

**Q. McShane Evidence - Analytic framework, pages 11-16**

- a. Does Ms. McShane accept the company's judgment that its risk has not changed materially and the Board's judgement that NP is an average risk utility? If not please explain why not.
- b. Ms. McShane mentions the need for an A bond rating, would this criterion be satisfied with an A- bond rating similar to other Canadian utilities?
- c. Can Ms. McShane please provide the bond ratings for all US integrated electric utilities.
- d. Ms. McShane mentions the need to attract capital and in footnote 13 the spread between BBB and A rated debt, please provide the underlying data referenced in the spread differentials.
- e. In footnote 14 Ms. McShane notes that BBB bonds represented only 20% of the new issues, please indicate the overall composition of the Canadian bond market in terms of ratings and whether or not this 20% was significantly different from what one would expect.
- f. Ms. McShane states that comparability of the regulated utility's overall return to its peers is a legal requirement. Please provide all citations to Canadian jurisprudence that would support this assertion. In particular is she aware that the AUC in 2009 said precisely the opposite viz:

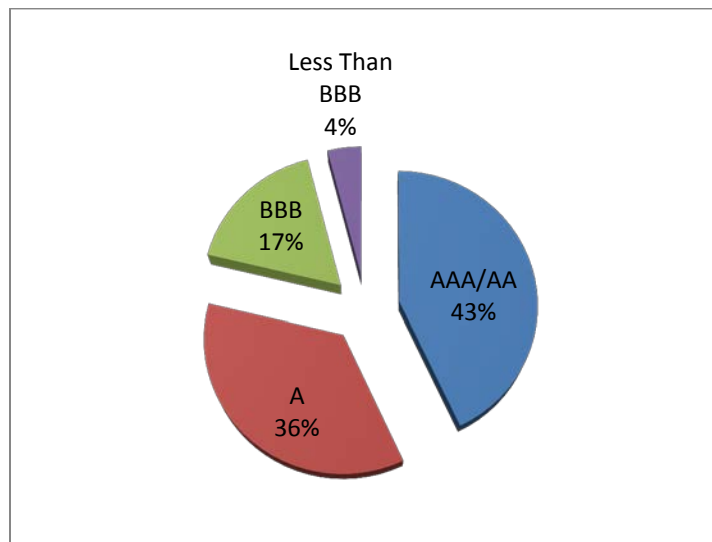
**"194. The record does not support a finding by the Commission that allowed returns on U.S. utilities should be considered as evidence of comparable returns on investment, returns necessary to attract capital or returns required to maintain the financial integrity of Alberta utilities."**

- A.
- a. Yes.
  - b. Ms. McShane is not clear as to what the A- rating refers, as "A-" is used only by S&P, by whom Newfoundland Power is not rated. The typical rating for Canadian utilities by S&P on unsecured debt is A-. The typical rating of Canadian utilities by DBRS (by whom Newfoundland Power is rated) on unsecured debt is A. If, hypothetically, Newfoundland Power were able to achieve an A- debt rating for unsecured debt by S&P and be able to raise that debt on similar terms and conditions to other A- rated utilities, Ms. McShane is of the view that would be reasonable. She would note that, with its existing ratings, the cost of new long-term mortgage bond debt to Newfoundland Power is higher than the cost of new unsecured long-term debt with debt ratings in the A3 (Moody's)/A- (S&P) category.
  - c. The S&P corporate and Moody's long-term ratings for U.S. vertically integrated electric utilities are provided as "CA-NP-367c Attachment 1.xlsx".
  - d. The referenced data are proprietary and under strict-use license. They can be provided if requested confidentially under separate cover to the PUB only for the

purposes of this proceeding, and cannot be provided to other parties under the terms of the license.

- e. As noted in footnote 14, page 14 of Ms. McShane's testimony, the 20% figure refers to new corporate debt rated in the BBB rating category or lower. Issues in the BBB rating category alone represented approximately 17% of the total as shown in the following chart:

**NEW ISSUANCE - JANUARY 2010 TO JUNE 2012**



The breakdown is not unexpected, given greater acceptance of lower credits by investors, including pension funds. Although the size of the BBB debt market in Canada has grown, it is still relatively small and dominated by issues with terms less than 10 years.

- f. The jurisprudence which governs the fair return is discussed in detail in response to CA-NP-366 a).

The three standards of the fair return standard that are derived from the jurisprudence were summarized by the PUB in Order No. P.U. 43(2009) as follows:

“To be considered fair the return must be commensurate with the return on investments of similar risk and sufficient to assure financial integrity and to attract necessary capital.”

The summary provided by the PUB logically comprises the returns available to Newfoundland Power’s peers.

1 As regards the AUC's conclusion cited in the question, please see response to  
2 CA-NP-373 b.

**S&P Corporate and Moody's Long-Term Ratings  
for U.S. Vertically Integrated Electric Utilities**

<b>US Integrated Electric Utility</b>	<b>S&amp;P Corporate Credit Rating</b>	<b>Moody's Long Term Rating</b>
Alabama Power Co.	A	A2
ALLETE Inc.	BBB+	Baa1
Alliant Energy Corp.	BBB+	Baa1
Ameren Corp.	BBB-	Baa3
Ameren Missouri	BBB-	NA
American Electric Power Co. Inc.	BBB	Baa2
Appalachian Power Co.	BBB	Baa2
Arizona Public Service Co.	BBB	Baa1
Avista Corp.	BBB	Baa2
Black Hills Corp.	BBB-	Baa3
Black Hills Power Inc.	BBB-	Baa2
Carolina Power & Light Co.	BBB+	A3
Cleco Corp.	BBB	Baa3
Cleco Power LLC	BBB	Baa2
CMS Energy Cop.	BBB-	Ba1
Consumers Energy Co.	BBB-	Baa2
Dayton Power & Light Co.	BBB-	Baa2
Detroit Edison Co.	BBB+	Baa1
Dominion Resources Inc.	A-	Baa2
DPL Inc.	BBB-	Ba1
DTE Energy Co.	BBB+	Baa2
Duke Energy Carolinas LLC	BBB+	A3
Duke Energy Corp.	BBB+	Baa2
Duke Energy Indiana Inc.	BBB+	Baa1
Duke Energy Kentucky Inc.	BBB+	Baa1
Duke Energy Ohio Inc.	BBB+	Baa1
Edison International	BBB-	Baa2
El Paso Electric Co.	BBB	Baa2
Empire District Electric Co.	BBB-	Baa2
Entergy Arkansas Inc.	BBB	Baa2
Entergy Corp.	BBB	Baa3
Entergy Gulf States Louisiana LLC	BBB	Baa2
Entergy Louisiana LLC	BBB	Baa2
Entergy Mississippi Inc.	BBB	Baa3
Entergy New Orleans Inc.	BBB	Ba2
Entergy Texas Inc.	BBB	Ba1
FirstEnergy Corp.	BBB-	Baa3
Florida Power & Light Co.	A-	A2
Florida Power Corp.	BBB+	Baa1
Georgia Power Co.	A	A3
Great Plains Energy Inc.	BBB	Baa3
Green Mountain Power Corp.	BBB	Baa2
Gulf Power Co.	A	A3
Hawaiian Electric Co. Inc.	BBB-	Baa1
Hawaiian Electric Industries Inc.	BBB-	Baa2
IDACORP Inc.	BBB	Baa2
Idaho Power Co.	BBB	Baa1
Indiana Michigan Power Co.	BBB	Baa2
Indianapolis Power & Light Co.	BBB-	Baa2
Interstate Power & Light Co.	BBB+	A3
IPALCO Enterprises Inc.	BBB-	Ba1
Kansas City Power & Light Co.	BBB	Baa2

<b>US Integrated Electric Utility</b>	<b>S&amp;P Corporate Credit Rating</b>	<b>Moody's Long Term Rating</b>
Kansas Gas & Electric Co.	BBB	Baa2
KCP&L Greater Missouri Operations Co.	BBB	NA
Kentucky Power Co.	BBB	Baa2
Kentucky Utilities Co.	BBB	Baa1
LG&E and KU Energy LLC	BBB	Baa2
Louisville Gas & Electric Co.	BBB	Baa1
Madison Gas & Electric Co.	AA-	A1
MidAmerican Energy Co.	A-	A2
MidAmerican Energy Holdings Co.	BBB+	Baa1
Mississippi Power Co.	A	A3
Monongahela Power Co.	BBB-	Baa1
Montana-Dakota Utilities Co.	BBB+	NA
Nevada Power Co.	BB+	Baa3
NextEra Energy Inc.	A-	Baa1
NiSource Inc.	BBB-	Ba2
Northern Indiana Public Service Co.	BBB-	Baa2
Northern States Power Co.	A-	A3
Northern States Power Wisconsin	A-	A3
NorthWestern Corp.	BBB	Baa1
NV Energy Inc.	BB+	Ba1
OGE Energy Corp.	BBB+	Baa1
Ohio Power Co.	BBB	Baa1
Oklahoma Gas & Electric Co.	BBB+	A2
Otter Tail Corp.	BBB-	Ba1
Otter Tail Power Co.	BBB-	A3
PacifiCorp	A-	Baa1
Pacific Gas & Electric Co.	BBB	A3
PEPCO Holdings Inc.	BBB+	Baa3
PG&E Corp.	BBB	Baa1
Pinnacle West Capital Corp.	BBB	Baa2
PNM Resources Inc.	BBB-	Ba1
Portland General Electric Co.	BBB	Baa2
PPL Corp.	BBB	Baa3
Progress Energy Inc.	BBB+	Baa2
Public Service Co. of Colorado	A-	Baa1
Public Service Co. of New Hampshire	A-	Baa2
Public Service Co. of New Mexico	BBB-	Baa3
Public Service Co. of Oklahoma	BBB	Baa1
Puget Energy Inc.	BB+	Ba1
Puget Sound Energy Inc.	BBB	Baa2
SCANA Corp.	BBB+	Baa3
Sierra Pacific Power Co.	BB+	Baa3
South Carolina Electric & Gas Co.	BBB+	Baa2
Southern Co.	A	Baa1
Southern Indiana Gas & Electric Co.	A-	A3
Southwestern Electric Power Co.	BBB	Baa3
Southwestern Public Service Co.	A-	Baa2
Tampa Electric Co.	BBB+	A3
TECO Energy Inc.	BBB+	Baa2
Texas-New Mexico Power Co.	BBB-	Baa2
Tucson Electric Power Co.	BB+	Baa3
Virginia Electric & Power Co.	A-	A3

<b>US Integrated Electric Utility</b>	<b>S&amp;P Corporate Credit Rating</b>	<b>Moody's Long Term Rating</b>
Westar Energy Inc.	BBB	Baa2
Wisconsin Electric Power Co.	A-	A2
Wisconsin Energy Corp.	A-	A3
Wisconsin Power & Light Co.	A-	A2
Wisconsin Public Service Corp.	A-	A2
Xcel Energy Inc.	A-	Baa1