

1 **Q. Page 1-7, lines 20-24: In Order No. P.U. 18(2016) at page 19, lines 26-33 the Board**  
2 **found that Newfoundland Power was an average risk utility. Please describe in**  
3 **detail how from the company’s perspective risks have increased for Newfoundland**  
4 **Power and its customers since 2016 associated with the commissioning of the**  
5 **Muskrat Falls Project and the provincial economy so that it now would be**  
6 **considered to have above-average business risk. In the response include how any**  
7 **increased risk since 2016 can be determined both qualitatively and quantitatively.**

8  
9 **A. A. General**

10  
11 In Order No. P.U. 18 (2016), the Board recognized that the Muskrat Falls Project and a  
12 deteriorating economy have an impact on Newfoundland Power’s business risk. In Order  
13 No. P.U. 18 (2016) the Board states:

14  
15 *“The Board accepts that the risks associated with Muskrat Falls, both in*  
16 *terms of supply and costs, are real and may have an impact on*  
17 *Newfoundland Power’s business risk. In addition the Board accepts that*  
18 *the economic indicators for the test period are not strong and that this*  
19 *could also have an impact on Newfoundland Power’s business risk.”<sup>1</sup>*

20  
21 Since the Board’s determination that Newfoundland Power was an average risk utility in  
22 2016, the Company’s business risk has increased. The primary contributors to  
23 Newfoundland Power’s riskier outlook since that time are (i) a deteriorating outlook for  
24 the provincial economy, and (ii) increased costs related to Muskrat Falls.

25  
26 **B. Provincial Economic Outlook**

27  
28 The economy of Newfoundland Power’s service territory affects the Company’s business  
29 risk. Since 2016, the economic outlook for the province has declined. A comparison of  
30 the Provinces forecast key economic indicators from the Conference Board of Canada’s  
31 *Provincial Outlook 2016* compared to the Conference Board of Canada’s *Provincial*  
32 *Outlook 2018* provides a useful comparison of the Company’s increased risk.<sup>2</sup>

33  
34 The Province’s employment outlook is worse in 2018 than it was in 2016. Table 1 shows  
35 the employment outlook of 2016 compared to the more recent 2018 employment outlook.

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<sup>1</sup> See Order No. P.U. 18 (2016), page 19, lines 16-19.

<sup>2</sup> See Attachment A to this response to Request for Information for Conference Board of Canada, *Provincial Outlook 2016, Long Term Forecast*, December 11, 2015, *Key Economic Indicators: Newfoundland and Labrador*. The Conference Board of Canada, *Provincial Outlook 2018, Long Term Forecast*, January 19, 2018 was filed in *Volume 2, Supporting Materials, Tab 3 – Customer Energy & Demand Forecast, April 2018, Attachment A*. Newfoundland and Labrador’s Key Economic Indicators are found at pages 20-21 of the Attachment.

**Table 1**  
**Employment Outlook (000s)<sup>3</sup>**  
**2018 to 2022**

<b>Employment</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
2018 Outlook	219	218	215	213	212
2016 Outlook	233	233	231	230	231
Difference	(14)	(15)	(16)	(17)	(19)
Difference (%)	-6.0%	-6.4%	-6.9%	-7.4%	-8.2%

1 The outlook on housing starts in the Province is worse than it was in 2016. Table 2  
2 shows the forecast housing starts that were projected in 2016 in comparison to those  
3 forecast in 2018.

**Table 2**  
**Housing Starts<sup>4</sup>**  
**2018 to 2022**

<b>Housing Starts</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
2018 Outlook	916	894	905	916	943
2016 Outlook	1,539	1,426	1,422	1,383	1,315
Difference	(623)	(532)	(517)	(467)	(372)
Difference (%)	-40%	-37%	-36%	-34%	-28%

4 The outlook on household disposable income in the province is worse than it was in  
5 2016. Table 3 shows the household disposable income that were projected in 2016 in  
6 comparison to those forecast in 2018.

<sup>3</sup> See Conference Board of Canada, *Provincial Outlook 2018, Long Term Forecast*, January 19, 2018, pages 20-21 for information relating to the 2018 Outlook. See Conference Board of Canada, *Provincial Outlook 2016, Long Term Forecast*, pages 12-13 for information relating to the 2016 Outlook.

<sup>4</sup> *Ibid.*

**Table 3**  
**Household Disposable Income (\$ millions)<sup>5</sup>**  
**2018 to 2022**

Household Disposable Income	2018	2019	2020	2021	2022
2018 Outlook	17266	17,425	17,615	17,890	18,253
2016 Outlook	19,232	19,741	20,053	20,462	20,946
Difference	(1,966)	(2,316)	(2,438)	(2,572)	(2,693)
Difference (%)	-10.2%	-11.7%	-12.2%	-12.6%	-12.9%

1 The Provinces declining economy since 2016 is reflected in the Company’s reduced  
2 energy sales. In 2016 and 2017 Newfoundland Power’s energy sales declined by 0.1%  
3 and 0.5%, respectively. This was the first time in consecutive years that the Company’s  
4 energy sales have declined. Energy sales in 2018 and 2019 are also expected to decline  
5 by 0.1% and 0.5%. Energy sales are expected to increase by 0.1% in 2020. However,  
6 this includes the impact of a leap year which positively impacts sales growth by  
7 approximately 0.3%.

8  
9 Average energy sales for the 2016 to 2020 period are expected to decline by 0.2%. This  
10 compares to an average increase in sales of 1.9% for the 2011 to 2015 period. This  
11 demonstrates a measurable change in the Company’s business risk since it was most  
12 recently assessed by the Board in 2016.

### 13 14 **C. Muskrat Falls**

15  
16 Newfoundland Power is dependent upon Newfoundland and Labrador Hydro (“Hydro”)  
17 for the bulk generation and transmission of electricity to its customers. The cost of  
18 Hydro’s electricity supply is passed on to customers through the rates charged by  
19 Newfoundland Power. With the impending completion of the Muskrat Falls Project in  
20 the coming years, the Company’s supply costs are expected to increase materially.

21  
22 Newfoundland Power’s business risk in relation to the Muskrat Falls project was first  
23 assessed by the Board in the Company’s *2016/2017 General Rate Application*. Since that  
24 time, estimates of the in-service capital cost of the Muskrat Falls project have increased  
25 by approximately \$3.6 billion. This increase alone is greater than the combined book  
26 value of the current utility investment of Hydro and Newfoundland Power. In addition,  
27 estimates of the annual base operating and maintenance costs for the Muskrat Falls  
28 Project have increased from \$34 million starting in 2018 to \$109 million beginning in

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<sup>5</sup> *Ibid*

1 2020.<sup>6</sup> These forecast operating and maintenance costs are approximately 1.7 times  
2 higher than Newfoundland Power's annual operating costs.<sup>7</sup>

3  
4 The increased power supply costs estimated for the Muskrat Falls Project are expected to  
5 result in customer rates that are materially higher than they are today. Nalcor estimated  
6 average customer rates following its latest cost estimates for the Muskrat Falls Project to  
7 be 22.9¢/kWh.<sup>8</sup> Government has indicated that it intends to limit residential rates to  
8 approximately 17¢/kWh.<sup>9</sup>

9  
10 Currently, Newfoundland Power's average residential customer electricity cost is  
11 approximately 12.4¢/kWh. An increase to the 17¢/kWh limit suggested publically  
12 represents an approximate 37% increase from current customer rates. This increase in  
13 electricity rates is expected to occur over a period defined by a worsening economic  
14 outlook.

15  
16 **D. Newfoundland Power's Relative Risk Compared to its Peers**

17  
18 Newfoundland Power engages cost of capital experts to assess its risk relative to its peers.  
19 Newfoundland Power is not practically in a position to make such assessments itself. In  
20 the Company's 2016/2017 General Rate Application and, most recently in the  
21 Company's 2019/2020 General Rate Application, Newfoundland Power engaged Mr.  
22 James Coyne, of Concentric Energy Advisors to assess the Company's risk.

23  
24 In his assessment of Newfoundland Power's risk during the 2016/2017 General Rate  
25 Application hearings, Mr. Coyne stated:

26  
27 *"I find higher business risk today than in 2012, and the reason for this is that the*  
28 *company is exposed to more risk due to changes in the company's electric supply*  
29 *from Newfoundland and Labrador Hydro particularly in terms of cost, and I'll*  
30 *come back to that. It also is exposed to more risk as a result of a weakened*  
31 *economy. Both of these factors place Newfoundland Power in a unique and*  
32 *higher risk position than its Canadian and U.S. peers."*<sup>10</sup>

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<sup>6</sup> See Nalcor Energy's June 23, 2017 news release *Nalcor Energy provides update on Muskrat Falls Project* and slide 14 of Nalcor Energy's June 23, 2017 *Muskrat Falls Project Update* presentation.

<sup>7</sup> Newfoundland Power's 2020 test year operating costs are forecast to be approximately \$64 million. \$109 million / \$64 million = 1.70.

<sup>8</sup> See Nalcor Energy's *Muskrat Falls Project Update, June 23, 2017* presentation, slide 19.

<sup>9</sup> See the July 28, 2017 Telegram article which provides "*Premier Dwight Ball said his government's mission is to make sure rates don't go much above 17 cents per kWh when Muskrat Falls is fully online in 2021...*"

<sup>10</sup> Newfoundland Power 2016/2017 General Rate Application, Mr. Coyne Transcript, April 4, 2016, page 17, lines 11-22.

1 In 2018, Mr. Coyne assessed Newfoundland Power’s risk relative to its peers. In his  
2 expert evidence filed in relation to the Company’s *2019/2020 General Rate Application*,  
3 Mr. Coyne stated:  
4

5 “Concentric concludes that Newfoundland Power has above average  
6 business risk compared to other Canadian electric utilities. Further,  
7 Newfoundland Power’s business risk has increased compared to other  
8 Canadian investor-owned electric utilities since its last GRA.”<sup>11</sup>  
9

10 **E. Concluding**  
11

12 The Board has recognized that the Muskrat Falls Project and a worsening economy can  
13 have an impact on Newfoundland Power’s business risk. Newfoundland Power’s  
14 business risk has increased since the Board’s final order in relation to the Company’s  
15 *2016/2017 General Rate Application*. This is primarily the result of increased risk  
16 associated with the Muskrat Falls Project and a worsening economic outlook for the  
17 Province. These two risks effectively mean that future electricity rates will be materially  
18 higher than they are today in an economy that is forecast to decline worse than previously  
19 anticipated.  
20

21 Following an assessment of Newfoundland Power’s risk, Mr. James Coyne, has  
22 concluded that Newfoundland Power’s business risks are higher than its Canadian peers.  
23 Newfoundland Power concurs with the opinions of Mr. Coyne.

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<sup>11</sup> See Expert Evidence of Mr. James Coyne, found in *Volume 2, Supporting Materials, Tab B, Cost of Capital*, page 63, line 18 to page 64 line 11.

**Conference Board of Canada**  
**Provincial Outlook 2016 – Long Term Economic Forecast (December 11, 2015)**  
**Key Economic Indicators: Newfoundland and Labrador**

For the exclusive use of Ron Crane, rcrane@newfoundlandpower.com, Newfoundland Power Inc.,

12 | Provincial Outlook 2016: Long-Term Economic Forecast—Forecast Tables

**Key Economic Indicators: Newfoundland and Labrador**

(forecast completed December 11, 2015)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>GDP at market prices (\$ millions)</b>	29,062	33,494	32,360	35,831	37,056	34,308	34,642	35,446	37,170	40,605	40,775	41,969	43,063
	16.4	15.3	-3.4	10.7	3.4	-7.4	1.0	2.3	4.9	9.2	0.4	2.7	2.9
<b>GDP at market prices (2007 \$ millions)</b>	28,033	28,904	27,592	29,588	28,724	28,668	28,428	28,472	28,870	30,898	30,395	30,614	30,860
	5.9	3.1	-4.5	7.2	-2.9	-0.2	-0.8	0.2	1.4	7.0	-1.6	0.7	0.8
<b>GDP at basic prices (2007 \$ millions)</b>	26,272	27,095	25,838	27,718	26,924	26,872	26,646	26,687	27,061	28,961	28,489	28,695	28,926
	5.6	3.1	-4.6	7.3	-2.9	-0.2	-0.8	0.2	1.4	7.0	-1.6	0.7	0.8
<b>Consumer price index (2002 = 1.0)</b>	1,174	1,214	1,239	1,260	1,284	1,293	1,352	1,382	1,411	1,443	1,472	1,502	1,533
	2.4	3.4	2.1	1.7	1.9	0.7	4.6	2.2	2.1	2.3	2.0	2.1	2.0
<b>Implicit price deflator—</b>	1,037	1,159	1,173	1,211	1,290	1,197	1,219	1,245	1,287	1,314	1,342	1,368	1,395
	9.9	11.8	1.2	3.2	6.5	-7.2	1.8	2.2	3.4	2.1	2.1	1.9	2.0
<b>GDP at market prices (2007 = 1.0)</b>	41	43	46	48	51	54	55	56	58	60	61	63	64
<b>Wages and salaries per employee (\$ 000s)</b>	2.9	5.7	5.1	5.7	6.9	5.1	1.8	2.3	3.2	2.9	2.5	2.5	2.4
<b>Primary household income (\$ millions)</b>	14,185	15,375	16,567	17,718	18,504	19,325	19,711	20,102	20,687	21,250	21,588	22,042	22,573
	5.2	8.4	7.8	6.9	4.4	4.4	2.0	2.0	2.9	2.7	1.6	2.1	2.4
<b>Household disposable income (\$ millions)</b>	13,873	14,751	15,758	16,680	17,321	18,028	18,341	18,727	19,232	19,741	20,053	20,462	20,946
	4.7	6.3	6.8	5.8	3.8	4.1	1.7	2.1	2.7	2.6	1.6	2.0	2.4
<b>Household net savings rate (per cent)</b>	5.1	5.9	7.7	8.4	8.9	11.3	10.6	10.5	10.6	10.7	11.0	11.1	11.3
<b>Population (000s)</b>	522	525	527	528	529	528	529	529	528	527	525	523	523
	1.0	0.6	0.4	0.3	0.1	-0.1	0.1	0.0	-0.1	-0.2	-0.4	-0.3	0.0
<b>Employment (000s)</b>	223	232	241	243	238	236	235	234	233	233	231	230	231
	3.6	4.1	3.7	1.1	-1.9	-0.9	-0.6	-0.4	-0.5	0.1	-0.9	-0.3	0.1
<b>Labour force (000s)</b>	261	265	274	275	271	271	270	267	264	263	260	258	258
	2.4	1.7	3.4	0.1	-1.4	0.0	-0.2	-1.2	-1.1	-0.4	-1.3	-0.6	-0.1
<b>Labour force participation rate (per cent)</b>	59.7	60.2	62.0	61.8	61.0	61.2	61.1	60.4	59.8	59.7	59.2	59.0	58.9
<b>Unemployment rate (per cent)</b>	14.7	12.6	12.4	11.5	12.0	12.7	13.1	12.4	11.9	11.4	11.1	10.8	10.5
<b>Retail sales (\$ millions)</b>	7,453	7,833	8,182	8,589	8,881	8,934	9,224	9,429	9,702	9,978	10,163	10,411	10,690
	4.7	5.1	4.5	5.0	3.4	0.6	3.2	2.2	2.9	2.8	1.9	2.4	2.7
<b>Housing starts (number of units)</b>	3,606	3,488	3,885	2,862	2,119	1,820	1,732	1,699	1,539	1,426	1,422	1,383	1,315
	18.0	-3.3	11.4	-26.3	-26.0	-14.1	-4.8	-1.9	-9.4	-7.4	-0.2	-2.7	-4.9
<b>Net interprovincial migration (000s)</b>	0.149	0.751	0.235	0.222	-0.661	-0.713	-0.744	-1.196	-1.482	-2.188	-1.755	-0.035	1.647
	-93.9	404.0	-68.7	-5.5	-397.7	-7.8	-4.4	-60.8	-23.9	-47.6	19.8	98.0	4805.7
<b>Net international migration (000s)</b>	0.691	1,106	1,478	1,228	0,739	0,499	0,783	0,760	0,737	0,711	0,688	0,675	0,676
	-20.5	60.1	33.6	-16.9	-39.8	-32.5	57.0	-2.9	-3.0	-3.5	-3.2	-1.9	0.1

Shaded area represents forecast data.  
All data are in millions of dollars, seasonally adjusted at annual rates, unless otherwise specified.  
For each indicator, the first line is the level and the second line is the percentage change from the previous period.  
Sources: The Conference Board of Canada; Statistics Canada; CMHC Housing Time Series Database.

**Key Economic Indicators: Newfoundland and Labrador cont'd**

(forecast completed December 11, 2015)

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
<b>GDP at market prices (\$ millions)</b>	43,856	44,515	46,927	49,220	52,601	54,214	56,060	57,904	60,022	59,843	59,981	60,769	61,128
	1.8	1.5	5.4	4.9	6.9	3.1	3.4	3.3	3.7	-0.3	0.2	1.3	0.6
<b>GDP at market prices (2007 \$ millions)</b>	30,845	30,666	31,791	32,763	34,480	34,917	35,468	36,010	36,749	35,975	35,350	35,187	34,726
	0.0	-0.6	3.7	3.1	5.2	1.3	1.6	1.5	2.1	-2.1	-1.7	-0.5	-1.3
<b>GDP at basic prices (2007 \$ millions)</b>	28,912	28,744	29,799	30,709	32,319	32,728	33,245	33,753	34,446	33,720	33,134	32,981	32,550
	0.0	-0.6	3.7	3.1	5.2	1.3	1.6	1.5	2.1	-2.1	-1.7	-0.5	-1.3
<b>Consumer price index (2002 = 1.0)</b>	1,564	1,596	1,629	1,663	1,697	1,733	1,768	1,805	1,843	1,881	1,920	1,960	2,000
	2.0	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
<b>Implicit price deflator—</b>													
<b>GDP at market prices (2007 = 1.0)</b>	1,422	1,452	1,476	1,502	1,525	1,553	1,581	1,608	1,633	1,664	1,697	1,727	1,760
	1.9	2.1	1.7	1.8	1.5	1.8	1.8	1.7	1.6	1.8	2.0	1.8	1.9
<b>Wages and salaries per employee (\$ 000s)</b>	66	67	69	71	73	75	76	78	80	81	83	84	86
	2.2	2.0	2.6	2.7	3.0	2.6	2.0	2.3	2.7	1.9	1.7	1.8	1.9
<b>Primary household income (\$ millions)</b>	23,065	23,297	23,700	24,092	24,498	24,962	25,471	25,915	26,379	26,712	27,015	27,396	27,767
	2.2	1.0	1.7	1.7	1.7	1.9	2.0	1.7	1.8	1.3	1.1	1.4	1.4
<b>Household disposable income (\$ millions)</b>	21,416	21,687	22,090	22,455	22,823	23,242	23,713	24,141	24,583	24,926	25,242	25,615	25,979
	2.2	1.3	1.9	1.7	1.6	1.8	2.0	1.8	1.8	1.4	1.3	1.5	1.4
<b>Household net savings rate (per cent)</b>	11.4	11.5	11.5	11.5	11.4	11.3	11.2	11.1	11.1	11.0	11.0	10.9	10.9
<b>Population (000s)</b>	525	526	527	525	522	518	518	516	515	513	511	509	506
	0.3	0.2	0.2	-0.4	-0.6	-0.6	-0.1	-0.3	-0.3	-0.4	-0.4	-0.4	-0.4
<b>Employment (000s)</b>	231	228	225	223	219	218	217	216	213	211	209	208	206
	0.0	-1.3	-1.0	-1.2	-1.4	-0.8	-0.1	-0.8	-1.1	-1.0	-0.9	-0.7	-0.9
<b>Labour force (000s)</b>	258	255	253	249	246	244	243	241	239	236	234	232	230
	-0.1	-1.1	-0.9	-1.3	-1.5	-0.8	-0.1	-0.8	-1.1	-1.0	-1.0	-0.7	-0.8
<b>Labour force participation rate (per cent)</b>	58.7	57.9	57.2	56.7	56.2	56.0	55.9	55.5	54.9	54.5	54.1	53.9	53.6
<b>Unemployment rate (per cent)</b>	10.5	10.6	10.8	10.7	10.7	10.7	10.6	10.6	10.6	10.6	10.6	10.6	10.6
<b>Retail sales (\$ millions)</b>	10,962	11,118	11,367	11,630	11,911	12,230	12,568	12,880	13,207	13,476	13,734	14,036	14,339
	2.5	1.4	2.2	2.3	2.4	2.7	2.8	2.5	2.5	2.0	1.9	2.2	2.2
<b>Housing starts (number of units)</b>	1,246	1,178	1,110	1,041	973	904	836	768	699	631	562	494	426
	-5.2	-5.5	-5.8	-6.2	-6.6	-7.0	-7.6	-8.2	-8.9	-9.8	-10.8	-12.2	-13.8
<b>Net interprovincial migration (000s)</b>	1,645	1,816	-1,516	-2,314	-2,003	0,994	-0,005	-0,147	-0,157	-0,117	-0,167	-0,137	-0,157
	-0.1	10.4	-183.5	-52.6	13.4	149.6	-100.5	-2840.0	-6.8	25.5	-42.7	18.0	-14.6
<b>Net international migration (000s)</b>	0,679	0,680	0,678	0,689	0,688	0,686	0,686	0,685	0,702	0,700	0,704	0,708	0,709
	0.4	0.1	-0.3	1.6	-0.1	-0.3	0.0	-0.1	2.5	-0.3	0.6	0.6	0.1

Shaded area represents forecast data.

All data are in millions of dollars, seasonally adjusted at annual rates, unless otherwise specified.

For each indicator, the first line is the level and the second line is the percentage change from the previous period.

Sources: The Conference Board of Canada; Statistics Canada; CMHC Housing Time Series Database.