

- 1 **Q. Please explain whether in Ms. McShane's judgment a reduction in NP's embedded**
 2 **cost of debt will improve its credit rating financial metrics, all else equal.**
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 4 A. All other things equal (i.e., the reduction in the embedded debt cost is not more than
 5 offset by a decline in the return on equity and there is no decline in the income tax rate) a
 6 reduction in the embedded cost of debt will improve the interest coverage. Historically,
 7 however, that has not been the case. Table 1 provides the annual EBIT interest coverage
 8 ratios reported by DBRS which indicates that there has been a marked decline in the
 9 interest coverage ratio since the PUB first adopted the automatic adjustment mechanism
 10 for the ROE in Decision P.U. 16 (1998-1999).
 11
 12

Table 1

**Annual EBIT Interest Coverage Ratios
Reported by DBRS**

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
2.84	2.43	2.49	2.57	2.67	2.63	2.44	2.47	2.33	2.26

13