Q. Reference: PUB-NP-051

The discussion in the last paragraph on page 1 discusses the "erosion" of NP's credit metrics by focusing on a comparison of the estimated credit metrics in 2017 to the 2013 figures. Please confirm that the estimated Cash Flow Interest Coverage ratio (which is not mentioned in the paragraph) is higher in 2015, 2016 and 2017 than in 2014, and that this implies this credit metric is estimated to improve, rather than deteriorate.

A. It is confirmed that Newfoundland Power's cash flow interest coverage ratio for 2015, 2016 and 2017 are higher than 2014. However the implication that this credit metric is improving rather than deteriorating is false. This is primarily due to the 2013 to 2015 figures being artificially low due to temporary solvency deficit pension funding that ended in 2015.[1]

Table 4-12 in *Volume 1, Application & Company Evidence, Section 4: Finance* also shows that: (i) the forecast 2016 and 2017 pre-tax interest coverage is lower than 2014; and (ii) 2017 cash flow debt coverage is also lower than 2014.

When all of the forecast credit metrics are observed over the fiscal period since Newfoundland Power's last general rate application (i.e. 2013-2017), the trend suggests that the credit metrics are eroding over the forecast period.

[1] Based on the Actuarial Valuation Report as at December 31, 2011, the Company's primary defined benefit pension plan had a solvency deficit of $49.5 million. The deficit was funded by the Company over the 2012 to 2015 period. Newfoundland Power had pension solvency payments of $10.7 million in each of 2013 and 2014 and $7.0 in 2015. This decreased cash flow from operating activities for each of these years. See Newfoundland Power's 2012, 2013 and 2014 Annual Reports for detail, which are filed as Attachment B to the response to Request for Information CA-NP-177.