Volume 1, Section 3 – Finance

Q. (page 55, footnote 37)

a. What are the minimum or lowest "investment grade ratings" assigned by Moody's and DBRS?

b. Does Moody's require a cash flow interest coverage of 2.5 times or higher, and a cash flow debt coverage of 15 percent or higher, for an electricity distribution utility to maintain its lowest investment grade rating. If the answer is "yes," please provide the supporting evidence.

c. Does DBRS require a cash flow debt coverage of 10 percent or higher for an electricity distribution utility to maintain its lowest investment grade rating. If the answer is "yes," please provide the supporting evidence.

A. (a) The minimum or lowest "investment grade ratings" assigned by Moody's and DBRS are Baa3 and BBB(Low) respectively.

(b) Moody's may not require a cash flow to interest coverage of 3.0 times or higher, and a cash flow to debt coverage of 15 percent or higher in order for an electric distribution utility to maintain its lowest investment grade rating, depending on other quantitative and qualitative factors used by them in assigning their ratings. However, an electric distribution utility with a Moody's rating of Baa3 would have difficulty accessing capital markets in order to finance its capital expenditures as compared to Newfoundland Power given its Moody's rating of Baa1. A decline in Newfoundland Power's rating from Baa1 to Baa3 would be expected to increase the cost of debt.

As noted by Moody's in its *March 2007 Credit Opinion: Newfoundland Power*[1]:

> *NPI's rating could be negatively impacted if by 2008 CFO Pre-W/C Interest Coverage has not met or exceeded 3.0x and (CFO Pre-W/C)/Debt has not met or exceeded 15%.*

(c) DBRS may not require a cash flow to debt coverage of 10 percent or higher in order for an electric distribution utility to maintain its lowest investment grade rating, depending on other quantitative and qualitative factors used by them in assigning their ratings. However, an electric distribution utility with a DBRS credit rating of BBB(Low) would have difficulty accessing capital markets in order to finance its capital expenditures as compared to Newfoundland Power given its DBRS rating of A. A decline in Newfoundland Power's rating from A to BBB(Low) would be expected to increase the cost of debt.

[1] A copy of this credit opinion has been filed in Exhibit 6 of the Company's Application.

A cash flow debt coverage ratio of 10 percent or higher is required in order for Newfoundland Power to maintain its A rating with DBRS.