

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

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4 **Q. In response to PUB-NP-085 filed in the 2022-2023 General Rate Application**  
5 **proceeding, Mr. Coyne noted that “The overall uncertainty surrounding the**  
6 **Muskrat Falls project was a factor in Mr. Coyne’s view that Newfoundland Power is**  
7 **an above average risk Canadian electric utility, and these uncertainties remain after**  
8 **the rate mitigation plan.”**

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10 **Has Mr. Coyne’s opinion been affected by the rate mitigation payments, provided**  
11 **by the Provincial Government to Newfoundland and Labrador Hydro, of \$190.4**  
12 **million and \$144.7 million in March 2023 and August 2023, respectively for the**  
13 **purpose of mitigating projected future customer rate increases that would be**  
14 **required to recover net supply costs incurred relating to the Muskrat Falls Project?**  
15 **In the response explain how the uncertainty arising from the Muskrat Falls project**  
16 **for electricity rates continues to influence Mr. Coyne’s opinion that Newfoundland**  
17 **Power is an above average risk Canadian electric utility.**

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19 **A. The Provincial Government’s rate mitigation payments are a positive and anticipated step**  
20 **toward reducing the cost impacts on Newfoundland and Labrador ratepayers. But**  
21 **Concentric notes that according to Newfoundland and Labrador Hydro:**

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23 *The Provincial Government has paid the account balance owing from*  
24 *customers as of the end of 2022, equal to \$190.4 million. While this payment*  
25 *does not affect 2023 rates, payment of this account by the provincial*  
26 *government limits future customer rate increases as customers will not be*  
27 *required to pay this balance – that is, the \$190.4 million will not be factored*  
28 *into future rate calculations. The payment also reduces financing costs*  
29 *accumulating in the account, which further reduces the amount to be*  
30 *recovered from customers.*

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32 *For 2023, the deferral account will continue to accumulate the difference*  
33 *between the costs to supply the Island Interconnected System and the costs*  
34 *currently collected from customers in electricity rates. Addressing future*  
35 *balances in the account will be addressed in the rate mitigation plan*  
36 *currently under development.*<sup>1</sup>

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38 **So while these mitigation payments are a helpful short-term step in addressing the**  
39 **impacts of Muskrat Falls entering service, the final rate mitigation plan has yet to be**  
40 **developed or approved. According to Hydro:**

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42 *3. The last step in rate mitigation is continuing to work closely with the*  
43 *Government of Newfoundland and Labrador to finalize how rate mitigation*  
44 *funding will be reflected in customer rates. Together, we are working*

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<sup>1</sup> See Newfoundland and Labrador Hydro, Electricity Rates, Frequently Asked Questions. Retrieved February 24, 2024 from <https://nlhydro.com/electricity-rates/oilcosts/>.

1                    *through the complexities to appropriately integrate rate mitigation funding*  
2                    *into the current rate setting processes.*

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4                    *The final rate mitigation plan will be reflected in our General Rate Application*  
5                    *filing planned for 2024.<sup>2</sup>*  
6

7                    Hydro filed its most recent Quarterly Update – Items Impacting the Delay of Hydro’s  
8                    Next General Rate Application with the Board on December 15, 2023. In the update  
9                    Hydro indicated that it now expects to file its next GRA in 2025.

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11                    While the near-term rate mitigation results in rate increases lower than what electricity  
12                    rates would have been absent rate mitigation, it still represents a meaningful increase in  
13                    electricity rates for Newfoundland Power customers. The overall uncertainty surrounding  
14                    the Muskrat Falls project was a factor in Concentric’s view that Newfoundland Power is  
15                    an above average risk Canadian electric utility, and these uncertainties remain after the  
16                    rate mitigation plan.

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18                    In addition, the cost of purchasing electricity from Newfoundland and Labrador Hydro is  
19                    Newfoundland Power’s single largest cost. Supply cost pressures will continue after rate  
20                    mitigation is finalized. As discussed on pages 3-33 and 3-34 of the Company’s GRA,  
21                    inadequate supply reliability could result in the need for additional investments to  
22                    improve reliability, including investments in additional sources of supply or investments  
23                    to improve the reliability of the Labrador-Island Link. There is no assurance that costs  
24                    related to any potential additional investments will be mitigated.

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26                    Recognizing the significant cost impacts of Muskrat Falls that have yet to be addressed,  
27                    in Concentric’s opinion, these risk mitigation payments do not fundamentally change the  
28                    longer-term risks associated with cost recovery and the impacts on Newfoundland Power  
29                    and its retail customers.

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<sup>2</sup> See Newfoundland and Labrador Hydro, Good to Know: Labrador Island Link Commissioning, May 1<sup>st</sup>, 2023. Retrieved February 24, 2024 from <https://nlhydro.com/good-to-know/good-to-know-labrador-island-link-commissioning/>.