

1 **Q. Volume 2: Cost of Capital: Expert Opinion of James Coyne-Capital Structure and**
2 **Risk Profile**

3
4 **Reference: “2025/2026 General Rate Application,” Newfoundland Power Inc.,**
5 **December 12, 2023, vol. 1, Evidence, sec. 1.1.4, p. 1-6/22–23 and vol. 2, Expert**
6 **Evidence, “Cost of Capital,” Concentric Energy Advisors Inc., November 7, 2023,**
7 **ch. II(C), p. 8/31 and p. 9/1–2; ch. VI(B)(1)(c), p.55, fig. 33; and VI(B)(1)(e), p. 58/6–**
8 **8.**

9 **Newfoundland Power’s evidence indicates that Newfoundland Power has above-**
10 **average business risk in comparison to other Canadian Utilities.**

11 **Cost of Capital Report, page 8/31 and page 9/1–2 state:**

12 **Business risk refers to the political and regulatory environment in which the**
13 **company operates and the operational and competitive forces that could**
14 **potentially exert pressure on earnings.**

15 **Page 55 of the Cost of Capital Report indicates that Newfoundland Power has the**
16 **highest Deemed Equity Ratio of six Canadian investor-owned electric operating**
17 **utilities, within a “ . . . supportive regulatory environment in Newfoundland and**
18 **Labrador.” (Cost of Capital Report, page 58/7–8)**

19 **Please reconcile these statements.**

20
21 **A. Concentric concludes on page 78 of its report, Volume 2:**

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23 *Newfoundland Power has above average business risk compared to other*
24 *Canadian electric utilities. In particular, factors contributing to this*
25 *higher risk profile include Newfoundland Power’s small size, dependence*
26 *on one supplier, weaker macroeconomic and demographic trends in the*
27 *province as compared to the remainder of Canada, and weather and*
28 *storm-related risk. While the regulatory framework in Newfoundland and*
29 *Labrador is generally supportive of maintaining credit quality, there are*
30 *certain aspects of the operating environment where Newfoundland Power*
31 *has higher business risk than other Canadian investor-owned electric*
32 *utilities. Further, Newfoundland Power has more power supply risk than*
33 *other Canadian investor-owned electric utilities due to the cost of the*
34 *Muskrat Falls project combined with additional costs associated with bulk*
35 *electricity supply on the island portion of Newfoundland and Labrador*
36 *that were previously not anticipated.*

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38 The quote on page 58 of the Concentric’s *Cost of Capital* report is a cite to Moody’s,
39 noting the rating agency’s view on the Newfoundland regulatory environment.

40
41 Concentric believes these statements are aligned, while both Moody’s and Concentric
42 identify the supportive Newfoundland regulatory environment, Concentric cites to other
43 risk factors that are offsetting.