

1 **Q. NP indicates that it may have difficulty issuing further debt due to the constraint in**
2 **its trust deed and the forecast decline in its interest coverage ratio. Please indicate**
3 **whether its interest coverage ratio would be declining if its allowed ROE were**
4 **maintained at 8.5% and the exact mechanics of the trust deed, that is, does the trust**
5 **deed take into account any debt that is refinanced by a new issue and whether the**
6 **earnings based on an averaging process. Please provide the calculation when NP last**
7 **issued mortgage bonds under the trust deed.**
8

9 A. The earnings test interest coverage metric is used by the Company when issuing First
10 Mortgage Bonds. While similar to the pre-tax interest coverage ratio, it is calculated as
11 defined in the Company’s Deed of Trust and Mortgage (the “Trust Deed”). The Trust
12 Deed requires that:

13
14 *“No Additional Bonds shall be certified and delivered hereunder unless*
15 *the Net Earnings of the Company for the Earnings Period selected by the*
16 *Directors shall have been at least two (2) times the maximum annual*
17 *interest charges on all Bonds to be outstanding after the proposed issue of*
18 *Additional Bonds.”¹*
19

20 The Trust Deed defines the earnings period as follows:

21
22 *“...at the option of the Company (a) the last completed fiscal year of the*
23 *Company; or (b) a period of any twelve (12) consecutive calendar months*
24 *terminating within the twenty-four (24) calendar months next preceding*
25 *the certification and delivery of such Additional Bonds, ...”²*
26

27 Attachment A provides the earnings test calculation for the Company’s First Mortgage
28 Bonds, Series AQ issued on April 20, 2020.³ The earnings test was 2.32 times, which
29 met the minimum requirement of 2.0 times under the Trust Deed.
30

31 See response to Request for Information PUB-NP-031 for information on the *pro forma*
32 earnings test interest coverage metric if the Company’s allowed return on equity was
33 maintained at 8.50%.

¹ *Deed of Trust and Mortgage By Newfoundland Light & Power Co. Limited*, dated September 15, 1966, Article 6.2.

² *Deed of Trust and Mortgage By Newfoundland Light & Power Co. Limited*, dated September 15, 1966, Article 1.1.

³ As part of the Series AQ bond issue, the Company’s external auditor, Deloitte LLP, provided an assurance report on compliance with the requirements of the Trust Deed, which included the earnings test calculation. The calculation was based on the 12 months ended December 31, 2019, the last completed fiscal year of the Company at the time.

Earnings Test Calculation - Series AQ
December 31, 2019

Newfoundland Power Inc.
First Mortgage Sinking Fund Bonds, Series AQ
Earnings Coverage Calculation
For the 12 Months Ended December 31, 2019
(\$000's)

| | |
|--|-------------|
| Operating Revenue | 683,962 |
| Less: | |
| Operating Expenses-Purchased Power | 444,861 |
| Operating Expenses-Other | 76,959 |
| Operating Expenses-Pension & ERP | 2,250 |
| Depreciation and Other Amortizations | 69,771 |
| Interest & Finance Charges ¹ | 360 |
| | 594,201 |
| Net Earnings | 89,761 |
| Annual Interest Prior to Series AQ Issue | 35,063 |
| Annual Interest After Series AQ Issue | 38,671 |
| Coverage Prior to Series AQ Issue (Times) | 2.56 |
| Coverage After Series AQ Issue (Times) | 2.32 |

¹ Interest & Finance Charges

| | |
|---|-------------|
| Interest on First Mortgage Sinking Fund Bonds | 35,375 (*) |
| Interest on Committed Facility | 1,024 (*) |
| Interest on Demand Facility | 331 |
| Amortization of Debt Issuance Costs | 187 (*) |
| Interest on Tax Return | 1 |
| Interest on Security Deposits | 28 |
| Credit Facility Costs | 48 (*) |
| AFUDC | (1,063) (*) |
| | 35,931 |
| Less: Funded Obligation Related Interest (*) | (35,571) |
| Interest & Finance Charges | 360 |