

1 **Q. Evidence of Kathleen McShane – Appendix “B”: Ms. McShane refers to**
2 **“Customers by Type”. DBRS’s Rating Report of January 24, 2012 notes that**
3 **“Newfoundland Power has a stable customer base, with power sales comprised**
4 **solely of residential and commercial customers. Serving industrial customers**
5 **exposes organizations to a greater level of counterparty risk and increased earnings**
6 **volatility.” Does Ms. McShane agree with DBRS’ assessment?**
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8 A. Not entirely. Newfoundland Power’s customers are, for rate purposes, categorized as
9 residential or general service, with general service customers falling into one of four rate
10 classes, depending on the size of their load. Newfoundland Power serves a number of
11 customers categorized as general service but which are in goods producing industries, and
12 thus more akin to industrial than commercial customers. Ms. McShane agrees with the
13 overall assessment that Newfoundland Power serves a stable customer base. As a general
14 proposition, she agrees with the comment that serving industrial customers exposes
15 organizations to greater counterparty risk and increased earnings volatility. The extent to
16 which that is the case depends on various factors, including the nature of contractual
17 arrangements, the extent to which security is required from customers, rate design, and the
18 industries in which the customers operate. It bears noting that, in its assessment of CU
19 Inc., which is rated higher than Newfoundland Power, DBRS makes no mention of
20 industrial customer exposure, despite the fact that over 60% of ATCO Electric’s deliveries
21 are to industrial customers, largely concentrated in the energy and petrochemical
22 industries.