

1 Q. Reference: Dr. Booth Evidence, Page 74, Lines 15-17
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3 **Does Dr. Booth agree with the credit rating agencies (Moody's and DBRS) that**
4 **investors are also concerned that higher electricity supply costs in**
5 **Newfoundland could increase the likelihood that the Board will be more likely**
6 **to look for ways to reduce customer rates, such as reducing the allowed ROE**
7 **or deemed equity ratio, or disallowing certain operating costs, or challenging**
8 **the prudence of capital costs? If not, why not?**
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10 A. It is a correct assessment that both Moody's and DBRS are concerned about
11 electricity supply costs. However, Dr. Booth does not judge this to be a major
12 concern for investors, otherwise they would not have lent NP 40 year money at
13 3.815% on June 2, 2017. Dr. Booth's assessment would be that higher electricity
14 costs even if some of that is deferred to minimize short-term rate hikes would show
15 up over a 40-year investment horizon. Moreover, a careful review of DBRS'
16 October 4, 2018 rating report on NP does not reveal any concern that the Board
17 would penalize NP due to the fact it has to buy electricity from Newfoundland and
18 Labrador Hydro. Further they reaffirmed NP's A rating. The critical summary of the
19 impact of Muskrat Falls is reproduced below

Challenges

1. Pressure on rates from the Muskrat Falls project

The Muskrat Falls project is an 824 MW hydroelectric generating facility being developed by Nalcor. Costs for the project have increased to approximately \$12.7 billion from \$9.1 billion in June 2016. It is currently uncertain how costs for the project will be recovered from Newfoundland Power's customers; however, should upward pressure on rates affect the Company's ability to pass on costs, this would negatively affect its credit profile. Nalcor has noted that, based on current projections, rates are expected to increase to 22.9 cents/kWh in 2021 (12.4 cents/kWh in 2018). While the Province is currently investigating potential rate mitigation measures, a potential rate shock for customers could affect their ability to pay their electricity bills as well as the electricity throughput, which would be negative for Newfoundland Power's earnings and cash flows. DBRS notes that the Province has directed Nalcor to source \$210 million to lower electricity rates starting in 2020-2021.