

1 **Q. Dr. Cleary Evidence, Page 22, Lines 9-10: Dr. Cleary asserts there appears**
2 **to be no concrete evidence to suggest that Muskrat Falls has led to an increase (or**
3 **decrease) in Newfoundland Power’s business risk. Please explain fully what weight,**
4 **if any, Dr. Cleary places on the observations of Moody’s Investors Services relating**
5 **to Muskrat Falls and Newfoundland Power’s ability to fully recover costs and earn**
6 **returns in the future.**

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8 A. Dr. Cleary evaluated this factor and found conflicting evidence from NP
9 regarding whether or not supply risk has in fact increased, stayed the same, or decreased.
10 Like Mr. Coyne, I do not claim to be an expert in transmission reliability or weather-
11 related risks. Therefore, I have to rely on evidence provided by such experts. The
12 evidence is conflicting since NLH has claimed that supply risk will be reduced, while NP
13 is claiming it will be increased. Since the matter is currently under review, Dr. Cleary has
14 no way of knowing whether supply risk has increased, decreased or stayed the same.
15 Therefore, Dr. Cleary assumes that supply risk has not increased, at least not in any
16 material way. The basis for this conclusion is provided in greater detail in the response to
17 PUB-CA-023.

18
19 With respect to the cost uncertainty associated with Muskrat Falls, Dr. Cleary would note
20 the following:

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22 Page 16, lines 16-23, of Mr. Coyne’s evidence states:

23 “With regard to the impact of Nalcor Energy’s new generation plant at Muskrat
24 Falls, Newfoundland Power expects that electricity rates will increase
25 substantially due to higher supply costs. According to Newfoundland Power’s
26 evidence, power supply costs currently account for approximately 64 percent of
27 the Company’s 2014 revenue. Newfoundland Power recovers changes in power
28 supply costs through the Rate Stabilization Account (“RSA”), which allows for
29 recovery of variations in NLH’s production costs. The RSA also recovers or
30

1 credits, as appropriate, variations in Newfoundland Power's supply costs due to
2 changes from test year energy and demand costs."
3

4 So, in other words, if NP's supply costs increase, it can pass on these increased costs to
5 consumers through rates charged, as is usual for cost of service arrangements. And if the
6 increase was not anticipated (i.e., in the test year estimates) NP would be able to pass on
7 such unexpected cost increases to consumers through the RSA. Therefore, it is not clear
8 to Dr. Cleary what increased risk this poses to NP. In essence, the risk is to the consumer
9 who would pay higher rates, but NOT to NP, since NP can pass these additional costs
10 through to consumers.
11

12 NP has stated that any increase in electricity rates may cause many customers to
13 "convert" to alternative energy sources; however, Dr. Cleary does not find this argument
14 compelling. For example, as noted in the response to CA-NP-041, NP estimated that it
15 costs \$10,000 to convert to a forced air furnace and \$15,000-\$25,000 for oil fired hot
16 water radiators. This is a significant cash outlay that has to be covered by annual fuel
17 savings which NP estimated as only being 10% cheaper than electricity. In fact, NP
18 estimated that oil had a 40% cost advantage during the 1990s (CA-NP-042) and yet only
19 6,000 customers or 3.7% of the total switched from electric space heating.
20

21 Based on these reported switching cost estimates and the historical evidence noted above,
22 it seems extremely unlikely that a significant number of customers would be inclined to
23 convert from electricity.
24

25 With respect to the statement by Moody's, Dr. Cleary notes that he has no reason to
26 believe that a rating agency such as Moody's would possess expertise on transmission
27 reliability, nor has any evidence been provided to suggest that Moody's has or will
28 conduct such a study. Even if they do, Dr. Cleary has no reason to believe that such a
29 study would be more accurate in its assessment than the one currently being conducted by

1 the Board. In short, the statement by Moody's is in all likelihood based on their
2 discussions with NP.