

1 **Q. Further to PUB-CA-019 please discuss the likely impact of such a Board**
2 **decision on DBRS's and Moody's view of the supportive regulatory environment in**
3 **Newfoundland and Labrador.**

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5 A. The response to PUB-CA-019 elaborates on the reasons why such a Board
6 decision would not change Dr. Cleary's view of NP's regulatory environment, and that he
7 would still view it as being extremely supportive.

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9 Of course debt rating agencies provide reports for the benefit of creditors, who would
10 always prefer to see higher ROEs and ERs. However, the Board also has the difficult task
11 of balancing creditor needs and "wants" with the best interests of the consumers, who
12 ultimately bear any additional costs.

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14 Reducing the ER to 40 percent would merely bring NP "in line" with other Canadian
15 utilities; although it would still be slightly above average, and therefore on the
16 conservative side. NP's metrics would remain solid and in line to maintain their existing
17 credit ratings, so Dr. Cleary does not think that the rating agencies would change their
18 long-term view of the Board based on such an adjustment. Rather, Dr. Cleary believes
19 that it would be viewed as a reaction to the existing environment in the normal course of
20 reviewing allowable ROEs and ERs in response to all evidence submitted, which is the
21 purpose for having such hearings.

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23 Similarly, rating agencies are no doubt cognizant of the fact that allowed ROEs by
24 regulators have been declining in recent decisions in reaction to low interest rates and the
25 resulting low borrowing rates by utilities, which have lowered their cost of capital.
26 Therefore, it is not clear that making such adjustments would cause rating agencies to
27 change their long-term view of NP's regulatory environment as being extremely
28 supportive. Dr. Cleary's analysis of NP's credit metrics under various ROE scenarios

1 reinforces this opinion, since it indicates that NP's credit metrics would remain solid if
2 allowed ROEs were reduced.

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4 Allowed ROEs and ERs are important; however, they do not represent the whole picture,
5 since the regulatory track record, including the factors Dr. Cleary referred to in his
6 response to PUB-CA-019 are critically important.