

1 **Q. Further to PUB-NP-033, it is stated that Newfoundland Power has an overall riskier**
2 **outlook than at the time of the 2013/2014 General Rate Application (“GRA”) and**
3 **that it is Concentric Energy Advisors’ opinion that Newfoundland Power is above**
4 **average risk in comparison to its Canadian peers. Does Newfoundland Power**
5 **concur with the opinions of Concentric? Explain the degree of materiality of the**
6 **increase in risk since the last GRA and how it was determined that this increase**
7 **caused Newfoundland Power to be above average risk compared to its Canadian**
8 **peers.**

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10 **A.** Newfoundland Power concurs with the opinions of Concentric Energy Advisors.

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12 In Newfoundland Power’s view, the primary contributors to Newfoundland Power’s
13 overall riskier outlook compared to the *2013/2014 General Rate Application* are the
14 deterioration of the economy in the Company’s service territory and the increased
15 uncertainty associated with wholesale power supply. With regard to the latter, Moody’s
16 Investors Service has observed that Newfoundland Power’s “... *future ability to fully*
17 *recover costs and earn returns may be compromised as the Province of Newfoundland*
18 *and Labrador undertakes development of the Muskrat Falls hydro electric project on the*
19 *Lower Churchill River and the related transmission infrastructure.*”¹

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21 The current outlook for Newfoundland Power has not resulted in a change to the
22 Company’s credit rating. Newfoundland Power has not sought to change its longstanding
23 capital structure to respond to the riskier outlook. However, in Newfoundland Power’s
24 view, the change in risk outlook weighs heavily in favour of the Company maintaining
25 that capital structure.

26
27 Newfoundland Power engages cost of capital experts to assess its risk relative to peers.
28 Newfoundland Power is not practically in a position to make such assessments itself.
29 However, the Company observes that in the *2013/2014 General Rate Application*, the
30 Company sought a ratemaking return on equity of 10.4 % on 45% common equity based,
31 in part, upon the evidence of Ms. Kathleen McShane and Dr. James Vander Weide. In
32 the *2016/2017 General Rate Application*, the Company seeks a return on equity of 9.5 %
33 on 45% common equity based upon the evidence of Mr. James Coyne.

¹ See Newfoundland Power’s *2016/2017 General Rate Application, Volume 2, Exhibits and Supporting Materials, Exhibit 4: Credit Rating Reports: Moody’s and DBRS.*