

1 **Reference: Volume 3, Cost of Capital Report by James Coyne**
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3 **Q. Volume 3, Cost of Capital Report by James Coyne, page 74, lines 17-19. Mr. Coyne**
4 **is of the opinion that Newfoundland Power has more supply risk than other**
5 **Canadian investor-owned electric utilities due to the cost of the Muskrat Falls**
6 **Project and the effect on customer demand as well as uncertainty regarding**
7 **reliability. How is Mr. Coyne’s opinion affected by the recent announcement on July**
8 **28, 2021 by the Provincial and Federal Governments of a rate mitigation plan that**
9 **reduces the cost pressures on electricity rates due to the Muskrat Falls project? In**
10 **the response explain how the uncertainty arising from the Muskrat Falls project for**
11 **electricity rates is influencing Mr. Coyne’s opinion that Newfoundland Power is an**
12 **above average risk Canadian electric utility.**
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14 **A.** The recent announcement on July 28, 2021 does not provide specific details regarding the
15 rate mitigation plan, and it is Mr. Coyne’s understanding that portions of that plan must
16 be approved by parliament. According to an article, under the rate mitigation plan,
17 electric rates for Newfoundland Power would increase to \$0.147 / kwh, about a 10
18 percent increase.¹ While this increase is lower than what electricity rates would have
19 been absent rate mitigation, it still represents a meaningful increase in electricity rates for
20 Newfoundland Power customers. While an important risk factor for investors and rating
21 agencies, a rate mitigation plan was anticipated before the filing. The overall uncertainty
22 surrounding the Muskrat Falls project was a factor in Mr. Coyne’s view that
23 Newfoundland Power is an above average risk Canadian electric utility, and these
24 uncertainties remain after the rate mitigation plan.
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26 In addition, the cost of purchasing electricity from Newfoundland and Labrador Hydro is
27 Newfoundland Power’s single largest cost. Supply cost pressures will continue after the
28 Muskrat Falls project is complete. For example, as discussed on page 3-34 and 3-35 of
29 the Company’s GRA, inadequate supply reliability could result in the need for additional
30 investments to improve reliability, including investments in additional sources of supply
31 or investments to improve the reliability of the Labrador-Island Link. There is no
32 assurance that costs related to any potential additional investments will be mitigated.

¹ CBC, “\$5.2B deal reached between feds, N.L. government to stave off skyrocketing power bills,” July 28, 2021.