Q. Pg. 2 - Please describe how you have assessed the impact of your ROE and capital structure recommendations on Newfoundland Power's credit metrics such as those used by DBRS and Moody's for each of 2013 and 2014.

A. Please see the discussion on page 80 which indicates that Dr. Booth's recommended change in capital structure with the substitution of 5% common for 5% preferred shares will have a negligible impact on NP's credit metrics relative to those achieved since 2007.

In terms of the ROE the legal standard in Canada is to consider

"that the company will be allowed as large a return on the capital invested in the enterprise as it would receive if it were investing the same amount in other securities possessing an attractiveness, stability and certainty equal to that of the company's enterprise."

This is the structure of Dr. Booth's report to consider the investor's opportunity cost. There is no legal or economic requirement to target a particular credit rating; just that the utility maintains its credit, ie., ability to borrow, and can attract capital on fair and reasonable terms. It is usually the policy of the witness on behalf of the utility to target a particular bond rating and credit metrics for which there is no legal or economic basis.

Dr. Booth's recommended ROE of 7.5% is 0.88% below the 8.38% allowed ROE for 2011, which would approximate to a pre-tax difference of about 1.2% on the 45% of NP's rate base financed with equity in 2011. This amounts to about a $6.4 million lower revenue requirement and operating cash flow reducing the interest coverage ratio by 0.16 from 2.88 to 2.71X. The cash flow to debt ratio would correspondingly drop from 18.1% to 16.6%. The calculations are below, and Dr. Booth used 2011 data to make sure there is consistency with DBRS' calculations. These ratios remain well within the traditional values for NP, when it continued to have a DBRS A rating and similar differences would apply to 2013/14.