

1 Q. Reference: June 19 presentation entitled Settlement Discussions - Second Interim
2 Rate Application, slide 4, third bullet
3 In this bullet, the term "credit metrics" is used. Please fully explain what Hydro's
4 threshold is to meet the credit metrics and how these credit metrics are
5 established.

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8 A. As described in Section 3.2 of the 2013 GRA Application (see Table 3.2 – Page 3.9),
9 prior to 2009 Hydro's debt to total regulated capital exceeded 80%, which was
10 significantly higher than that observed among Hydro's peers (see Chart 3.2, Page
11 3.10). A debt to total regulated capital in excess of 80% is not consistent with a
12 strong stand-alone financial position.

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14 Therefore, in 2009, the Government provided Hydro with a \$100 million equity
15 contribution, which contributed to reducing Hydro's debt to total regulated capital
16 to 72% at December 31, 2009 (See 2013 General Rate Application, Section 3, Table
17 3.2, Page 3.9). Also, in 2009 the Government directed that Hydro would be allowed
18 to earn a ROE equal to that of NP which is currently 8.80%. That rate represents a
19 significant increase over Hydro's current ROE of 4.47%, which is one of the lowest in
20 the country. The equity contribution, in conjunction with the 2009 Government
21 directive on Hydro's return on equity and the debt guarantee fee reduction that
22 came into effect in 2011, would imply an expectation that Hydro should maintain a
23 strong stand-alone financial position and performance.

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25 To that end, Hydro's current dividend policy is aimed at maintaining debt at
26 approximately 75% of the regulated capital structure. Hydro believes this target,

SIR-V-NLH-018
NLH 2013 Second Interim Rates Application

Page 2 of 2

1 along with realizing its proposed ROE of 8.8%, are the key metrics to be achieved in
2 establishing and maintaining a strong stand-alone financial position.