Q. Please provide the underlying assumptions used in Table 4-12 and provide a similar table assuming an ROE and common equity comparable to that currently allowed in the electric transmission and distribution companies in Alberta and Quebec.

A. **Underlying Assumptions**

Pre-tax Interest Coverage (times)
The calculation is based on Standard and Poor's Rating Services methodology. The calculation considers Newfoundland Power's pre-tax earnings and total interest costs to the Company's total interest costs.

Cash Flow Interest Coverage (times)
The calculation is based on Moody's Investors Service methodology. The calculation considers Newfoundland Power's cash flow from operations (pre-working capital) to the Company's interest costs.

Cash Flow Debt Coverage (%)
The calculation is based on Moody's Investors Service methodology. The calculation considers Newfoundland Power's cash flow from operations (pre-working capital) to the Company's total debt.

Scenarios
Table 1 shows an estimation of Newfoundland Power's credit metrics for 2016 and 2017 forecast under existing customer rates assuming a ratemaking common equity ratio of (i) 38% as currently approved for ATCO Electric Distribution and (ii) 35% as currently approved for Hydro Quebec.[1]

[1] ATCO Electric Distribution is used as an example as (i) it is an Alberta electric distribution utility as requested and (ii) the Company is part of the Canadian proxy group as provided by Mr. James Coyne in Exhibit JMC-1 of Appendix A of his Evidence. Hydro Quebec is a provincial crown corporation, not an investor-owned utility.

Table 1
Pro Forma Credit Metrics Comparison[2]
2016E and 2017E[3]

	Hydro Quebec		**ATCO Distribution**	
	2016E	**2017E**	**2016E**	**2017E**
Pre-tax Interest Coverage (times)	1.8	1.6	1.9	1.7
Cash Flow Interest Coverage (times)	3.2	2.9	3.3	3.1
Cash Flow Debt Coverage (%)	12.2	12.1	13.5	13.3

Observations

Moody's Investor Service provides considerations that could change Newfoundland Power's credit rating down.

> *"We consider a downward revision in NPI's rating to be unlikely in the near term. However, NPI's rating would likely be downgraded if we perceived a meaningful reduction in the level of regulatory support combined with a sustained deterioration in NPI's financial metrics such as CFO pre-WC to debt in the low teens."[4]*

Newfoundland Power observes that a deterioration in Company's metrics as shown in Table 1, specifically a cash flow to debt coverage "… in the low teens …" could result in a downgrade to the Company's bond rating. Further, a reduction in Newfoundland Power's common equity ratio may also be considered to be a reduction in the level of regulatory support, which could also change the Company's bond rating downward.

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[2] The analysis assumes a special dividend would be paid to Fortis Inc. to result in 2016 forecast average common equity of approximately 35% and 38%, respectively. The replacement debt is assumed to be financed at Newfoundland Power's 2016 forecast average debt rate of 6.14%.

[3] In Order No. P.U. 13 (2013), the Board approved a ratemaking common equity component in the Company's capital structure of 45% and a rate of return on common equity of 8.80% for ratemaking purposes for 2013, 2014 and 2015. Therefore, these years were not relevant to this analysis.

[4] See Exhibit 4: Credit Rating Reports: Moody's and DBRS of the Company's Evidence for Moody's Investor Service's credit report.