

1 **Q. Appendix A, page 15-16: Explain how Newfoundland Power’s power supply risks**
2 **have impacted Newfoundland Power’s financial position in 2014 and 2015 and the**
3 **forecast impact for 2016 to 2018.**
4

5 **A. A. Newfoundland Power’s Evidence**
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7 Newfoundland Power’s evidence on the potential consequences of, and uncertainty
8 associated with, current and future power supply is found in *Volume 1, Company*
9 *Evidence, Section 4: Finance, Power Supply* at page 4-27, line 9, *et. seq.*
10

11 Further Newfoundland Power evidence on the potential cost and reliability consequences
12 associated with the Muskrat Falls project and Labrador-Island transmission link
13 (collectively, the “Muskrat Falls project”) is found in the response to Request for
14 Information PUB-NP-013.
15

16 Mr. Coyne has relied upon this evidence which summarizes discussions he has had with
17 the Company in assessing the impact of power supply risks on Newfoundland Power’s
18 overall business risk.
19

20 **B. Mr. Coyne’s Assessment**
21

22 The impact of Newfoundland Power’s supply risks on its financial position has multiple
23 dimensions. These include the short-term cost consequences of power supply failures.
24 Loss of power supply impacted the Company’s financial results in both 2013 and 2014.¹
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26 From an equity investor perspective, the longer-term potential impacts on Newfoundland
27 Power’s financial position of power supply risks are more significant. Over this longer-
28 term time horizon, Newfoundland Power can expect to encounter a combination of risks
29 which include, but are not limited to, power supply risks.
30

31 The relatively weak provincial economy and demographic outlook have been recurring
32 business risks for Newfoundland Power. These risks, combined with Newfoundland
33 Power’s power supply risks, have very serious potential consequences for the Company’s
34 financial position. These consequences affect the required return on equity for
35 Newfoundland Power.
36

37 The serious potential consequences for the Company’s financial position, which are
38 associated with power supply risk, have been recognized by others. The credit rating
39 agencies, Moody’s Investor Services (“Moody’s”) and DBRS have both expressed
40 concern with increasing risk for Newfoundland Power due to higher supply costs, and
41 how those costs might impact customer demand for electricity and timely cost recovery

¹ For example, the 2013 and 2014 supply issues resulted in additional operating costs of approximately \$0.5 million and \$1.2 million, respectively. Please refer to the response to Request for Information CA-NP-140, page 2, lines 5 to 14.

1 for the Company. For example, Moody’s has commented on Newfoundland Power’s
2 power supply situation as follows:

3
4 *“.....a cautionary note related to our concern that the utility’s future*
5 *ability to fully recover costs and earn returns may be compromised as the*
6 *Province of Newfoundland and Labrador undertakes development of the*
7 *Muskrat Falls hydroelectric project on the lower Churchill river and the*
8 *related transmission infrastructure. This politically charged project is*
9 *large relative to the provincial economy and is expected to place*
10 *considerable upward pressure on future electricity rates.”*

11
12 Moody’s and DBRS assess risk from a debt investor’s perspective. Nevertheless, the risk
13 to overall cost recovery presented by the current power supply outlook is also a concern
14 for equity investors and can be expected to influence their perception of the required
15 return.

16
17 It is reasonable to expect that, all other things being equal, increased power supply risk
18 for Newfoundland Power will result in an equity investor perceiving the Company’s
19 future financial position to be more risky. This will increase the equity investor’s
20 required return.