

- 1 **Q. (Application Volume 1, page 1-2) It is stated “This forecast decline in energy sales**
2 **reflects the challenging economic conditions in Newfoundland Power’s service**
3 **territory. Housing starts in the province are forecast to decline, unemployment is**
4 **expected to remain high, and Provincial Government spending is expected to be**
5 **constrained as the province addresses its debt obligations and annual fiscal deficits.”**
6 **a) Is the economic situation expected to be even worse with the introduction of**
7 **Muskrat Falls Project costs in rates later this year? Please explain.**
8 **b) What is NP doing to assist its customers during this very difficult economic**
9 **period?**
10 **c) Is proposing an increase in return from the current 8.5% to 9.8% consistent**
11 **with this economic scenario?**

- 12
13 **A. a)** The potential impact of the Muskrat Falls Project on the province’s economic
14 situation has been recognized in industry publications. For example, a report
15 from the Atlantic Provinces Economic Council (“APEC”) in January 2021 stated:

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17 *“The controversial, delayed and overbudget Muskrat Falls*
18 *hydroelectricity project could lead to a spike in electricity prices*
19 *from \$13.5 cents/kwh to \$22.9 cents/kwh in 2021. This would*
20 *create a severe challenge for industrial consumers and*
21 *households. Yet mitigating such an increase for electricity rate*
22 *payers could cost an estimated \$725 million in 2021 alone, a large*
23 *fiscal burden for the province to absorb. The province is therefore*
24 *working to protect both ratepayers and taxpayers and entered into*
25 *negotiations with the federal government on a rate mitigation*
26 *plan.”¹*

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28 On July 28, 2021, the Provincial Government and the Federal Government
29 announced an agreement-in-principle to mitigate rate impacts associated with the
30 Muskrat Falls Project. The mitigated customer rate target was updated to
31 14.7 ¢/kWh, or approximately 9% higher than the previously indicated target of
32 13.5 ¢/kWh.²

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34 The potential rate increase identified in this announcement is significant.
35 Additionally, this announcement does not account for the risk of other potential
36 rate impacts resulting from the Muskrat Falls Project, such as future investments
37 required to address the reliability of the Labrador Island Link or requirements for
38 additional sources of supply on the Island Interconnected System.³ It is therefore
39 reasonable to conclude that the Muskrat Falls Project continues to present a
40 challenge for the province’s economic situation.

¹ See APEC Commentary, *Challenges and Prospects for Newfoundland and Labrador’s Economy*, January 28, 2021, page 5.

² $14.7 \div 13.5 - 1 = 0.089$, or approximately 9%.

³ See the 2022/2023 *General Rate Application, Volume 1, Application, Company Evidence and Exhibits*, Section 3: Finance, pages 3-34 to 3-35.

1 b) See response to Request for Information PUB-NP-010.
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3 c) The proposed increase in return from the current 8.5% to 9.8% is consistent with
4 the expert opinion of Mr. James Coyne of Concentric Energy Advisors.
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6 Mr. Coyne’s recommendation is based upon analytical tools and data sources
7 normally used for such purposes before regulators in Canada and the U.S. This
8 included: (i) an examination of the legal and regulatory requirements for
9 determining a fair rate of return; (ii) selection of proxy groups with companies
10 comparable to Newfoundland Power with respect to business and financial risks;
11 (iii) estimation of the cost of common equity for the proxy group of companies
12 using various methodologies; (iv) examination of authorized returns on equity for
13 other investor-owned electric utilities in Canada and the U.S.; and (v)
14 development of a range of results for the proxy groups.⁴
15

16 Mr. Coyne also assessed the appropriateness of Newfoundland Power’s proposed
17 capital structure based on an examination of the Company’s business and
18 financial risks relative to the proxy groups, which included consideration of the
19 province’s economic scenario.⁵

⁴ See the 2022/2023 General Rate Application, Volume 3, Expert Evidence, Cost of Capital: Mr. James Coyne, page 2.

⁵ Ibid.