Q. Page 36: Dr. Cleary states that Newfoundland Power's credit metrics "would remain solid" if its allowed equity ratio was reduced to 40% and its allowed return on equity was reduced to 7.5%. What, in Dr. Cleary's opinion, would be the change in the allowed return required at 40% common equity to cause Newfoundland Power's credit metrics to cause concern?

A. Dr. Cleary's examination of credit metrics under a 40% equity ratio did not examine the impact on metrics with allowed ROEs below 7.5%. However, as indicated in the question above, at 7.5% Dr. Cleary concluded the metrics would remain solid.

In response to this question, Dr. Cleary has further calculated that with an ER of 40%, and an ROE of 7.0%, NP's metrics would remain within the Moody's and DBRS ranges to maintain their existing ratings, as shown below:

2016 Metrics	**ROE**	
	7.0%	**NP**
Moody's Metrics		
(CFO pre-WC + Interest)/Interest	3.45	Baa(low)
CFO pre-WC/Debt	14.58%	Baa(mid)
(CFO pre-WC - Dividends) /Debt	11.85%	Baa(mid)
Debt/Capitalization	59.00%	Baa(low)
DBRS Metrics		
Cash flow to debt	14.58%	A(mid)
Debt to Capital	59.24%	A(mid)
EBIT to Interest	2.13	A(low)

2017 Metrics	**ROE**
	7.00%

Moody's Metrics

(CFO pre-WC + Interest)/Interest	3.43	Baa(low)
CFO pre-WC/Debt	14.44%	Baa(mid)
(CFO pre-WC - Dividends) /Debt	12.79%	Baa(mid)
Debt/Capitalization	59.04%	Baa(low)

DBRS Metrics

Cash flow to debt	14.44%	A(mid)
Debt to Capital	59.28%	A(mid)
EBIT to Interest	2.14	A(low)

Therefore, Dr. Cleary suggests that for ROEs as low as 7% the metrics would deteriorate but remain acceptable within current ratings' ranges. Below 7%, there could be concerns regarding how the rating agencies would view NP's metrics; although this is certainly not the only criteria considered by the rating agencies. The other concern is regarding the interest coverage ratio of 2 that NP must maintain in order to issue bonds. At a 7% ROE, this ratio would lie above 2.1, so it would still have a buffer; albeit a smaller one.