Q. Opinion on Capital Structure and Return on Equity
Kathleen McShane – Volume 3

Pg. 29, Section G.2 - In the DBRS report dated January 2012, it was pointed out that Newfoundland Power has a favorable equity ratio. Would this imply that there would be some room for a decrease while maintaining current credit ratings, or would this imply that it does not have the optimal capital structure?

A. Ms. McShane cannot speak for DBRS, but she notes that the most recent DBRS report for Newfoundland Power (September 2012) characterizes the Company's financial profile and debt leverage as "reasonable". She would also note that DBRS is not the only agency that rates Newfoundland Power and its debt issues. Under Moody's rating methodology, Newfoundland Power's rating on capital structure is in the Baa2 category and its cash flow interest coverage and cash flow to debt metrics are in the Baa3 category, the latter being at the low end of what is considered investment grade. Further, debt ratings are not solely a function of the specific credit metric values; they also are a reflection of the debt rating agencies' view of the regulatory support provided. Consequently, a reduction in the allowed equity ratio would not only negatively impact the credit metrics themselves, but could negatively impact the debt rating agencies' perception of the regulatory environment.