

1 **Q. Pages 22-23: Dr. Cleary refers to weather related risk in his assessment of**  
2 **Newfoundland Power's business risk but does not refer to the cost uncertainty in**  
3 **power supply arising from the Muskrat Falls project referred to by Newfoundland**  
4 **Power on pages 4-29 to 4-30 of its Application, and page 10, and pages 15-17 of Mr.**  
5 **Coyne's evidence. How did Dr. Cleary consider this factor in his assessment of**  
6 **Newfoundland Power's business risk?**

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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.

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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*

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

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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.

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21      Based on these figures and the historical evidence noted above, Dr. Cleary believes that it  
22      seems extremely unlikely that a significant number of customers would be inclined to  
23      convert from electricity.