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Q. Reference: page 80, lines 25 to 27

"For 2011, the loss of EBIT of $3 million would have reduced the EBIT interest coverage ratio from 2.88X to 2.80X and the cash flow to debt from 18.1% to 17.5%. I do not regard either of these changes as significant enough to cause any problems with NP preserving it's A bond rating."

What level of loss of EBIT (and related EBIT interest coverage rate and cash flow to debt) would Dr. Booth consider significant enough to cause problems with NP preserving it's A bond rating?

A. Dr. Booth is not a bond rater, but it would need something a lot greater than a drop of 0.08! Westcoast Transmission and FortisBC Energy (former BC Gas, Terasen Gas) both had generic A ratings with sub 2.0X interest coverage ratios. Enbridge Gas Distribution Inc., had sub 2.0X interest coverage and was shut out of the Medium Term Note market and DBRS still maintained its A rating.

The rating agencies look primarily to the strength of regulatory protection and place less weight on financial metrics. However, interest coverage of 2.80X is well above the standard for an A rating for a gas or electric distributor in Canada. Given other factors relevant to NP, Dr. Booth would be more concerned if it dropped to the 2.0X level.