Reference: Volume 3, Cost of Capital Report by James Coyne

Q. Volume 3, Cost of Capital Report by James Coyne, page 56, lines 2-25. Mr. Coyne refers to a November 2020 Moody's report which considered the risks for Newfoundland Power arising from the Muskrat Falls Project. Moody's has not changed Newfoundland Power's credit rating from Baa1 which Mr. Coyne acknowledges, at page 57, lines 3-6, is higher than other Canadian electric utilities. What weight, in Mr. Coyne's opinion, should be given to the maintenance of Newfoundland Power's credit rating from Moody's in the Board's consideration of whether Newfoundland Power is an above average risk Canadian utility?

A. Exhibit JMC-10 shows that the average company in the Canadian proxy group has a Moody's rating of Baa2, or one notch lower than Newfoundland Power's rating of Baa1. Only three of the Canadian proxy group companies have Moody's ratings; the other three are not rated by Moody's. Hydro One Ltd. is rated higher at A3, Enbridge is rated lower at Baa2 and Emera is rated lower at Baa3.

Mr. Coyne notes that this is a small sample of three companies and Newfoundland Power's credit rating is higher than one and lower than the other electric company. As discussed above, the Company's Moody's long-term issuer rating is higher than Emera's and lower than Hydro One Ltd.'s (a company which has the implicit support of provincial ownership). Enbridge is a gas pipeline and distribution company. Further, while credit ratings are important to debt investors, they are less important to equity investors, who also consider other factors such as earnings growth potential and the ability to earn the authorized ROE.

Mr. Coyne's risk analysis supports his view that Newfoundland Power has higher business risk than other investor-owned electric utilities in Canada. In Canada, higher business risk is typically offset by a higher deemed equity ratio. By doing so, Newfoundland Power is able to maintain its Baa1 credit rating.