

1 Q. What percentage of debt to capital structure for Hydro would, in Ms.
2 McShane's view, all other things being equal, negatively impact on the
3 Province's credit rating?
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6 A. It is impossible to conclude with any degree of precision at what level Hydro's
7 debt ratio would negatively impact on the Province's credit rating. Based on
8 the experience of other Crown Corporations, debt ratios of up to 90% in the
9 short-term have been maintained without negative impact on the Province's
10 credit rating. The debt rating agencies would tend to focus on the utility's
11 ability to fully recover its debt service costs without running the risk of having
12 to turn to the Provincial government for assistance. Stated alternatively, as
13 long as Hydro's debt is guaranteed by the Province, the debt rating agencies'
14 concerns are with assurance that Hydro is self-sufficient, i.e. Hydro will cover
15 its total out-of-pocket costs, including interest expense, from its own
16 revenues, without risk of a short-fall.