Q. Evidence of Dr. Vander Weide: Business risk Pages 10-14: Is Dr. Vander Weide aware that the rating agencies assess the degree of regulatory protection afforded utilities in Canada as being significantly higher than that afforded US utilities? If so please indicate where in his testimony he took this into account to reduce his risk assessment of NP.

A. Dr. Vander Weide is aware that Moody's states in its July 19, 2011, Credit Opinion on Newfoundland Power, "All of NPI's operations are located in Canada whose regulatory and business environments we consider to be supportive relative to those in other jurisdictions." However, Moody's also states in the same report:

> NPI's ratios continue to be somewhat weaker than those of other Baa1-rated peers predominantly engaged in T&D such as FortisAlberta Inc. (FAB, a sister company), Connecticut Light and Power Company (CLP), Orange and Rockland Utilities, Inc. (O&R), and Public Service Electric and Gas Company (PSE&G). We expect FAB to generate CFO pre-WC plus interest/interest (cash flow interest coverage) in the 4x range and CFO pre-WC to debt of about 18% going forward. CLP, O&R, and PSE&G have reported cash flow interest coverage in the 4x to 5x range and CFO pre-WC to debt in the 20% range. In contrast we expect NPI to generate cash flow interest coverage in the low 3x range and CFO pre-WC to debt in the 15% to 17% range. These figures are modestly weaker than NPI's 2010 results and reflect, in part NPI's 2011 allowed ROE of 8.38% (down from 9% in 2010).

Although Moody's comment regarding supportiveness implies that regulatory protection for utilities is greater in Canada than in the United States, the quotation relating to financial ratios, which indicates that peer U.S. utilities have better financial ratios than Newfoundland Power, suggests that regulation is less supportive in Canada.

Dr. Vander Weide interprets Moody's report to mean that, in Moody's opinion, Canadian utilities may have a greater opportunity to earn allowed ROEs than U.S. utilities, but the lower allowed ROEs in Canada, including that of Newfoundland Power, compared to U.S. utilities, may produce financial ratios that are less protective of creditors' interests than the financial ratios of U.S. utilities. Since Newfoundland Power's actual financial ratios indicate that Newfoundland Power is more risky than U.S. utilities from a credit perspective, Dr. Vander Weide does not believe that it would be appropriate to "reduce his risk assessment of NP."