

1 **Q. Referring to page 15 of Ms. McShane's testimony, she states that in the absence of**
2 **the proposed change to the Rate Stabilization Clause, NP's business risks would be**
3 **materially higher than at the time of its last GRA. Please explain how NP's business**
4 **risks could be greater if its current regulatory mechanisms are left unchanged.**

5
6 **Please also provide copies of credit analysts' reports and equity analysts' reports**
7 **supporting Ms. McShane's assessment of the impact on NP's business risks created**
8 **by the proposed change to the Rate Stabilization Clause. Please provide copies of**
9 **all equity reports and credit.**

10
11 A. The current mechanism does not account for the difference between the average unit cost
12 of supply that is included in Newfoundland Power's rates and the marginal cost of supply
13 (second block rate) that will be incurred to serve new customers that are added beyond
14 the test period. Under the current mechanism, incremental deliveries will attract the
15 second block rate, which is priced at the marginal cost of supply at Newfoundland and
16 Labrador Hydro's Holyrood generating plant, but Newfoundland Power would only
17 recover the lower average unit cost of supply. As long as the marginal supply cost is
18 higher than the average supply cost, under the current mechanism, Newfoundland
19 Power's margin would be eroded if it adds new customer load beyond the test year. This
20 risk did not exist at the time of the last GRA because, at the time, Newfoundland Power
21 purchased all supply from Newfoundland and Labrador Hydro at a single energy rate.
22 The proposed mechanism is designed to allow Newfoundland Power a similar
23 opportunity to recover the cost of supply as existed at the time of its last GRA while
24 maintaining a similar frequency of rate applications.

25
26 Page 4 of the DBRS report of March 9, 2007 that was filed in Exhibit 6 of Newfoundland
27 Power's application discusses the proposed mechanism. Ms. McShane is not aware of
28 any other debt or equity reports that reference the proposed change to the Rate
29 Stabilization Clause.