Q. Please confirm that the estimated fair value of NP's debt is approximately $140 million more than the value in NP's annual report indicating that bond investors have earned a significant capital gain. Please confirm that in the unlikely event of a one notch bond downgrade these investors would in all likelihood still have earned a significant capital gain. Please confirm that in the unlikely event of a one notch bond downgrade these investors would in all likelihood still have earned in excess of what they regarded as a fair return when they originally purchased these bonds. If not, why not?

A. Newfoundland Power can confirm that the estimated fair value of its long term debt was $140 million higher than the carrying value at December 31, 2017.[1] This does not, however, indicate that bond investors have earned a capital gain. In order for bond investors to earn a capital gain, they must sell their investment in the Company's bonds. In 2017, no investors sold their interests in Newfoundland Power first mortgage bonds and, as a result, they did not earn a capital gain.

Investors in the Company's bonds receive semi-annual interest payments over the term of the bonds based on the bond's coupon rate, which is priced at the time of issuance. Any subsequent changes, including changes in market interests or changes in the credit ratings of the bonds, have no impact on the semi-annual interest payments that bond investors receive. Historically, the Company's bonds are held by investors until the bond's maturity date. As a result, Newfoundland Power bondholders do not incur a gain or loss on maturity of the bond.

[1] The fair value of long-term debt represents a point-in-time estimate based on current and relevant market information. The higher fair value of Newfoundland Power's bonds relative to its carrying value is primarily due to lower market interest rates. When market interest rates fall relative to the bond rates, the bond price will rise increasing the fair value relative to the carrying value. Conversely, when market interest rates rise relative to the bond rates, the bond prices will fall reducing the fair value relative to the carrying value.