PUB CA 33

Q. Pg. 80 - If Newfoundland Power's credit rating was changed or perceived to be at risk of change, what impact would it have on Newfoundland Power's borrowing costs?

A. That is impossible to assess without knowing the reasons. Being "in danger of a change" would probably not change anything. If DBRS changed but Moody's didn't, or vice versa, again probably nothing would change. It also depends on how much the change is: to go to BBB+ from A would be significant but not to A (low).

In terms of borrowing cost what matters is the market reaction. As indicated in Dr. Booth's testimony utility debt trades on lower yields normally than equivalent non-utility debt, particularly in times of crisis. Further the bond raters don't determine the cost of debt and what matters is whether the cost of debt changes the embedded debt cost. As a slow growing utility NP's embedded cost is relatively high at about 7.6%. So even if current "A" costs of about 4.0% increase by a notch to 4.25%, NP's embedded debt cost will come down when it rolls over the $39 million coming due in 2013/14. However, Dr. Booth's recommendations should not result in a downgrade.