

1 **Q. Please indicate the last time that representatives from Moody’s and or DBRS met**
2 **(or communicated in a substantive manner) with NP and whether NP fully briefed**
3 **them on the possible rate shock from Muskrat Falls. Please indicate whether this**
4 **was before or after both rating agencies confirmed NP’s rating and judged them to**
5 **be stable.**

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7 A. Newfoundland Power (the “Company”) meets or communicates with representatives
8 from Moody’s Investor Services (“Moody’s”) and DBRS Limited (“DBRS”) on an
9 annual basis. Specifically, the Company communicates with both credit rating agencies
10 (i) as part of their respective annual rating reviews; (ii) upon issuance of new ratings
11 associated with new first mortgage bonds; and (iii) regarding other relevant matters.¹
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13 In determining credit ratings, a rating agency will primarily use information from
14 publically available sources.² An agency may also use Company provided data or have
15 conversations with the Company to substantiate their view on a particular area.
16 Specifically, the Muskrat Falls Project and the uncertainty of future electricity prices has
17 been discussed with both rating agencies.
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19 Moody’s highlighted its concern regarding Muskrat Falls in its credit opinion on
20 Newfoundland Power as early as 2014.³ In its January 17, 2014 credit opinion, Moody’s
21 noted:⁴
22

23 *“The rating is consistent with NPI’s financial metrics but reflects a*
24 *cautionary note related to our concern that the utility’s future ability to*
25 *fully recover costs and earn returns may be compromised as the Province*
26 *of Newfoundland and Labrador undertakes development of the Muskrat*
27 *Falls hydroelectric project on the lower Churchill river and the related*
28 *transmission infrastructure. This politically charged project is large*
29 *relative to the provincial economy and is*
30 *expected to place considerable upward pressure on future electricity rates.”*
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32 In their latest credit reports, both Moody’s and DBRS highlight the potential negative
33 impacts on Newfoundland Power’s credit rating due to future electricity rate increases
34 associated with the Muskrat Falls project.

¹ The Company met with Moody’s and DBRS in March 2017. Newfoundland Power has also had discussions with both Moody’s and DBRS (i) in 2017 and 2018 related to its credit rating reviews; (ii) in 2017 related to the issuance of Series AP bonds in June 2017; and (iii) in 2018 related to the filing of its *2019/2020 General Rate Application*.

² See, for example, Moody’s report, *Rating System in Brief*, page 2.

³ This was in advance of the series of updates regarding increased estimated project costs that commenced in June 2014. See response to Request for Information PUB-NP-012.

⁴ See response to Request for Information CA-NP-110 for the 2014 Moody’s credit opinion.

1 In its January 31, 2018 credit review, Moody's noted:⁵

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3 *"The credit profile is constrained by the risk of future cost recovery*
4 *associated with the Province of Newfoundland and Labrador's sizeable*
5 *Muskrat Falls hydroelectric project. This politically sensitive project is*
6 *large relative to the provincial economy and is expected to place*
7 *considerable upward pressure on the future electricity rates of NPI, a*
8 *credit negative.*

9
10 *NPI faces uncertainties due to the timing and size of expected rate*
11 *increases in association with the Muskrat Falls hydroelectric project."*

12
13 In its September 5, 2017 credit review, DBRS noted:⁴

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15 *"DBRS remains concerned about the potential rate shock once the*
16 *Muskrat Falls project, which is currently under construction by Nalcor*
17 *Energy (Nalcor), comes on line in mid-2020. Nalcor expects that by 2022,*
18 *rates in the Province of Newfoundland and Labrador (the Province) will*
19 *increase to 23.3 cents per kilowatt hour (kWh), which is a substantial*
20 *increase from current rates of around 11.7 cents/kWh. Should the upward*
21 *pressure on rates affect Newfoundland Power's ability to fully pass on*
22 *costs, or affect ratepayers' ability to pay their electricity bills, this could*
23 *result in a negative rating action.*

24
25 *It is currently uncertain how costs for the project will be recovered from*
26 *Newfoundland Power's customers; however, should upward pressure on*
27 *rates affect the Company's ability to pass on costs, this would negatively*
28 *affect its credit profile."*

⁵ Please refer to Volume 1, Exhibit 4, Credit Rating Reports: Moody's and DBRS.