

1 **Q. Can NP confirm that a decrease in the allowed ROE or common equity ratio would**  
2 **decrease its rates and partially offset any pass through of Nalcor Energy’s Muskrat**  
3 **Falls project? Conversely, can NP confirm that an increase in rates due to the**  
4 **requested ROE increases its risk relative to what it would otherwise be?**  
5

6 **A. Rate Mitigation**

7 Newfoundland Power can confirm that a decrease in any of the Company’s costs from  
8 those proposed, including its cost of capital, would result in a decrease in its proposed  
9 rate change.

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11 The estimated cost of the Muskrat Falls project is currently estimated to be \$12.7 billion.  
12 In addition, the forecast of annual operating costs of the Muskrat Falls Project are  
13 estimated to be \$109 million.<sup>1</sup>  
14

15 Any *reasonable* decrease in a Newfoundland Power costs would not partially offset, in  
16 any material sense, the potential rate impacts associated with the Muskrat Falls project.  
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18 For potential rate mitigation options associated with the Muskrat Falls project, please see  
19 the response to Request for Information PUB-NP-012.  
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21 **Risk Associated with Rate Increases**

22 Newfoundland Power cannot confirm “that an increase in rates due to the requested ROE  
23 increases its risk relative to what it would otherwise be.”  
24

25 Newfoundland Power’s costs, including its cost of capital, are considered and approved  
26 by the Board in its determination of customer rates that are just and reasonable pursuant  
27 to the provisions of the *Electric Power Control Act, 1994*, and the *Public Utilities Act*.  
28 Any reasonable cost approved by the Board to be reflected in customer rates would not  
29 increase the risk of the Company.<sup>2</sup>  
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31 The risks associated with the Muskrat Falls Project do, however, increase the business  
32 risk of Newfoundland Power. In Order No. P.U. 18 (2016), the Board recognized that the  
33 Muskrat Falls Project has an impact on Newfoundland Power’s business risk.  
34

35 *“The Board accepts that the risks associated with Muskrat Falls, both in*  
36 *terms of supply and costs, are real and may have an impact on*  
37 *Newfoundland Power’s business risk.”<sup>3</sup>*  
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39 For further information on business risk associated with the Muskrat Falls Project, please  
40 see the response to Request for Information PUB-NP-014.

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<sup>1</sup> See Nalcor’s *Muskrat Falls Project Update, June 23, 2017* presentation.

<sup>2</sup> Any increase or decrease in the Company’s cost of capital will reflect the Board’s assessment of Newfoundland Power’s risk and its determination of a fair return. The Company’s cost of capital will be reflected in customer rates in accordance with a final order of the Board.

<sup>3</sup> See Order No. P.U. 18 (2016), page 19, lines 16-17.