

1 **Q.** **Reference: *Fair Return for Newfoundland Power (NP)*, Evidence of**  
2 **Laurence D. Booth, September 28, 2021, page 98, lines 10-11**

3  
4 **What impact does Dr. Booth believe a 7.5% allowed ROE on a 40%**  
5 **common equity ratio would have on Newfoundland Power's credit ratings**  
6 **from Moody's and DBRS?**

7  
8  
9 **A.** Dr. Booth does not predict bond ratings but would make several observations:

- 10  
11 • The financial metrics are not the defining criteria for the rating. Moody's for  
12 example only places 40% weight on financial strength and liquidity, which is  
13 basically the financial ratios.  
14 • No Canadian utility seems to have a higher bond rating than NP, which seems  
15 an aberration.  
16 • There is no regulatory requirement to target a particular bond. Instead, the  
17 requirement is fair and reasonable rates.

18  
19 With these qualifications, Dr. Booth judges that it is doubtful that there would  
20 be an immediate reaction. However, the rating agencies would not see a  
21 reduction in the equity ratio as supportive of the bond rating, but even that  
22 depends on how it is implemented, for example a substitution of preferred  
23 shares for common shares is unlikely to cause a downgrade.