

1 **Q. (page 54, Power Supply Risk) In its response to CA-NLH-115 from the Outage**  
2 **Inquiry Hydro indicates that supply risk will be reduced post Muskrat Falls. Please**  
3 **explain how Mr. Coyne’s cost of capital analysis has incorporated this reduced risk.**  
4

5 A. From the perspective of Newfoundland Power, as discussed on pages 54-55 of Mr.  
6 Coyne’s report, power supply risk has increased for Newfoundland Power because the  
7 expected cost of the new Muskrat Falls generation and transmission facility has increased  
8 from \$9.1 billion to \$12.7 billion. In addition, there are questions about the reliability of  
9 Newfoundland and Labrador Hydro’s (NLH) current and future generation sources.  
10 There is an ongoing investigation by the Board into the future reliability of NLH’s supply  
11 once Muskrat Falls is placed in service. Residential electricity rates are expected to  
12 increase from \$0.106/kwh to \$0.17/kwh,<sup>1</sup> raising concerns among credit rating agencies  
13 (Moody’s and DBRS) about whether the Board will seek ways to mitigate the effect of  
14 rising electricity prices on customers.  
15

16 In its 2016 Order, the Board cited the risk associated with the Muskrat Falls project as  
17 one reason to maintain Newfoundland Power’s common equity ratio at 45 percent. The  
18 Board stated:

19  
20 *In the circumstances the Board does not believe it is appropriate to deem*  
21 *a reduced common equity ratio for Newfoundland Power given the*  
22 *uncertainty associated with Muskrat Falls and the economic outlook for*  
23 *the province and also in light of the concerns set out by Newfoundland*  
24 *Power in relation to the issuance or deeming of preferred shares. The*  
25 *Board is concerned about the impact of such a change on Newfoundland*  
26 *Power's credit metrics and how this would be viewed by the markets. The*  
27 *Board believes that the circumstances require a conservative and stable*  
28 *regulatory approach and therefore Newfoundland Power's deemed*  
29 *common equity ratio will not be lowered at this time.*

---

<sup>1</sup> See Volume 2, Supporting Materials, Expert Evidence, Cost of Capital: Mr. James Coyne, page 54-55.