Q. Vander Weide Evidence (page 20, lines 27-8) - Dr. Vander Weide asks himself, "Is there a significant difference in the business risk of Canadian and U.S. utilities?" Dr. Vander Weide states that, "Generally speaking, the business risk of electric and natural gas utilities is approximately the same in the U.S. as it is in Canada." Moody's credit opinion of 19 July 2011 found at Exhibit 4 states:

"All of NPI's operations are located in Canada whose regulatory and business environments we consider to be supportive relative to these in other jurisdictions."

While Moody's make this statement in the context of a credit opinion, not a cost of equity analysis, does its underlying conclusion – namely, that Canada's regulatory and business environments are supportive relative to other jurisdictions – conflict with the opinion of Dr. Vander Weide? If it does, please explain why Dr. Vander Weide disagrees with the validity of the underlying conclusion expressed by Moody's.

A. As discussed in Dr. Vander Weide's written evidence, Dr. Vander Weide believes that the business risk of electric and natural gas utilities is approximately the same in the U.S. as it is in Canada. Dr. Vander Weide is uncertain whether his opinion conflicts with Moody's opinion. 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 the allowed ROE of Newfoundland Power, compared to those of 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 know the basis for Moody's statement regarding the Canadian regulatory and business environments, and he does not know if Moody's would disagree with Dr. Vander Weide's opinion.