

1 **Q. Is it the company's view that the Canadian financial system is still under stress due**
2 **to the financial crisis?**

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4 A. It is not Newfoundland Power's evidence that the Canadian financial system is still under
5 stress due to the financial crisis.

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7 Newfoundland Power's evidence does provide a number of market indicators relevant to
8 Newfoundland Power which suggests that significant financial market uncertainty
9 continues to exist.

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11 Firstly, the level of uncertainty that currently exists in the Canadian economy can be
12 observed in the relative issue spreads for Newfoundland Power's First Mortgage Bonds.¹

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14 Prior to the financial crisis of 2007/2008, the issue spreads on Newfoundland Power's
15 First Mortgage Bonds was less than 1.5%. By 2009, the issue spread had increased to
16 2.75%, before declining to 1.70% in 2013. In September 2015, the issue spread on the
17 Company's Series AO First Mortgage Bonds was 2.15%.²

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19 A second market indicator relevant to Newfoundland Power is the 30-year Canada bond
20 yields. In December 2011, the Board suspended operation of the automatic adjustment
21 formula primarily due to the inability of the Formula to produce a fair and reasonable
22 return in an environment of unusually low 30-year Canada Bond Yields.³

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24 In September 2012, when Newfoundland Power filed its last general rate application,
25 30-year Canada bond yields averaged 2.33%. In September 2015, 30-year Canada bond
26 yields averaged 2.24%. Since the 2013 general rate application, there has not been an
27 appreciable change in long Canada bond yields. Further, bank forecasts do not appear to
28 indicate that a return to more normal long Canada bond yields is imminent.⁴

29
30 Finally, Canadian Gross Domestic Product ("GDP") declined in each of the first two
31 quarters of 2015. This is a technical indicator of a recession. The last time Canadian
32 GDP declined in two consecutive quarters was the fourth quarter of 2008 and the first
33 quarter of 2009.

¹ The *issue spread* for the Company's First Mortgage Bonds is the amount over a 30-year Canada bond yield that is reflected in the First Mortgage Bond issue coupon rate at the time of pricing.

² See *Company Evidence, Volume 1, Section 4: Finance*, page 4-33, Table 4-14.

³ The Board suspended the Formula in Order No. P.U. 25 (2011).

⁴ See *Company Evidence, Volume 1, Section 4: Finance*, pages 4-39 to 4-40 and Chart 4-1.