whalen, P.Eng., FEC
Chair and Chief Executive Officer

OVERVIEW

ORGANIZATION

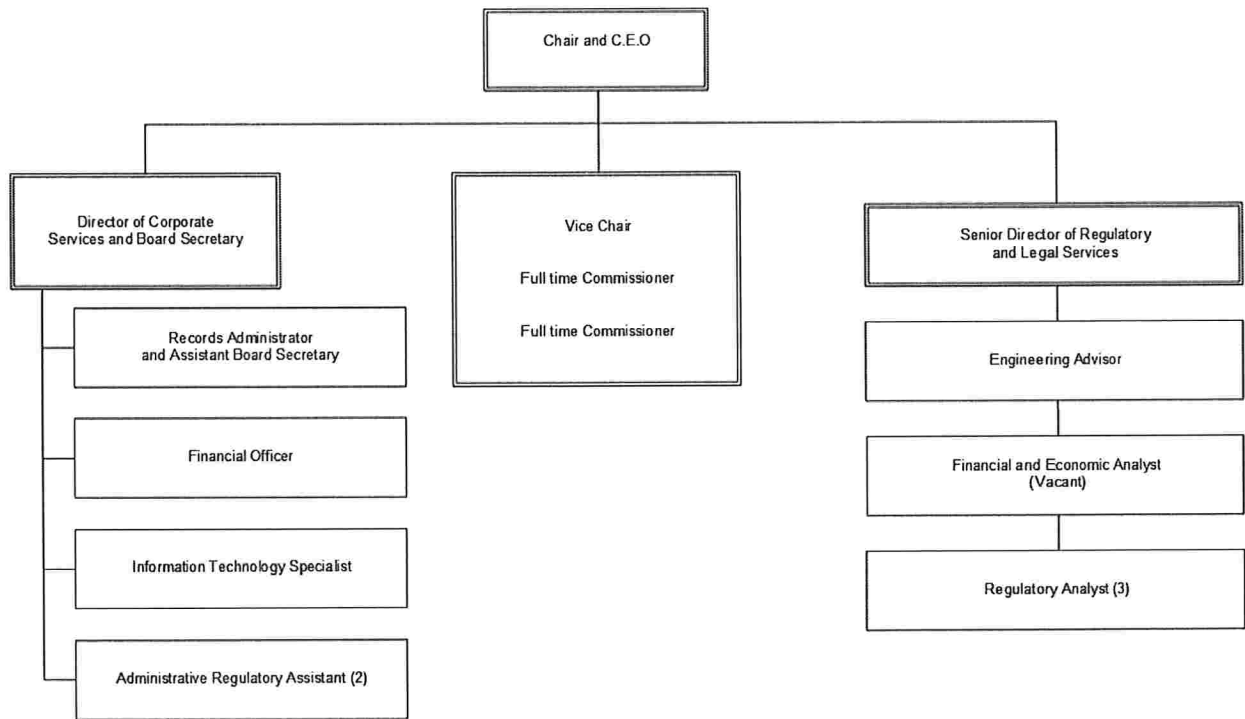
Created by statute in 1949 the Board is comprised of four full-time commissioners, appointed by the Lieutenant-Governor in Council, including the Chair and Chief Executive Officer and the Vice Chair. The *Public Utilities Act* gives the Chair and Chief Executive Officer the full authority for the overall operation, management and financial administration of the Board.

The Board has 12 permanent full-time staff positions located in St. John’s.

The Board’s functional organizational structure, shown in the Organizational Chart (Figure 1), consists of Regulatory and Legal Services and Corporate Services. Regulatory and Legal Services oversees the Board’s regulatory mandate with responsibility for coordination and management of applications, research, investigations, compliance monitoring, financial/technical reviews and customer complaints. Corporate Services is responsible for management of the administrative functions of the Board, including finance, communications, information technology and human resource services.

Figure 1

*Board of Commissioners of Public Utilities
Organizational Chart
At March 31, 2018*



KEY STATISTICS

The work of the Board is diverse and has broad implications for most residents of Newfoundland and Labrador.

- The Board is responsible for the regulation and general oversight of Hydro and Newfoundland Power, with a combined customer base of approximately 305,000 residential and general service customers, and five industrial customers.
- The Board regulates automobile insurance rates and underwriting guidelines for insurance companies operating in the Province. Based on the most recently available market information 44 companies wrote total premiums of \$433,851,000, insuring approximately 354,390 private passenger and commercial vehicles in the Province.
- The Board sets maximum prices for regulated petroleum products sold in the Province through a network of suppliers, wholesalers and retailers of gasoline, automotive diesel and heating fuels.
- The Board currently has 65 active ambulance certificates and 56 active bus service certificates.

FINANCIAL INFORMATION

The Board's operating expenses for 2017-18 were \$2,284,312. The comparative expenditures for the previous five-year period are shown below:

Board of Commissioners of Public Utilities						
Expenditures						
Year End-March 31						
	2013	2014	2015	2016	2017	2018
Operating Total	\$2,444,530	\$2,404,931	\$2,330,468	\$2,496,125	\$2,356,425	\$2,284,312
Pension/Salary Adjustment*						\$241,119
Total						\$2,525,431
Hearings - Board	\$714,955	\$1,140,741	\$1,822,246	\$1,997,267	\$1,109,651	\$468,204
Hearings - Consumer Advocate	\$860,976	\$307,410	\$505,044	\$879,694	\$968,982	\$1,291,763
Hearings - Total	\$1,575,931	\$1,448,151	\$2,327,290	\$2,876,961	\$2,078,633	\$1,759,967
Total Expenditures	\$4,020,461	\$3,853,082	\$4,657,758	\$5,373,086	\$4,435,058	\$4,285,398

The Board is funded through assessments charged to regulated industries/companies or on a cost recovery basis from applicants and/or parties involved in specific proceedings and/or investigations. In accordance with sections 13 and 14 of the *Public Utilities Act*, the Board levies an annual assessment to regulated entities to cover its estimated general operating expenses for that year. Assessments to each industry vary depending on the actual allocation of work performed by the Board in the year. For 2017-18 the Board assessed 78 per cent (\$1,923,215) of its annual revenue requirement to electrical utilities and 22 per cent (\$552,100) was assessed to automobile insurance companies. The petroleum products industry was not assessed due to a rebate of assessments from the previous year.

Public hearings and investigations are funded outside of normal budgeted activities on a cost recovery basis in accordance with applicable legislation. Section 90 of the *Public Utilities Act* details the costs which may be recovered incidental to a matter. During 2017-18 the Board's accumulated hearing costs totaled \$1,759,967 with a significant portion of these costs associated with the Board's investigation and hearing into supply issues and power outages and Hydro's general rate application. Further details regarding the Board's recoverable costs can be found in Note 6 to the Board's Financial Statements (Appendix I).

*See Note 12 of the Financial Statements (Page 13)

HIGHLIGHTS AND ACCOMPLISHMENTS

The Board's primary focus is to ensure that it can effectively and efficiently respond to matters which arise in the context of its regulatory mandate. Compliance monitoring and general regulatory oversight constitute a significant portion of the Board's ongoing regulatory activities, especially in the areas of public utility and automobile insurance rate regulation.

During 2017-18 the Board issued 44 orders under the *Public Utilities Act*, 33 under the *Automobile Insurance Act* and nine under the *Motor Carrier Act*. A complete list of these Orders can be found on the Board's website www.pub.nl.ca. The Board ordered 52 adjustments to the maximum price of regulated petroleum products under the *Petroleum Products Act*. Adjustments to maximum pricing for each of the regulated petroleum products for 2017-18 can also be found on the Board's website.

Highlights for 2017-18 are as follows:

UTILITY REGULATION

Forty-four orders were issued during 2017-18 under the Board's public utilities regulatory mandate. A summary of the major public utility decisions and on-going matters is outlined below.

- On May 18, 2017 by Order No. P.U. 17(2017) the Board approved applications by Newfoundland Power and Hydro for approval of rules and rates to permit the implementation of Net Metering programs effective July 1, 2017. The Board also ordered both utilities to file annual reports beginning on April 1, 2018 on their respective net metering programs.
- On May 21, 2017 the Board issued Order No. P.U. 13(2017) approving Hydro's proposed capital expenditure of \$9,063,700 to inspect and refurbish Bay d'Espoir Penstock 2. This Order also approved a capital expenditure in the amount of \$2,361,500 to complete a major overhaul on the Bay d'Espoir Unit 3 Turbine.
- The review of Hydro's amended general rate application for 2014 and 2015 test years, which was filed in November 2014, concluded in 2017-2018 with the issuance of Order Nos. P.U. 22(2017) and P.U. 26(2017). In Order No. P.U. 22(2017), issued June 14, 2017, the Board approved Hydro's proposed final rates and Rules and Regulations to be effective July 1, 2017, for Newfoundland Power, its Labrador Interconnected and Labrador Industrial Transmission customers, and Government Departments in its diesel service areas, including the proposed RSP and CDM adjustments. In Order No. P.U. 26(2017), issued July 6, 2017, the Board approved final rates for Island Industrial customers commencing July 1, 2017.
- On July 28, 2017 Hydro filed its 2017 general rate application requesting approval of, among other things, proposed rates to be effective January 1, 2018 and January 1, 2019. On August 16, 2017 the Board published a Notice of Application and Pre-Hearing Conference providing details on the application, review process and inviting participation from interested persons or organizations. Since the initial filing Hydro has submitted four revisions to its application and Hydro and intervenors provided additional evidence and answered numerous requests for information. The Board has also issued several orders related to this application, including Order No. P.U. 2(2018) requiring Hydro file additional information as requested by the Consumer Advocate, and Order No. P.U. 7(2018) approving interim rates, effective April 1, 2018, for Island Industrial customers and Labrador Industrial Transmission rates. The review of this application is ongoing.

- On October 11, 2014 Hydro filed an application for approval of recovery of the 2015 and 2016 total supply cost balances of approximately \$42.2 million in the Isolated Systems Supply Cost Variance Deferral Accounts, the Energy Supply Costs Variance Deferral Account, and the Holyrood Conversion Rate Deferral Account. On November 29, 2017, following the Board’s application review process, the Board issued Order No. P.U. 39(2017) dismissing the application and stating Hydro’s 2017 general rate application may be the most convenient forum to address the issues related to the recovery of the supply costs.
- On November 6, 2017 the Board issued Order No. P.U. 37(2017) approving Newfoundland Power’s 2018 Capital Budget of \$83,876,000 and fixing and determining the average rate base for the year ending December 31, 2016 at \$1,061,044,000.
- On November 21, 2017 Hydro filed an application requesting approval to issue debt in aggregate not to exceed \$700,000,000. Hydro proposed to have the Province borrow on its behalf and lend the proceeds to Hydro on identical terms and conditions in order to ensure least cost borrowings. On December 11, 2017 the Board issued Order No. P.U. 42(2017) approving the application subject to certain conditions.
- On December 21, 2017 the Lieutenant Governor in Council, pursuant to section 5.1 of the *Electric Power Control Act*, issued Order in Council OC2017-380 which directed the Board to adopt a policy that the submissions and Transmission Service Agreements of the Newfoundland and Labrador System Operator (“NLSO”) relating to the transmission of electricity over the Province’s high voltage transmission system be approved on an interim basis and that the Transmission Policies and Procedures and Code of Conduct for transmission system operations to be adopted by the NLSO be approved until such time as the Board reviews the interim proposals. On February 6, 2018 Hydro, acting in its capacity as the NLSO, filed an application requesting approval of pro-forma Transmission Service Agreements, interim transmission rates and the methodology for the development of rates for transmission service, the NL Transmission Policies and Procedures, and the Code of Conduct for NL Transmission System Operations. On February 3, 2018 the Board issued Order No. P.U. 3(2018) approving the application.
- On December 22, 2017 the Board issued Order No. P.U. 43(2017) approving Hydro’s 2018 Capital Budget of \$170,868,300. Subsequently, on March 23, 2018, the Board issued Order No. P.U. 5(2018) approving 2018 expenditures of \$10,325,400 for Hydraulic Generation Refurbishment and Modernization.

The Board also issued orders arising from applications for supplementary approval of 2017 and 2018 capital spending, contributions in aid of construction and various other financial and accounting matters for both Hydro and Newfoundland Power. In addition, the Board continued to monitor Hydro’s progress in addressing the concerns raised in the Board’s Phase One report in relation to the investigation into the supply issues and power outages on the Island Interconnected system in 2013, 2014 and 2015 and continued its Phase Two review of supply adequacy and reliability prior to and post Muskrat Falls.

AUTOMOBILE INSURANCE REGULATION

The Board issued 33 orders in relation to Category 2 rate filings proposing rate increases or new rates. Six of the Category 2 filings were initially denied by the Board but were later resubmitted and approved.

The Board also received 23 Category 1 filings representing no changes or reductions in rates. Pursuant to the *Automobile Insurance Act* these filings are not subject to prior approval and may be implemented 30 days, or later as may be specified by the company, following filing with the Board. The majority of the 23 Category 1 filings were in relation to updating Vehicle Rate Group Tables and revisions to underwriting guidelines.

The Board has established a compliance audit program to review the rates and rating practices of the regulated insurance companies. The compliance audit program is designed to ensure that insurers writing business in the Province are charging rates that have been approved by the Board in accordance with the *Automobile Insurance Act* and the *Insurance Companies Act*. The audit program also ensures that agents and brokers of the insurer are interpreting the underwriting guidelines of the insurer correctly and that insureds of similar risk characteristics are being rated correctly. No compliance audits were completed in 2017-18.

On July 4, 2017 Government announced the start of a comprehensive review of the automobile insurance system in Newfoundland and Labrador. On August 9, 2017 the Board was directed to complete a review and report on a number of issues with respect to automobile insurance in accordance with the Terms of Reference issued to the Board, including the reasons behind increasing claims costs for private passenger vehicles and taxi operators, and options to reduce these costs. The Board has been specifically asked to examine the impact on rates and implications for claimants of a monetary cap on claims for non-economic loss for minor/mild injury or continuing with the current deductible of \$2,500 or increasing the deductible. This work is ongoing and a number of consultant reports commissioned as part of the Board’s review have been released. The Board’s will file its final report following the completion of public hearings.

PETROLEUM PRODUCTS PRICING REGULATION

There were 52 scheduled changes to the maximum prices of various fuel products for the period April 1, 2017 to March 31, 2018 as follows:

Fuel Product	Change in Maximum Price	Range of Maximum Price
<i>Gasoline Motor Fuel</i>	24 increases, 27 decreases and 1 with no change	117.8 cpl – 140.6 cpl
<i>Diesel Motor Fuel</i>	30 increases, 20 decreases and 2 with no change	109.3 cpl – 140.2 cpl
<i>Furnace Oil Heating Fuel</i>	28 increases and 24 decreases	69.54 cpl – 89.73 cpl
<i>Stove Oil Heating Fuel</i>	29 increases, 22 decreases and 1 with no change	74.36 cpl – 95.12 cpl
<i>Propane Heating Fuel</i>	20 increases, 17 decreases and 15 with no change	70.6 cpl – 90.6 cpl

Two changes to provincial taxation in 2017-2018 also impacted the maximum prices of certain regulated petroleum products. On May 5, 2017, following the tabling of the provincial budget, the Department of Finance Tax Administration Division issued Bulletin No. RAA-GAS-002 which detailed decreases in the provincial taxes applicable to gasoline and diesel automotive fuels effective June 1, 2017 and December 1, 2017 as follows:

Product	Old Rate	June 1, 2017 Rate	December 1, 2017 Rate
Gasoline	33 cpl	24.5 cpl	20.5 cpl
Diesel	21.5 cpl	21.5 cpl	21.5 cpl

In that same bulletin Government announced that, until December 1, 2017, a reduced tax rate of 23 cpl would continue to be imposed upon gasoline, other than diesel, acquired at retail sale in Labrador West (Labrador City and Wabush) and Southern Labrador (from the Quebec border to an including the community of Red Bay). Effective December 1, 2017 the rate would be reduced for gasoline to be the same as the remainder of the province at 20.5 cpl.

MOTOR CARRIER REGULATION

Nine orders were issued under the Board's Motor Carrier mandate related to ambulance and public bus services. Seven orders approved new motor carrier certificates for ambulance services and two orders cancelled existing motor carrier certificates.

REPORT ON PLANNED ACTIVITIES

This is the first reporting year of the 2017-2020 planning cycle for the Board. In preparing this activity report the Board continues to build on the priorities and initiatives that were identified in the past four planning cycles.

The Board will continue to respond to emerging issues in regulation by focusing on the management and administration of its processes and practices and build on past successes by continuing to improve and update our processes to ensure that it has the ability to fulfill its mandate and respond to future requirements. This was a particularly challenging year for the Board in terms of workload and efficient management of its regulatory agenda and on-going hearing and investigative processes was key in ensuring that its schedules and timelines were met as planned. Over the past ten years the Board has introduced a number of regulatory initiatives to streamline its regulatory processes and reduce regulatory burden and costs. These initiatives include the establishment of minimum filing guidelines for capital budgets and automobile insurance applications, a standard review process for routine applications, procedural guidelines, negotiated settlement processes, compressed sitting hours during hearings, daily transcriptions for hearings, a revamped power outage reporting policy, and moving to weekly maximum price setting of regulated petroleum products.

On March 14, 2018 Government announced three appointments: Vice-Chair Darlene Whalen was appointed Chair and Chief Executive Officer; Commissioner Dwanda Newman was re-appointed for a 10-year term as Vice-Chair; and John O'Brien was appointed as Commissioner to fill a commissioner position which had been vacant since August 2017. Continuity of regulatory knowledge and expertise is an important factor for specialized economic regulatory boards such as the Board in ensuring it is equipped to deliver effective and efficient regulation and meet its current and future regulatory responsibilities and challenges.

The Board's progress in meeting its planned objectives for 2017-18 is set out below:

ISSUE:	Continued Regulatory Responsiveness
Objective	By March 31, 2018 the Board will have enhanced effective and efficient regulation.
Measure:	Effective and efficient regulation enhanced
Indicator	Continued effective regulatory response
<p>Effective and efficient regulatory response continued. The improvements in the Board's regulatory processes over the last four planning cycles have significantly contributed to the ability of the Board to meet its objectives in achieving enhanced and efficient regulation. In 2017-18 the Board continued to enhance regulatory response to deliver its regulatory mandate in a timely and cost-effective manner. Regulatory processes were improved by focusing on enhanced communication and consultation with stakeholders including consultative scheduling, filing guidelines, issues lists and negotiated settlements. This effort provides focus to the issues and helps facilitate efficient processes, keeping schedules on track and reducing costs and regulatory burden for all participants.</p> <p>In addition to routine applications and compliance filings, several major applications and reviews. As well ongoing investigations significantly impacted the Board's workload and resources during the year. The challenge for the Board in this period has been to issue decisions in a timely manner, especially in light of a vacant Commissioner position. During the year the Board concluded a number of major applications including Hydro's 2013-14 General Rate Application, capital</p>	

budget and net metering applications from both utilities. The Board also received the 2017 General Rate Application from Hydro in July 2017 and commenced the 2017 Automobile Insurance Review directed by Government in August 2017. Maintaining schedules, keeping timelines and efficient organization of the record were vital in ensuring regulatory responsiveness.

In particular the automatic review process for routine applications, introduced about eight years ago, continues to be key in the Board’s ability to issue decisions in a timely matter. In 2017-18, 93% of public utility orders were issued in 30 days or less following the completion of the record. Seventy-eight percent of automobile insurance orders were issued in 90 days or less. The Board views this as positive considering the number of applications and complex issues facing the Board during the year.

Indicator	Enhanced website
The Board continued to enhance its website during the year in response to feedback received from users. The Board tested the first re-design of its website with the launching of a new webpage for the 2017 Automobile Insurance Review. The revised format is more user friendly and easier to navigate and has received positive feedback from users. The Board will evaluate the feedback and plans to implement a re-designed website in 2018-19 incorporating suggestions and changes.	

OPPORTUNITIES AND CHALLENGES AHEAD

The Board’s work is primarily responsive in nature. The Board prepares its work and activity plans around its annual regulatory calendar of routine filings and applications expected to be filed in compliance with previous Board orders and legislative requirements. While the Board has full control over its regulatory processes circumstances beyond the Board's control, such as major applications requiring timely decisions, referrals from government and unforeseen investigations, can significantly impact the Board’s regulatory agenda and workload.

The Board’s regulatory calendar is expected to continue to be demanding over the next three years. In addition to its annual regulatory calendar, several major applications and reviews will significantly challenge the Board's workload and resources over that time. These include the continuation of Phase Two of the Board’s investigation into supply issues and power outages on the Island Interconnected system which began in 2014, Hydro’s ongoing general rate application and a pending generic cost of service methodology review for late 2018, as well as a mid-2018 general rate application from Newfoundland Power. All of these matters are complex with each having unique and specific issues, and which will require significant dedication of Board resources.

Over the next three years the Board will continue to build on its human resource strategy to ensure required resources and capacity are available to ensure it can be responsive to change and is capable of meeting new challenges while completing its ongoing regulatory calendar. The Board’s focus will be on further strengthening the efficiencies realized and ensuring continual support of an effective and responsive regulatory environment.

APPENDIX I

**BOARD OF COMMISSIONERS
OF PUBLIC UTILITIES**

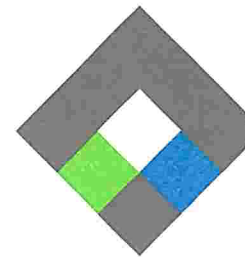
**FINANCIAL STATEMENTS
MARCH 31, 2018**

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Index to Financial Statements Year Ended March 31, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners of Public Utilities

We have audited the accompanying financial statements of the Board of Commissioners of Public Utilities, which comprise the statement of financial position as at March 31, 2018, and the statements of operations, change in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Board of Commissioners of Public Utilities as at March 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.


Chartered Professional Accountants
St. John's, Newfoundland & Labrador
June 28, 2018

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Statement of Financial Position Year Ended March 31, 2018


	2018	2017
FINANCIAL ASSETS		
Cash	\$ 1,116,271	\$ 118,768
Receivables (Note 4)	28,367	827,895
HST receivable (Note 5)	170,843	92,726
Recoverable costs (Note 6)	1,918,812	2,237,077
	3,234,293	3,276,466
LIABILITIES		
Payables and accruals	201,630	222,610
Government remittances payable	18,528	644
Payroll accruals	922,317	901,650
	1,142,475	1,124,904
NET FINANCIAL ASSETS	\$ 2,091,818	\$ 2,151,562
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 8)	\$ 58,271	\$ 50,976
Prepaid expenses	12,055	9,721
	70,326	60,697
ACCUMULATED SURPLUS	\$ 2,162,144	\$ 2,212,259
Accumulated surplus comprised of:		
Invested in capital assets (Note 8)	\$ 58,271	\$ 50,976
Internally restricted (Note 10)	1,477,815	1,525,449
Unrestricted	626,058	635,834
	\$ 2,162,144	\$ 2,212,259

Commitments (Note 13)

On Behalf of the Board:



Chairperson and CEO



Director of Corporate Services

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Statement of Operations Year Ended March 31, 2018

	Budget 2018 (Note 15) (Unaudited)	2018	2017
REVENUES			
Regulatory assessments	\$ 2,766,287	\$ 2,467,177	\$ 2,784,960
Interest and other income	10,000	8,139	9,550
	2,776,287	2,475,316	2,794,510
EXPENDITURES			
Amortization	\$ -	\$ 21,795	\$ 18,555
Consulting fees	272,250	270,869	136,300
Office equipment, supplies, and services	95,107	86,775	78,482
Rent and insurance	225,100	225,096	225,091
Salaries and associated costs (Note 12)	2,048,166	1,837,580	1,810,377
Telecommunications	30,900	32,259	34,809
Training and membership	71,975	22,149	22,720
Travel	32,789	28,908	30,091
	2,776,287	2,525,431	2,356,425
Excess of revenues over expenditures	\$ -	\$ (50,115)	\$ 438,085

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Statement of Change in Net Financial Assets Year Ended March 31, 2018

	Budget 2018 (Note 15) (Unaudited)	2018	2017	
Annual (deficit) surplus	\$ -	\$ (50,115)	\$ 438,085	
Changes in tangible capital assets				
Acquisition of tangible capital assets		(29,090)	(15,711)	
Amortization of tangible capital assets		21,795	18,555	
		-	(7,295)	2,844
Change in other non-financial assets				
Net acquisition of prepaid expenses		(2,334)	(1,747)	
		-	(2,334)	(1,747)
Increase in net assets		(59,744)	439,182	
Net financial assets, beginning of year	2,151,562	2,151,562	1,712,380	
Net financial assets, end of year	\$ -	\$ 2,091,818	\$ 2,151,562	

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Statement of Cash Flows Year Ended March 31, 2018

	2018	2017
Operating transactions		
Cash receipts from assessments and other revenues	\$ 3,196,728	\$ 3,778,323
Cash paid to suppliers and employees	(2,488,400)	(2,729,123)
Cash from operating transactions	708,328	1,049,200
Hearing and review transaction		
Decrease (increase) in recoverable costs	318,265	(974,893)
Cash from (used in) hearing and review transactions	318,265	(974,893)
Capital transaction		
Purchase of capital assets	(29,090)	(15,711)
Cash used in capital transactions	(29,090)	(15,711)
Increase in cash during year	997,503	58,596
Cash position, beginning of year	118,768	60,172
Cash position, end of year	\$ 1,116,271	\$ 118,768

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Notes to Financial Statements Year Ended March 31, 2018

1. GENERAL

The Board of Commissioners of Public Utilities (the "Board") is an independent, quasi-judicial regulatory tribunal constituted in 1949 by the Lieutenant-Governor in Council pursuant to the *Public Utilities Act*. The Board regulates the electric utilities in the Province of Newfoundland and Labrador and is responsible for ensuring that the rates charged are reasonable and that the service provided is safe and reliable. Other responsibilities include: (a) the regulation of automobile insurance rates; (b) the regulation of, from June 8, 2004, fuel prices pursuant to the Petroleum Products Act; (c) limited regulation of the motor carrier industry as it relates to certain passenger and ambulance operations; and (d) establishing compensation for matters referred to the Board pursuant to the *Expropriation Act*. The Board was incorporated on May 12, 2000 pursuant to an amendment to the *Public Utilities Act* and as a Crown entity of the Province is not subject to provincial or federal income taxes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The Board is classified as an Other Government Organization as defined by Canadian Public Sector Accounting Standards (CPSAS). These financial statements are prepared by management in accordance with CPSAS for provincial reporting entities established by the Canadian Public Sector Accounting Board (PSAB). The Board does not prepare a statement of re-measurement gains and losses as the Board does not enter into relevant transactions or circumstances that are addressed by that statement.

Financial instruments

The Board's financial instruments recognized in the statement of financial position consist of cash, receivables, HST receivable, recoverable costs, payables and accruals, government remittances payable and payroll accruals. The Board generally recognizes a financial instrument when it enters into a contract which creates a financial asset or financial liability. Financial assets and financial liabilities are initially measured at cost, which is the fair value at the time of acquisition.

The Board subsequently measures all its financial assets and financial liabilities at cost or amortized cost. Transaction costs and any gains or losses arising from changes in fair value are recognized immediately in the statement of revenues and expenditures. Receivables are classified as loans and accounts payable are classified as other financial liabilities. Both are measured at amortized cost.

The Board's carrying value of cash, receivables, recoverable costs, payables and accruals, government remittance payable, HST payable and payroll accruals approximates its fair value due to the immediate or short term maturity of these instruments.

Cash

Cash includes cash in bank.

Recoverable costs

Recoverable costs relating to regulatory hearings and specific enquiries held by the Board are not accrued until the Board orders payment. The costs and subsequent recoveries for these enquiries are not included in the operating revenues and expenditures of the Board.

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Notes to Financial Statements

Year Ended March 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Tangible capital assets

Capital assets are recorded on the Statement of Financial Position at cost net of accumulated amortization and are amortized as follows:

Furniture and equipment	20%	declining balance method
Computer hardware	35%	declining balance method
Computer software	50%	declining balance method
Leasehold improvements		the lesser of five year straight-line or remaining term of the lease

Capital assets are written down when conditions indicate that they no longer contribute to the Board's ability to provide goods and services, or when the value of future economic benefits associated with the capital assets are less than their net book value. The net write-downs are accounted for as expenses in the statement of operations.

Prepaid expenses

Prepaid expenses include amounts paid in advance for services, insurance, and workers compensation and are charged to expense over the periods expected to benefit from them.

Funds and reserves

Certain amounts, as approved by the Board, are set aside in accumulated surplus for future operating and capital purposes. Transfers to/from funds and reserves are an adjustment to the respective fund when approved.

Employee future benefits

(i) Severance pay

Certain employees of the Board are entitled to severance pay. Severance pay is accounted for on the accrual basis and is based upon years of service and current salary levels. Under new legislation which received Royal Assent on May 31, 2018, employees with at least one (1) year service to a maximum of twenty (20) years of continuous service are entitled to severance pay. The severance entitlement is calculated based on service years and rate of pay as of March 31, 2018 accrued in the financial statements. The total amount is expected to be paid by March 2019.

(ii) Pension fund

The employees of the Board are subject to the *Public Service Pension Act 1991*. Employee contributions are matched by the Board and then remitted to the Province of Newfoundland and Labrador Pooled Pension Fund from which pensions will be paid to employees when they retire. Contributions of the Board to the plan are recorded as expenses in the year the contributions are made.

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Notes to Financial Statements

Year Ended March 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues

Revenues are recognized in the period in which the transactions or events occurred that gave rise to the revenues. All revenues are recorded on an accrual basis, except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable.

Expenditures

Expenditures are reported on an accrual basis. The costs of all goods consumed and services received during the year are expensed.

Inter-entity transactions

Inter-entity transactions are transactions between commonly controlled entities.

Inter-entity transactions are recorded at the exchange amount when they are undertaken on similar terms and conditions to those adopted if the entities were dealing at arm's length.

Cost allocations to/from commonly controlled entities are recorded on a gross basis.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

3. FINANCIAL INSTRUMENTS

The Board is exposed to various risks through its financial instruments and has a comprehensive risk management framework to monitor, evaluate and manage these risks. The following analysis provides information about the organization's risk exposure and concentration as of March 31, 2018:

Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Board is exposed to credit risk with respect to regulatory assessments. An allowance for doubtful accounts may be established based upon factors surrounding the credit risk of specific accounts, historical trends and other information.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Board manages exposure through its normal operating and financing activities. The Board is exposed to interest rate risk primarily through its floating interest rate bank credit agreement.

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Notes to Financial Statements

Year Ended March 31, 2018

4. RECEIVABLES

	2018	2017
Revenues receivable	\$ 23,230	\$ 822,399
Accrued interest receivable	-	210
Other receivables	5,137	5,286
	<u>\$ 28,367</u>	<u>\$ 827,895</u>

5. HST RECEIVABLE (PAYABLE)

	2018	2017
HST rebate receivable from federal government	\$ 193,682	\$ 111,952
HST payable to federal government	(22,839)	(19,226)
	<u>\$ 170,843</u>	<u>\$ 92,726</u>

6. RECOVERABLE COSTS

	2018	2017
Recoverable costs, beginning of year	\$ 2,237,077	\$ 1,262,184
Add - specific enquiry costs incurred during the year:		
Consumer Advocate	1,291,763	968,982
Consulting fees	305,067	848,423
Legal	144,922	199,392
Advertising and notice	18,215	36,413
Transcription and printing	-	16,229
Other	-	9,194
	<u>1,759,967</u>	<u>2,078,633</u>
	<u>3,997,044</u>	<u>3,340,817</u>
Less - costs recovered during the year	(1,929,047)	(1,103,740)
Less - costs deemed non recoverable	(149,185)	-
Recoverable costs, end of year	<u>\$ 1,918,812</u>	<u>\$ 2,237,077</u>

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Notes to Financial Statements

Year Ended March 31, 2018

7. BANK CREDIT AGREEMENT

The Board has established a \$1,000,000 line of credit subject to a general security agreement over all accounts and book debts, equipment, tangible capital assets and certain other assets. Any outstanding balance bears interest at the bank prime rate plus 0.5%. As at March 31, 2018, the balance outstanding was \$Nil (2017- \$Nil).

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Notes to Financial Statements

Year Ended March 31, 2018

8. TANGIBLE CAPITAL ASSETS

	2018			
	Furniture and Equipment	Computer Hardware and Software	Leasehold Improvements	Total
Cost				
Opening balance	\$ 266,009	\$ 260,310	\$ 197,046	\$ 723,365
Additions	4,595	16,935	7,560	29,090
Disposals	-	-	-	-
Closing balance	270,604	277,245	204,606	752,455
Accumulated amortization				
Opening balance	235,596	243,666	193,127	672,389
Amortization	7,002	11,975	2,818	21,795
Disposals	-	-	-	-
Closing balance	242,598	255,641	195,945	694,184
Net book value	\$ 28,006	\$ 21,604	\$ 8,661	\$ 58,271
2017				
	Furniture and Equipment	Computer Hardware and Software	Leasehold Improvements	Total
Cost				
Opening balance	\$ 255,044	\$ 255,564	\$ 197,046	\$ 707,654
Additions	10,965	4,746	-	15,711
Disposals	-	-	-	-
Closing balance	266,009	260,310	197,046	723,365
Accumulated amortization				
Opening balance	227,993	234,020	191,821	653,834
Amortization	7,603	9,646	1,306	18,555
Disposals	-	-	-	-
Closing balance	235,596	243,666	193,127	672,389
Net book value	\$ 30,413	\$ 16,644	\$ 3,919	\$ 50,976

9. NON-VESTED SICK LEAVE PAYOUTS

Prior to a change in government policy, several employees were permitted to accumulate unused sick day credits. As of March 31, 2018, there is one employee who has an accumulated sick-leave payout balance. Accumulated credits may be used in future years to the extent that the employee's illness or injury exceeds the current year's allocation of credits. The use of accumulated sick days for sick-leave compensation ceases

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Notes to Financial Statements

Year Ended March 31, 2018

on termination of employment. The benefit costs and liabilities related to the plan are included in the financial statements.

10. INTERNALLY RESTRICTED SURPLUS

The Board has adopted a formal policy to accumulate and restrict estimated amounts required to meet expected future obligations. The amounts restricted as at March 31, 2018 are as follows:

	2018	2017
Lease commitments	\$ 283,681	\$ 223,300
Payroll contingency	61,425	71,757
Redundancy pay contingency	686,110	767,677
Working capital	446,599	462,715
	\$ 1,477,815	\$ 1,525,449

11. RELATED PARTY TRANSACTIONS

The Board incurs costs in relation to hearings held to deliver on its mandate which are recoverable from industry participants at cost. A portion of these costs are recoverable from Newfoundland and Labrador Hydro, an entity under common control.

	2018	2017
Beginning balance	\$ 2,129,494	\$ 1,060,264
Costs incurred	1,155,070	1,177,942
Costs recovered	1,733,556	108,712
Ending balance	\$ 1,551,008	\$ 2,129,494

The Board has also charged Newfoundland and Labrador Hydro assessment fees in the amount of \$854,297 (2017: \$865,556).

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Notes to Financial Statements

Year Ended March 31, 2018

12. DESIGNATED PENSION FUNDS AND PENSION ASSET (OBLIGATIONS)

Commissioners and employees are members of The Public Service Pension Fund Act 1991. Pension contributions deducted from commissioners' and employees' salaries are matched by the Board and then remitted to the Province of Newfoundland and Labrador Pooled Pension Fund from which pensions will be paid to commissioners and employees when they retire. The Board's share of pension expense for the year in the amount of \$125,511 (2017 - \$135,545) is included in salaries and associated costs.

The Board is also committed to make pension payments to a former Commissioner in the amount of \$2,043 per month (\$24,516 per annum). These payments are paid directly by the Board out of operating expenditures. An estimated liability in the amount of \$241,119, has been included in the financial statements, and reflects the present value of the pension obligation based on an average life expectancy of 86 years and a discount rate of 2.36%.

13. COMMITMENTS

The Board has a premises lease agreement in the amount of \$18,608 plus HST per month (\$223,296 plus HST per annum), concluding May 31, 2018.

Subsequent to year end, the Board entered into a five year extension of their premises lease in the amount of \$24,646 plus HST per month (\$295,752 plus HST per annum), concluding May 31, 2023.

14. BUDGET FIGURES

Budget figures have been provided for comparison purposes and have been derived from the estimates approved by the Board.

Board of Commissioners of Public Utilities

Commissioners and Staff Year End - March 31, 2018

Commissioners

Chair and Chief Executive Officer..... Darlene Whalen
Vice-Chair..... Dwanda Newman
Full-time Commissioner..... John O'Brien
Full-time Commissioner..... James Oxford

Staff

Director of Corporate Services and Board Secretary Cheryl Blundon
Director of Regulatory and Legal Services Jacqueline Glynn
Financial Officer David Spurvey
Engineering Advisor Mike Janes
Regulatory Analyst..... Mike McNiven
Regulatory Analyst..... Ryan Oake
Regulatory Analyst..... Travis Fisher
Information Technology Specialist Wesley Hawe
Records Administrator Sara Kean
Administrative Assistant Colleen Jones
Administrative Assistant Renee Reardon

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