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

E-mail: dfoley@newfoundlandpower.com

2021-07-29

Dominic Foley
Corporate Counsel
Newfoundland Power Inc.
55 Kenmount Road, P.O. Box 8910
St. John's, NL A1B 3P6

Dear Mr. Foley:

Re: Newfoundland Power Inc. – NP 2022-2023 General Rate Application
Requests for Information

Enclosed are Requests for Information PUB-NP-001 to PUB-NP-093 regarding the above-noted application.

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

Sincerely,

Sara Kean
Assistant Board Secretary

SK/cj

ecc **Newfoundland Power Inc.**
Liam O'Brien, E-mail: lobrien@curtisdawe.com
NP Regulatory, E-mail: regulatory@newfoundlandpower.com
Newfoundland and Labrador Hydro
Shirley Walsh, E-mail: shirleywalsh@nlh.nl.ca
NLH Regulatory, E-mail: NLHRegulatory@nlh.nl.ca
Consumer Advocate
Dennis Browne, Q.C., E-mail: dbrowne@bfma-law.com
Stephen Fitzgerald, E-mail: sfitzgerald@bfma-law.com
Sarah Fitzgerald, E-mail: sarahfitzgerald@bfma-law.com
Bernice Bailey, E-mail: bbailey@bfma-law.com

IN THE MATTER OF the *Public Utilities Act*, (the "Act"); and

IN THE MATTER OF a general rate application by Newfoundland Power Inc. to establish customer electricity rates for 2022 and 2023.

PUBLIC UTILITIES BOARD
REQUESTS FOR INFORMATION

PUB-NP-001 to PUB-NP-093

Issued: July 29, 2021

Section 1: Introduction

PUB-NP-001 Describe any organizational changes that have occurred since the last general rate application in 2019 and provide the most recent organizational charts for Newfoundland Power.

PUB-NP-002 Volume 1, page 1-3, lines 6-8. Provide a copy of the questions that are asked of customers in the quarterly surveys.

PUB-NP-003 Volume 1, page 1-8. Provide a table for 2016 to 2023 that shows for each year 2016 to 2020 the approved return on equity, the actual return on equity achieved and the amount in dollars of return for each year, the same for 2021 forecast return on equity and the 2022 and 2023 return on equity proposed in the Application.

PUB-NP-004 Volume 1, page 1-8, lines 15-17. Newfoundland Power is proposing an average increase in customer rates of approximately 0.8%, effective March 1, 2022. Since the filing of the Application customer rates increased on July 1, 2021. How does the July 1, 2021 adjustment impact the average increase in customer rates being proposed?

PUB-NP-005 Volume 1, page 1-9, lines 1-4. Provide a table that shows the amount of each category of cost that contributes to the 2% increase in the proposed revenue requirement.

PUB-NP-006 Volume 1, page 1-9, lines 6-9. Provide the calculation of the 2.7% decrease in revenue required attributable to the reconciliation of the supply costs and forecast energy sales.

Section 2: Customer Operations

PUB-NP-007 Volume 1, pages 2-17 to 2-22. Explain how Newfoundland Power sets annual system reliability performance targets and how performance is measured. In the response explain how reliability performance in relation to Canadian peers is considered in setting and evaluating reliability performance measures.

PUB-NP-008 Volume 1, pages 2-17 to 2-22. Provide Newfoundland Power's corporate performance measures for the period 2019-2021, showing targets and actuals for 2019 and 2020 and actual year-to-date for 2021.

PUB-NP-009 Volume 1, page 2-20, Footnote 49. CEA reliability data for 2020 was not available at the time the Application was prepared. Does Newfoundland Power know when this information will be available? If the information is available now, update Figure 2-7 and Figure 2-8 to include 2020 data.

PUB-NP-010 Volume 1, page 2-23. Explain how Newfoundland Power currently considers and balances capital and operating costs incurred for system reliability and the customer benefits expected from incurring such costs. In the response explain how Newfoundland Power takes into account the upwards pressure on

customer rates arising from the Muskrat Falls Project outlined on pages 1-6 to 1-7.

PUB-NP-011 Volume 1, page 2-30. The gross operating costs per customer on an inflation adjusted basis over the last decade was provided. Provide a figure showing the gross operating costs on an inflation adjusted basis for the same period. Provide a separate figure showing the number of customers over the period.

PUB-NP-012 Volume 1, page 2-32. Gross operating costs are forecast to increase by 11% from 2019 to 2023. Explain how Newfoundland Power considered the upwards pressure on rates from the Muskrat Falls Project outlined on pages 1-6 to 1-7 and the resulting impact on customers in determining the forecast operating costs. In the response describe any specific actions taken by Newfoundland Power to keep operating costs as low as possible to reduce the burden on customers of increased costs in the current environment.

PUB-NP-013 Volume 1, page 2-35, Footnote 79. $91,000 of operating efficiencies in 2023 is due to the implementation of the new Customer Information System. Since the implementation of the new system is planned for 2023, will there be any further increase in operating efficiencies in 2024 and 2025 as a result of the new system being in operation for a full year? If yes, provide an estimate of the operating efficiencies expected during this period.

PUB-NP-014 Volume 1, page 2-35, Table 2-9. Provide a detailed calculation showing the breakdown of costs that cause the increase in corporate and employee service costs over the period 2019-2023.

PUB-NP-015 Volume 1, page 2-36, Footnote 80. Are the costs described in this footnote annual costs and expensed entirely when purchased? If not, indicate the year the specific costs will be incurred and the amortization period of the costs, if applicable.

PUB-NP-016 Volume 1, page 2-38. List each of Newfoundland Power's current collective agreements and provide the term of each, the annual wage adjustment for each year in each agreement and any special monetary adjustments.

PUB-NP-017 Volume 1, page 2-38. Provide a comparison of Newfoundland Power's hourly wage rates with other Atlantic Canadian utilities for Power Line Technicians and any other classification where data is available.

PUB-NP-018 Volume 1, page 2-38. Describe how salaries are established for non-union employees and the annual adjustments budgeted each year from 2021 to 2023.

PUB-NP-019 Volume 1, page 2-38. Provide a detailed explanation of Newfoundland Power's bonus or short-term incentive plans, including the eligible participants, the criteria for payments and the amounts paid in 2019, 2020 and forecast for 2021.

PUB-NP-020 Volume 1, page 2-38. Provide the amounts included in the 2022 and 2023 revenue requirements for incentive or performance-based payments.

PUB-NP-021 Volume 1, page 2-38. Provide sample 2021 short-term incentive performance targets for a director position and an executive position.

PUB-NP-022 Volume 1, page 2-38. Is the implied operating efficiency of 1% simply the difference between the forecast increase in labour costs and the weighted labour rate inflation? Are other factors considered in attributing an operating efficiency of 1%?

PUB-NP-023 Volume 1, page 2-38. Explain how Newfoundland Power plans on achieving the forecast 1% operating efficiency in 2022 and 2023.

Section 3: Finance

PUB-NP-024 Volume 1, page 2-38. Provide the overall average salary for employees for 2019 and 2020 and forecast for each year 2021-2023, including any bonus or short-term incentive payments.

PUB-NP-025 Volume 1, page 3-1, lines 14-16. Newfoundland Power states "*A 45% common equity component and a 9.8% rate of return on equity is consistent with maintaining Newfoundland Power's financial integrity and the fair return standard."* In Newfoundland Power's opinion is there a range in which the equity component and the return on equity could be set that would maintain Newfoundland Power's financial integrity and the fair return standard? If yes, state the range for each of the return on equity and the equity component in the capital structure. If no, explain why maintaining Newfoundland Power's financial integrity and the fair return standard is dependent on the Board approving the specific return on equity of 9.8% and the capital structure consisting of 45% proposed in the Application.

PUB-NP-026 Volume 1, page 3-4. Provide a breakdown of the costs included in Miscellaneous in Table 3-2.

PUB-NP-027 Volume 1, page 3-4. RSA interest in Table 3-2 indicates a significant increase from 2021F to 2022F. What is Newfoundland Power forecasting its RSA balance to be as of March 31, 2022 and March 31, 2023 and what is contributing to the increase?

PUB-NP-028 Volume 1, page 3-15. Re-state Table 3-12 to include the credit metrics if the Application proposals for 2022 and 2023 were based on a return on equity of 8.25%, 8.5%, 8.75%, 9%, 9.25% and 9.5% in addition to the 9.8% proposed.

PUB-NP-029 Volume 1. Provide information on Newfoundland Power's financial position at 1% reduced intervals in the equity component from 45% to 37% at returns on equity of 8.25%, 8.5%, 8.75%, 9.0%, 9.25%, 9.5% and 9.8% in the same format as in PUB-NP-034 in Newfoundland Power's 2019/2020 General Rate Application.

PUB-NP-030 Further to PUB-NP-029, would any of the credit metrics at the different returns on equity and equity components in the capital structure cause problems with respect to maintaining Newfoundland Power's creditworthiness and its ability to maintain a sound credit rating?

PUB-NP-031 Provide a table that shows the *pro forma* earnings test interest coverage calculation which is required for Newfoundland Power to issue First Mortgage Bonds in 2023 for the same range of equity ratios and allowed returns on equity as in PUB-NP-030.

PUB-NP-032 Provide the reduction in the proposed 2022 and 2023 revenue requirement and the impact on customer rates if the return on equity is set at 8.25%, 8.5%, 8.75%, 9.0%, 9.25% and 9.5% with no other change from the proposals in the Application.

PUB-NP-033 Provide the reduction in the proposed 2022 and 2023 revenue requirement and the impact on customer rates if the current approved rate of return on equity of 8.5% is maintained for 2022 and 2023 and the equity component in the capital structure is reduced to (1) 43% and (2) 40% with no other change from the proposals in the Application.

PUB-NP-034 Volume 1, page 3-20. Have any Canadian utilities changed their capital structure since 2016? If yes, provide details of the change.

PUB-NP-035 Volume 1, page 3-23. Newfoundland Power states *"The principal risks to which Newfoundland Power is exposed have not changed materially since 2018.*" And at page 1-8 Newfoundland Power states *"Expert evidence filed with this Application indicates that Newfoundland Power has above-average business risk in comparison to other Canadian utilities."* Is Newfoundland Power of the opinion that it has above average business risk compared to other Canadian utilities? If the answer is yes, explain the basis for this opinion.

PUB-NP-036 Further to PUB-NP-035, in Order No. P.U. 18(2016), page 19, lines 26-33, the Board determined that Newfoundland Power is an average risk utility. The return on equity and capital structure formed part of the settlement agreement in the 2019/2020 General Rate Application and continued the equity component and return on equity approved by the Board in Order No. P.U.18 (2016). Describe, in detail, if the principal risks have not materially changed since 2018 as stated at page 3-23, what factors should the Board consider in this proceeding to support a conclusion that Newfoundland Power is now above average business risk in comparison to Canadian utilities as opined by Newfoundland Power's expert?

PUB-NP-037 Volume 1, page 3-33. It is stated that "*Increases in supply costs related to the Muskrat Falls Project could be expected to put pressure on Newfoundland Power's ability to earn a fair return*" and at page 1-8 it is stated that "*The Muskrat Falls Project continues to pose a risk to the delivery of reliable service to customers at least cost*." If a rate mitigation plan is successfully introduced by the Provincial Government to mitigate the impact of the

Muskrat Falls Project on customers, how would this influence the assessment of Newfoundland Power's business risk?

PUB-NP-038 Volume 1, page 3-39. Unpredictability in costs arising from response to customer outages is discussed and it is stated that this "*can result in volatility in earnings*". Explain how Newfoundland Power has historically dealt with costs associated with customer outages arising from severe weather.

PUB-NP-039 Volume 1, page 3-39. Provide all capital and operating costs incurred from 2016-2020 that have arisen solely due to severe weather conditions that caused unplanned customer outages and identify those costs that were not recovered and their impact on Newfoundland Power's financial position in the year in which the costs were incurred.

PUB-NP-040 Volume 1, page 3-40. What weight does Newfoundland Power consider that the Board, in assessing Newfoundland Power's business risk, should give to the number and scope of approved regulatory mechanisms that provide for the recovery of costs that are largely beyond management's control?

PUB-NP-041 Volume 1, page 3-40. Footnote 100 refers to a report on supply cost mechanisms, including practices of other investor-owned utilities, that was completed in 2015. Provide an update to this report covering the last five years.

PUB-NP-042 Volume 1, page 3-45. Is it Newfoundland Power's position that the current state of the financial market, specifically the low Canada bond yields, is the only reason for the proposed continued suspension of the automatic adjustment formula?

PUB-NP-043 Volume 1, page 3-45. In Newfoundland Power's opinion are there any changes to the automatic adjustment formula that could be made that would adjust for the current low risk-free rate?

PUB-NP-044 Volume 1, page 3-45. Has Newfoundland Power considered any alternative to the automatic adjustment formula that would adjust the return on equity between general rate applications?

PUB-NP-045 Volume 1, page 3-46, Footnote 122. What has been the effect on the return on equity for the Ontario utilities as a result of the Ontario Energy Board leaving the automatic adjustment formula in place?

PUB-NP-046 Volume 1, page 3-54. Newfoundland Power is proposing to increase the amortization period for CDM program costs from seven years to ten years for costs incurred commencing January 1, 2021 and notes that the amortization period of 10 years is consistent with current public utility practice. However, Newfoundland Power is proposing to continue with a seven-year amortization period for costs prior to 2021. Explain why Newfoundland Power is not proposing to extend the amortization period for the prior costs to ten years. Provide the impact on revenue requirement, rates and return on rate base if the

recovery period for costs prior to 2021 is extended to ten years and update Table 3-19 on page 3-55 to include this additional alternative.

PUB-NP-047 Volume 1, page 3-56. Provide the impact on the forecast 2022 and 2023 revenue requirement, rates and rate base assuming the Board does not approve the recovery in customer rates of Newfoundland Power's costs for electric vehicle incentives and the inclusion in rate base of the proposed electric vehicle charging network as proposed in Newfoundland Power's 2021 Electrification, Conservation and Demand Management application

PUB-NP-048 Volume 1, page 3-56, Footnotes 151 and 152. Provide examples of recovery periods for costs used in Canadian jurisdictions.

Volume 1, Exhibit 3

PUB-NP-049 Volume 1, Exhibit 3. Reconcile the depreciation amounts for 2022E and 2023E on page 1 of 9 with the amounts provided in Table 3-5 on page 3-8.

Volume 2, Labour Forecast 2021-2023

PUB-NP-050 Volume 2, Labour Forecast 2021-2023, page 3 states that there is an increase of 12.5 FTEs in 2021 over 2020 and page 4 states there is an increase of 18 FTEs in 2022 over 2021 and a decrease of 17 FTEs in 2023 over 22, leaving an apparent increase of 13.5 FTEs in 2023 over 2020. Please list all new positions created and to be created in this period and those eliminated since 2019. Also, provide an explanation for the increase in 2023 over 2019.

PUB-NP-051 Volume 2, Labour Forecast 2021-2023, page 4 states that the 2023 test year labour forecast reflects an overall decrease of 17 FTEs, primarily due to the conclusion of the CSS Replacement Project; however, Schedule C indicates a higher overall labour expense in 2023 than 2022. Explain how the reduction of the 17 FTEs during 2023 impacts the 2023 and 2024 forecasts.

Volume 2, Customer, Energy and Demand Forecast

PUB-NP-052 Volume 2, Customer, Energy and Demand Forecast, page 3. Footnote 8 describes the peak demand forecasting methodologies of six of twelve Canadian utilities that use a similar methodology to Newfoundland Power's. Describe the methodologies used by the other utilities included in the survey.

PUB-NP-053 Volume 2, Customer, Energy and Demand Forecast, page 3. Explain why Newfoundland Power selected to reduce the period from fifteen to five years of historical data for system peak demand, rather than another period such as ten years or three years.

PUB-NP-054 Volume 2, Customer, Energy and Demand Forecast, page 3. Further to PUB-NP-053 did Newfoundland Power complete any analysis of the impact of using different historical periods for forecasting the average system load factor than five years and fifteen years? If yes, provide it. If not, state how the

use of one year, three years and ten years historical data, within the period 2010 to 2019 would impact Newfoundland Power's peak demand forecast proposed in the General Rate Application.

PUB-NP-055 Volume 2, Customer, Energy and Demand Forecast, page 3, Footnote 6. When will the load research study on heat pumps be completed?

PUB-NP-056 Volume 2, Customer, Energy and Demand Forecast, page 5. The energy sales forecast includes annual electricity price increases of 2.25% effective January 1 each year from 2022 to 2026 based on the Provincial Government's April 2019 release *Protecting You from the Cost Impacts of Muskrat Falls*. What would be the impact on Newfoundland Power's energy sales forecast and its General Rate Application proposals if there is no Government rate mitigation plan in place for 2022 and 2023?

PUB-NP-057 Volume 2, Customer, Energy and Demand and Forecast, page 10. Explain how system losses of 5% for the forecast period were determined. Include in the response the historical information relied on in determining the losses.

Volume 2, Review of General Expenses Capitalized

PUB-NP-058 In Order No. P.U. 3(1995-96) the Board approved the change in Newfoundland Power's GEC methodology from the full cost method to the incremental method. According to Figure 1 on page 5 of 13 of the *"Review of General Expenses Capitalized"*, it appears that the amount of GEC in total capital expenditures decreased significantly after the change and phase-in period to incremental, which resulted in more of the general expenses being treated as operating costs and less as capital. It is noted that in response to the survey question 5 (b) on page 27 in Attachment 1, of the seven utilities that responded to the question, five used the full cost method and two used the incremental. Why does Newfoundland Power propose continuing with the incremental method when the full cost methodology appears to be a more common practice among the utilities surveyed?

PUB-NP-059 Volume 2, Review of General Expenses Capitalized, page 11. NP states:

"Conceptually, there is no material difference to total capital expenditures whether pension costs are capitalized by way of a labour loader or through GEC. Both approaches ultimately allocate pension costs to capital projects based on the Company's overall labour allocations."

The Board approved pension costs as a component of GEC on an incremental basis in Order No. P.U. 3(1995-96). If there is no material overall impact on the amount of pension capitalized using either method, is there any other reason to change the current methodology now and increase revenue requirement by $1.4 million in 2023F, with the exception that the use of the labour loader is more common practice. What would the impact be on revenue requirement, rates and rate base if this policy wasn't changed at this time?

PUB-NP-060 Further to PUB-NP-059 did Newfoundland Power consider the possibility of using a mechanism such as a deferral account to smooth the $1.4 million impact on revenue requirement for the 2023 test year over a period of three to five years or longer?

PUB-NP-061 Volume 2, Review of General Expenses Capitalized. Is Newfoundland Power able to provide what the labour loader for pension costs would have been for 2019 and 2020 if the capitalization of pension costs was not included in the GEC for those years? How does the amount of pension costs capitalized as GEC compare to what would have been capitalized if a labour loader was used?

PUB-NP-062 Volume 2, Review of General Expenses Capitalized. What is the labour loader used by Newfoundland Power for the capitalization of pension costs in 2023F? Footnote 38 on page 11 states that loading rates are assessed on an annual basis to ensure they are reasonably allocating the total overhead costs and any over/under recovery of allocated costs versus the total cost is trued up at year end. Can this practice occur with the cost ratio of pension costs included in GEC on an annual basis? If not, please explain.

PUB-NP-063 Volume 2 Review of General Expenses Capitalized. On page 3, Appendix B, it is noted that general expenses for system operations are currently charged directly to GEC; however, Newfoundland Power is proposing in this Application that a ratio of 10% of system operations general expenses is appropriate and justifies it based on a reduction of 2 FTEs in this area if there was no capital program. Please explain what has changed in Newfoundland Power's rationale in determining the appropriate cost ratio for this cost category since Order No. P.U. 3(1995-96).

PUB-NP-064 Volume 2, Review of General Expenses Capitalized. On page 3 of Appendix B Newfoundland Power notes that it is challenging to determine a specific reduction in general expenses for the finance, human resources and information systems departments (non-construction activities) if there was no capital program. Currently, a nominal rate of 13% is applied as a reasonable proxy and, according to Newfoundland Power, this rate reflects the nominal rate applied at the end of the phase-in period of the incremental cost method in 1999. Newfoundland Power is proposing to change this nominal rate from 13% to 10% for non-construction activities and indicates that 10% was the Board's suggestion in Order No. P.U. 3 (1995-96), page 19. Please explain why NP is now proposing to adjust this rate to 10% from the 13% that has been in place since 1999. Please provide the impact on revenue requirement, rate base and rates if this percentage did not change to 10%.

Volume 3, 2019 Depreciation Study

PUB-NP-065 Volume 3, 2019 Depreciation Study, page III-7. Provide a table that shows how each of the proposed changes in service life estimates impacts the depreciation expense proposed in the Application.

PUB-NP-066 Volume 3, 2019 Depreciation Study, page IV-9. It is stated that *"The company has performed a site specific decommissioning cost estimate for each of its 23 owned hydroelectric generating units and 6 thermal units."* Provide a copy of the estimate completed for one of the hydroelectric sites and for one of the thermal sites.

Volume 3, Cost of Capital Report by James Coyne

PUB-NP-067 Volume 3, Cost of Capital Report by James Coyne, page 29, lines 3-12. The Canadian proxy group is composed of six companies, compared to four in Mr. Coyne's June 1, 2018 report for Newfoundland Power in its 2019/2020 General Rate Application and includes three additional companies from 2018 and the elimination of one. Please explain the basis for the changes in the Canadian proxy group since 2018.

PUB-NP-068 Volume 3, Cost of Capital Report by James Coyne, page 30, lines 5-7. The U.S. electric proxy group is composed of nine U.S. electric utility companies, compared to ten in Mr. Coyne's June 1, 2018 report for Newfoundland Power in its 2019/2020 General Rate Application and includes additional companies and the elimination of others. Please explain the basis for the changes in the U.S. electric proxy group since 2018.

PUB-NP-069 Volume 3, Cost of Capital Report by James Coyne, page 31, line 4 to page 32, line 11. Have there been any regulatory decisions in Canada since the Board's Order No. P.U. 18(2016) that have used unadjusted U.S. data in setting a fair return for a Canadian regulated utility? If yes, provide a copy of the decision.

PUB-NP-070 Volume 3, Cost of Capital Report by James Coyne, page 34, line 7 to page 38, line 5. In Order No. P.U. 13(2013), page 31, lines 13-16 and Order No. P.U. 18(2016), page 39, lines 14-15 the Board expressed concern on the assumption of constant growth in perpetuity and no offsetting adjustment for analysts' bias in the Constant Growth DCF method used by Mr. Coyne to estimate a fair return for Newfoundland Power. Mr. Coyne addresses this concern and referred to various factors which, in his opinion, demonstrate that projected analysts' growth rates are reasonable but all pre-date 2016. Have there been any changes since the Board's decision in 2016 that would lead the Board to now reach a different conclusion on the issue of analysts' bias in the Constant Growth DCF method?

PUB-NP-071 Volume 3, Cost of Capital Report by James Coyne, page 34, line 7 to page 38, line 5. Has there been a decision by a Canadian regulator since 2016 that in setting the fair return for a utility considered the use of the Constant Growth DCF method, with no adjustment for analysts' bias in projected growth rates? If yes provide a copy of the decision.

PUB-NP-072 Volume 3, Cost of Capital Report by James Coyne, page 34, line 7 to page 38, line 5. Provide copies of all decisions by a Canadian regulator since 2016 that considered the use of the Constant Growth DCF method in setting the fair return for a utility.

PUB-NP-073 Volume 3, Cost of Capital Report by James Coyne, page 40, line 6 to page 41, line 2. In Order No. P.U. 13(2013) and Order No. P.U. 18(2016) the Board decided a downward adjustment should be made to the DCF method to reflect differences in the U.S. and Canadian experience. In Mr. Coyne's opinion no such adjustment is required. What changes, if any, have occurred since 2016 that would lead the Board to now conclude that no downward adjustment is required?

PUB-NP-074 Volume 3, Cost of Capital Report by James Coyne, page 42, Figure 22. In Order No. P.U. 18(2016) the Board accepted a forecast risk free rate based on the two test years. Provide Figures 22 and 23 based on a two-year, not a three-year forecast.

PUB-NP-075 Volume 3, Cost of Capital Report by James Coyne, page 45, Figure 26. In Mr. Coyne's report dated June 1, 2018 for Newfoundland Power's 2019/2020 General Rate Application, Mr. Coyne, at page 39, lines 6-15, described adjustments he made to his CAPM analysis due to concerns about the ability of the CAPM method to produce reasonable results in the then current market conditions. The same adjustments appear to have been made in his May 27, 2021 report. Describe any adjustments made to Mr. Coyne's 2021 CAPM analysis to adjust for current market conditions.

PUB-NP-076 Volume 3, Cost of Capital Report by James Coyne, page 45, Figure 26. Further to PUB-NP-075 state what the unadjusted CAPM would be if Mr. Coyne had made no adjustments to his CAPM analysis for current market conditions.

PUB-NP-077 Volume 3, Cost of Capital Report by James Coyne, page 44. What weight, if any, does Mr. Coyne think forecasts of market risk premiums from third parties should be given in determining the appropriate market risk premiums? If any should be considered, what third party forecasts would be appropriate for the Board to consider in Mr. Coyne's opinion?

PUB-NP-078 Volume 3, Cost of Capital Report by James Coyne, page 50, Figure 29. Re-state Figure 29 to include for each utility the date of the allowed return in 2018, the date of the regulatory decision setting the most recently approved ROE, and the date, if known, when the ROE is expected to be reviewed by the regulator.

PUB-NP-079 Volume 3, Cost of Capital Report by James Coyne, page 54, Figure 30. Re-state Figure 30 to include the date when the capital structure was last reviewed and approved by the regulator.

PUB-NP-080 Volume 3, Cost of Capital Report by James Coyne, page 54, Figure 30. Explain why, in Mr. Coyne's opinion, the approved equity ratio as shown in Figure 30 and the approved return on equity shown on Figure 29 have both been historically higher for the U.S. electric group if the Canadian and U.S. capital markets are highly integrated as stated on page 27, lines 5-15 and no

adjustment is required in the DCF analysis to reflect adjustments for use of U.S. data.

PUB-NP-081 Volume 3, Cost of Capital Report by James Coyne, page 56, lines 2-25. Mr. Coyne refers to a November 2020 Moody's report which considered the risks for Newfoundland Power arising from the Muskrat Falls Project. Moody's has not changed Newfoundland Power's credit rating from Baa1 which Mr. Coyne acknowledges, at page 57, lines 3-6, is higher than other Canadian electric utilities. What weight, in Mr. Coyne's opinion, should be given to the maintenance of Newfoundland Power's credit rating from Moody's in the Board's consideration of whether Newfoundland Power is an above average risk Canadian utility?

PUB-NP-082 Volume 3, Cost of Capital Report by James Coyne, page 57, lines 2-6. Explain how Mr. Coyne concluded that Newfoundland Power has comparable financial risk to the other investor-owned electric utilities in Canada given its higher equity component and higher long-term issuer rating from Moody's.

PUB-NP-083 Volume 3, Cost of Capital Report by James Coyne, page 68, lines 16-20. How did Mr. Coyne select the five investor-owned electric utilities for comparison of their business risks compared to Newfoundland Power and why were no companies from the Canadian proxy group used for the ROE analysis included for the comparison of business risks?

PUB-NP-084 Volume 3, Cost of Capital Report by James Coyne, page 74, lines 10-27. In Order No. P.U. 18(2016), page 19, lines 31-33, the Board concluded that Newfoundland Power is an average risk utility compared to other Canadian utilities. Explain how each of the risks associated with the factors analyzed by Mr. Coyne in his assessment of Newfoundland Power's business risks compared to other Canadian utilities has increased since the Board's decision in 2016 that would cause the Board to now conclude that Newfoundland Power is above average risk compared to Canadian peers. In the response explain the degree to which any of the risks have changed and state whether the change is minor or material.

PUB-NP-085 Volume 3, Cost of Capital Report by James Coyne, page 74, lines 17-19. Mr. Coyne is of the opinion that Newfoundland Power has more supply risk than other Canadian investor-owned electric utilities due to the cost of the Muskrat Falls Project and the effect on customer demand as well as uncertainty regarding reliability. How is Mr. Coyne's opinion affected by the recent announcement on July 28, 2021 by the Provincial and Federal Governments of a rate mitigation plan that reduces the cost pressures on electricity rates due to the Muskrat Falls project? In the response explain how the uncertainty arising from the Muskrat Falls project for electricity rates is influencing Mr. Coyne's opinion that Newfoundland Power is an above average risk Canadian electric utility.

PUB-NP-086 Volume 3, Cost of Capital Report by James Coyne, page 79, lines 22-24. Mr. Coyne concludes that "*the current deemed common equity ratio for*

Newfoundland Power of 45 percent remains the minimum appropriate level given these relative financial and business risks". Did Mr. Coyne quantify these relative financial and business risks in reaching his conclusions for the report? If yes provide the quantification. If no, provide them at this time.

PUB-NP-087 Further to PUB-NP-086, the allowed equity ratios for a number of Canadian utilities are provided in Mr. Coyne's report and all are below Newfoundland Power's with the overall average for Canadian electric utilities reported on page 54 being 38.9%. Is the conclusion that can be drawn from this that Newfoundland Power is, in Mr. Coyne's opinion, the riskiest electric utility in Canada?

PUB-NP-088 Volume 3, Cost of Capital Report by James Coyne, page 79, lines 22-24 Explain the basis for Mr. Coyne's conclusion that 45% is the minimum appropriate common equity ratio for Newfoundland Power.

PUB-NP-089 Volume 3, Cost of Capital Report by James Coyne, page 79. Has Mr. Coyne considered the impact on Newfoundland Power's credit metrics and financial integrity with different common equity ratios than 45%? If yes, explain what was considered and provide the analysis. If no, explain why not.

PUB-NP-090 Volume 3, Cost of Capital Report by James Coyne, page 79. Further to PUB-NP-029 in which Newfoundland Power provides information on its financial position at different common equity ratios and returns on equity than those proposed in the Application, provide Mr. Coyne's opinion why no common equity ratio other than 45% is appropriate given the credit metrics shown in the response to PUB-NP-029 at certain common equity ratios.

PUB-NP-091 Volume 3, Cost of Capital Report by James Coyne, page 80. Please confirm that it is Mr. Coyne's opinion that the only reason for the continued suspension of the automatic adjustment formula is the current state of financial markets and the unusually low risk-free rate.

PUB-NP-092 Volume 3, Cost of Capital Report by James Coyne, page 80. In Mr. Coyne's opinion are there revisions to the last approved automatic adjustment formula that could be made to appropriately reflect current market conditions and determine a fair return? If yes, explain the revisions and, if not, explain why not?

PUB-NP-093 Volume 3, Cost of Capital Report by James Coyne. In Mr. Coyne's opinion are there alternatives other than the existing automatic adjustment mechanism that would be suitable to appropriately adjust the return on equity between general rate applications?

DATED at St. John's, Newfoundland this 29th day of July, 2021.

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

Per

Sara Kean
Assistant Board Secretary