Q. Evidence of Ms. McShane, bond ratings/credit metrics, Pages 18-23: Ms. McShane refers (fn 18) to most Canadian utilities' debt being unsecured, whereas NP's is secured. Would Ms. McShane accept that for other utilities an alternative to giving the utility a higher ROE or more equity to improve their credit metrics is for the regulator to insist that the debt be secured, such that they also get a higher rating? If not why not?

A. No. First of all, in most jurisdictions in Canada, the debt that has been issued by the utilities has already been approved by the regulator. Second, such a requirement (assuming that it is within the purview of the regulator) is not practical, since it would entail altering existing bond indentures, some of which have been in place for decades. Furthermore, if increased security, or protection, is being traded off against a reduction in financial integrity, i.e., less equity, and/or weaker credit metrics, as may reasonably be inferred from the question, debt investors are not likely to agree to alter the bond indentures. Third, there is no guarantee that requiring a utility to secure its debt would result in a cost advantage, since, if there is a single class of long-term debt, secured or unsecured, all bondholders are equally protected. There is only value to securing debt so long as not all the firm's debt is secured. Moreover, a request to alter the indentures to secure the debt may raise the investors' suspicions that the company's credit quality is lower than they had thought. Fourth, secured debt is generally more costly to administer (e.g., legal and reporting requirements) and more restrictive than unsecured debt. For example, to dispose of assets outside the normal course of business, the company may need to obtain the consent of the bond holders. Fifth, requiring utilities with unsecured debt to secure that debt could cause inter-lender issues, e.g., with providers of bank credit. Sixth, not all the debt rating agencies maintain a ratings distinction between secured and unsecured debt. DBRS, for example, maintains the same ratings on the secured debt and the unsecured debt of FortisBC Energy Inc.