

- 1 **Q. With respect to the paragraph on page 7 that refers to the three standards for a fair**
2 **ROE and the need for a “favourable” credit rating for Newfoundland Power. Please**
3 **define “favourable” and whether he judges this as consistent with the Board’s**
4 **statement in 2016 that rates should be set to “*enable the utility to earn a just and***
5 ***reasonable return so that it is able to achieve and maintain a sound credit rating in the***
6 ***financial markets of the world.*”**
7
- 8 a) **Is Mr. Coyne aware of any Canadian statutes or decisions of the Supreme**
9 **Court of Canada that have interpreted the requirement to maintain a**
10 **utility’s financial integrity and credit in terms of a particular credit *rating*?**
11 b) **Since many US utility holding companies have some form of BBB credit**
12 **rating would Mr. Coyne judge such a rating as consistent with the fair return**
13 **standard and a sound credit rating. If not, why not?**
14
- 15 A. As explained on page 7 of Concentric’s *Cost of Capital* report, Mr. Coyne defines a
16 favorable credit rating as one that minimizes debt costs and provides lenders assurance
17 that the company’s earnings are adequate to meet its fixed obligations.
18
- 19 a) Mr. Coyne is not aware of any such statutes or decisions. However, several utility
20 regulators in Canada, including the Newfoundland and Labrador Board of
21 Commissioners of Public Utilities, have indicated that the authorized ROE or
22 deemed equity ratio should be set at a level that allows the utility to maintain a
23 sound credit rating.
24
- 25 b) Mr. Coyne has not evaluated “many U.S. holding companies” for purposes of his
26 testimony. He has screened his U.S. proxy group to only include electric utilities
27 with credit ratings of BBB+ or higher from S&P (which is equivalent to Baa1
28 from Moody’s), equivalent to the credit ratings for Newfoundland Power.