

1 **Q. With reference to the statements on page 1-7, lines 20-24 and the company’s**
2 **acknowledgement that other factors such as the province’s demographics, weather**
3 **conditions, rugged terrain etc., have “persisted over the long term.” Is the**
4 **implication that if the Board judges that economic conditions of the provincial**
5 **economy has also persisted over the long term and that it is premature to judge the**
6 **impact of Muskrat Falls over the test years, then then there is no justification for an**
7 **increase in the allowed ROE?**

8
9 A. No. Newfoundland Power does not agree with the Consumer Advocate’s implication.

10
11 The proposed rate of return on equity for Newfoundland Power is based upon the
12 recommendations of Mr. James Coyne of Concentric Energy Advisors. Mr. Coyne’s
13 recommendation of a fair return follows his analysis which is not limited to business risks
14 related to the Muskrat Falls project and the provincial economy. Mr. Coyne’s analysis
15 includes:

- 16
17 • examination of the legal and regulatory requirements for determination of a
18 fair rate of return;
- 19
20 • selection of Canadian, U.S. and North American proxy groups with
21 companies comparable to Newfoundland Power with respect to business and
22 financial risks;
- 23
24 • estimation of the cost of common equity for the proxy group companies using
25 the Discounted Cash Flow (“DCF”) method and Capital Asset Pricing Model
26 (“CAPM”);
- 27
28 • examination of authorized returns on equity for other investor-owned electric
29 utilities in Canada and the U.S.;
- 30
31 • development of a range of results for the Canadian, U.S. and North American
32 proxy groups; and
- 33
34 • an assessment of the appropriateness of Newfoundland Power’s proposed
35 capital structure based on an examination of the Company’s business and
36 financial risks relative to the respective proxy groups.¹

37
38 In determining an appropriate return on equity for Newfoundland Power, the Board is
39 guided by the *fair return standard*. The Board has indicated that the attributes of a fair
40 utility return include that it be (i) commensurate with return on investments of similar
41 risk, (ii) sufficient to ensure financial integrity, and (iii) sufficient to attract necessary

¹ See Expert Evidence of Mr. James Coyne, at page 2, line 16, to page 3, line 13 which can be found in *Volume 2, Supporting Materials, Tab B - Expert Evidence, Cost of Capital*.

1 capital. These attributes are consistent with provincial legislation, including the
2 *Electrical Power Control Act, 1994*, and the *Public Utilities Act*.²

3
4 In Order No. P.U. 18 (2016), the Board recognized the impact of the Muskrat Falls
5 project and the provincial economy on Newfoundland Power’s business risk. The Board
6 stated:

7
8 *“The Board accepts that the risks associated with Muskrat Falls, both in*
9 *terms of supply and costs, are real and may have an impact on*
10 *Newfoundland Power’s business risk. In addition the Board accepts that*
11 *the economic indicators for the test period are not strong and that this*
12 *could also have an impact on Newfoundland Power’s business risk.”³*

13
14 It is Newfoundland Power’s evidence that, since 2016, the Company’s business risk
15 relating to the Muskrat Falls project and the provincial economy has increased.⁴

16
17 For further information on business risk associated with the Muskrat Falls Project, please
18 see the response to Request for Information PUB-NP-014.

² See *Volume 1, Application, Company Evidence and Exhibits, Company Evidence, Section 3: Finance*, page 3-15 to page 3-19 et seq.

³ See Order No. P.U. 18 (2016), page 19, lines 16-19.

⁴ See *Volume 1, Application, Company Evidence and Exhibits, Company Evidence, Section 3: Finance, Section 3.3.2 2018 Risk Assessment*, page 3-20 et seq.