

1 **Q. Please indicate the last time that representatives from Moody’s and or DBRS met**
2 **(or communicated in a substantive manner) with NP and whether NP fully briefed**
3 **them on the possible rate shock from Muskrat Falls. Please indicate whether this**
4 **was before or after both rating agencies confirmed NP’s rating and judged them to**
5 **be stable.**

6
7 A. Newfoundland Power meets or communicates with representatives from Moody’s
8 Investors Service (“Moody’s”) and DBRS Limited (“DBRS”) on an annual basis.
9 Specifically, the Company communicates with both credit rating agencies: (i) as part of
10 their respective annual rating reviews; (ii) upon issuance of new ratings associated with
11 new first mortgage bonds; and (iii) regarding other relevant matters.¹

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13 In determining credit ratings, a rating agency will primarily use information from
14 publicly available sources.² An agency may also use Company provided data or have
15 conversations with the Company to substantiate its view on a particular area. The
16 Muskrat Falls Project and the uncertainty of future electricity prices has been discussed
17 with both rating agencies.

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19 Moody’s highlighted its concern regarding the Muskrat Falls Project in its credit opinion
20 on Newfoundland Power as early as 2014.³ In its January 17, 2014 credit opinion,
21 Moody’s noted:

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23 *“The rating is consistent with NPI’s financial metrics but reflects a*
24 *cautionary note related to our concern that the utility’s future ability to*
25 *fully recover costs and earn returns may be compromised as the Province*
26 *of Newfoundland and Labrador undertakes development of the Muskrat*
27 *Falls hydroelectric project on the lower Churchill river and the related*
28 *transmission infrastructure. This politically charged project is large*
29 *relative to the provincial economy and is expected to place considerable*
30 *upward pressure on future electricity rates.”⁴*

31
32 In their latest credit reports, both Moody’s and DBRS highlight the potential negative
33 impacts on Newfoundland Power’s credit rating due to future electricity rate increases
34 associated with the Muskrat Falls Project.

¹ The Company had discussions with Moody’s and DBRS in 2018, 2019 and 2020 related to its annual credit rating reviews. Newfoundland Power also had discussions with Moody’s and/or DBRS: (i) in 2020 related to the redemption of the Company’s preference shares; (ii) in 2020 related to the issuance of Series AQ bonds; (iii) in 2020 related to the COVID-19 pandemic; and (iv) in 2021 related to the filing of its *2022/2023 General Rate Application*.

² See, for example, Moody’s report, *Rating System in Brief*, page 2.

³ This was in advance of the series of updates regarding increased estimated costs for the Muskrat Falls Project. For information on Muskrat Falls Project costs, see the *2022/2023 General Rate Application, Volume 1, Application, Company Evidence and Exhibits, Section 3.3.2: Risk Assessment*, page 3-32, Figure 3-4.

⁴ See Moody’s *Credit Opinion: Newfoundland Power Inc.*, January 17, 2014, page 2.

1 In its November 16, 2020 credit review, Moody's noted:

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3 *"The credit profile is negatively impacted by the risk of future cost*
4 *recovery associated with the Province of Newfoundland and Labrador's*
5 *sizeable Muskrat Falls hydroelectric project. This politically sensitive*
6 *project is large relative to the provincial economy and may place*
7 *considerable upward pressure on the future electricity rates of NPI, a*
8 *credit negative.*

9
10 *NPI faces uncertainties due to the timing and size of expected rate*
11 *increases associated with Nalcor Energy Inc's Muskrat Falls hydroelectric*
12 *project."*⁵

13
14 In its October 19, 2020 credit review, DBRS noted:

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16 *"The biggest challenge the Company faces is a potential rate shock for*
17 *ratepayers from the Muskrat Falls project, an 824-megawatt (MW)*
18 *hydroelectric generating facility under development by Nalcor Energy that*
19 *is expected to be fully commissioned in 2021. A rate shock could severely*
20 *reduce electricity volumes and affordability for Newfoundland Power's*
21 *customers and negatively affect the Company's earnings and cash flow.*

22
23 *DBRS Morningstar continues to monitor the situation and treats a*
24 *potential rate shock as an event risk. DBRS Morningstar expects the*
25 *Province to provide financial support to the ratepayers to soften the*
26 *impact of a rate shock.*

27
28 *Latest estimate for the total cost for the project has gone up to \$13.1*
29 *billion from \$12.7 billion as estimated in June 2017 and it is currently*
30 *uncertain how costs for the project will be recovered from Newfoundland*
31 *Power's customers; however, should upward pressure on rates affect the*
32 *Company's ability to pass on costs, this would negatively affect its credit*
33 *profile."*⁶

⁵ See the 2022/2023 General Rate Application, Volume 1, Application, Company Evidence and Exhibits, Exhibit 4, Credit Rating Reports: Moody's and DBRS.

⁶ Ibid.