**Q. Reference: CA-NP-25**

**NP was asked to provide a new version of Table 4-12 using the financial metrics of Alberta and Quebec electric transmission and distribution companies. In footnote 2 NP indicates it uses a debt cost of 6.14% which seems significantly higher than current debt costs and looks like the existing embedded debt cost. Please re-do the analysis using 4% and 5% to reflect current market yields.**

A. **Scenarios**

Tables 1 and 2 show 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.[1,2]

Table 1 assumes the replacement debt will be financed at an annual rate of 5%. Table 2 assumes the replacement debt will be financed at an annual rate of 4%.

**Table 1**
**Pro Forma Credit Metrics Comparison**
**Replacement Debt at 5%**
**2016E and 2017E**

| | **Hydro Quebec** | | **ATCO Distribution** | |
|---|---|---|---|---|
| | **2016E** | **2017E** | **2016E** | **2017E** |
| Pre-tax Interest Coverage (times) | 1.9 | 1.7 | 1.9 | 1.8 |
| Cash Flow Interest Coverage (times) | 3.3 | 3.0 | 3.4 | 3.2 |
| Cash Flow Debt Coverage (%) | 12.4 | 12.4 | 13.6 | 13.4 |

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.

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, financed with long-term debt.

**Table 2**
**Pro Forma Credit Metrics Comparison**
**Replacement Debt at 4%**
**2016E and 2017E**

| | Hydro Quebec | | ATCO Distribution | |
|---|---|---|---|---|
| | **2016E** | **2017E** | **2016E** | **2017E** |
| Pre-tax Interest Coverage (times) | 1.9 | 1.7 | 2.0 | 1.8 |
| Cash Flow Interest Coverage (times) | 3.4 | 3.2 | 3.5 | 3.3 |
| Cash Flow Debt Coverage (%) | 12.6 | 12.5 | 13.8 | 13.6 |

**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."*[3]

Newfoundland Power observes that a deterioration in Company's metrics as shown in Tables 1 and 2, 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.

Finally, the trust deed which secures the Company's First Mortgage Bonds requires, in effect, an interest coverage of 2.0 times or higher for the Company to issue additional bonds.[4] Newfoundland Power observes that each of these scenarios indicate a pre-tax interest coverage below this requirement.

[3] See *Volume 2, Exhibits and Supporting Materials, Exhibit 4: Credit Rating Reports: Moody's and DBRS* for Moody's Investor Service's credit report.
[4] See *Volume 1, Application & Company Evidence, Section 4.3.4: Impact of Proposed Returns*, page 4-41.