**Q. Please explain how the Application proposals, if implemented, and Board Orders Nos. P.U. 16(2024) and P.U. 20(2024) affect the response to PUB-NP-061 in the 2025/2026 General Rate Application and provide revised tables to show the impact, if any, of both the Application's proposals and the Board Orders.**

A. **Credit Metrics**

The response to Request for Information PUB-NP-061 filed in the *2025/2026 General Rate Application* ("2025/2026 GRA") provided Newfoundland Power's Cash Flow Interest Coverage (times) and Cash Flow Debt Coverage (%) credit metrics excluding the impact of the Energy Supply Cost Variance ("ESCV") account in Tables 4 and 5, respectively.[1] This scenario was provided to show estimated credit metrics as if power supply energy costs were rebased into the test year revenue requirements. As such, there would be no significant differences in these analyses for the Application proposals. Further, Newfoundland Power's Pre-tax Interest Coverage (times) credit metric provided in Table 1 in the response to Request for Information PUB-NP-061 is based on its net earnings and, therefore, would also not be significantly impacted by the timing of cost recovery associated with the Application, or Board Order Nos. P.U. 16 (2024) and P.U. 20 (2024).

With respect to the impacts of Board Order Nos. P.U. 16 (2024) and P.U. 20 (2024), the cash flow credit metrics provided in Tables 4 and 5 in response to Request for Information PUB-NP-061 are based on the Company's *pre-working capital* operating cash flows in the 2026 test year forecast. The deferral of 2024 costs associated with Order No. P.U. 20 (2024) would negatively impact Newfoundland Power's cash flow metrics in 2024 rather than the 2026 test year credit metrics.[2] Amounts withheld in the Company's Rate Stabilization Account ("RSA") as a result of Order No. P.U. 16 (2024) largely impact Newfoundland Power's working capital in 2024 and 2025 and, therefore, would also not have a material impact on the 2026 test year credit metrics.

While Order No. P.U. 16 (2024) does not materially impact the Company's 2026 test year forecast credit metrics, the future implications of the order may have a significant impact on Newfoundland Power's cash flows and credit metrics over the 2025 to 2027 timeframe.

Order No. P.U. 16 (2024) limited the August 1, 2024 overall average customer rate increase to 7.0%. This was, in part, to ensure that no customer rate class experienced a rate increase greater than 10%, as well as in recognition of estimated total customer rate increases over the 2024 to 2026 timeframe.[3] The order further directed that the Company address issues related to rate shock, rate stability and the timely recovery of prudent costs

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[1] See the response to Request for Information PUB-NP-061, pages 2 to 4 for further information on this scenario.

[2] Newfoundland Power's pre-working capital operating cash flows are reduced in the year the deferral of costs occurs. 2024 cash flow credit metrics are also negatively impacted by the 2024 activity in the ESCV account, driven by the current wholesale rate. As outlined in the *Wholesale Rate Flow-Through Report, section 2.2 Customer Benefits*, the revised wholesale rate will result in lower ESCV transfers and therefore will provide greater cash flow stability for Newfoundland Power beginning in 2025.

[3] Order No. P.U. 16 (2024) Reasons for Decision, page 5, lines 4-13.

in the context of the information available at the time regarding the rate increases expected over the period 2025 to 2027.[4]

Given the overall average customer rate increase for July 1, 2025 is projected to be well in excess of 7.0%, Newfoundland Power anticipates that larger amounts may be withheld in the Company's RSA as of March 31, 2025 to limit the customer rate increase on July 1, 2025. Cash working capital are cash flows that are short-term in nature (i.e. paid or received within one year) and these have historically included RSA activity. If year-over-year amounts are withheld in the RSA, then the related activity may be viewed as longer-term in nature and factored into Newfoundland Power's pre-working capital operating cash flow, which would negatively impact the Company's credit metrics.[5,6] In addition, increased debt obligations associated with customer rate smoothing initiatives and related higher RSA balances would impact Newfoundland Power's credit metrics, regardless of the classification of the negative operating cash flows effects.

The 2026 test year forecast credit metrics provided in response to Request for Information PUB-NP-061 assume full recovery of the Company's costs on July 1, 2025 and recovery of amounts in the RSA within one year. Any change to these assumptions could have a material impact on the Company's cash flow and related credit metrics.

**Qualitative Considerations**

Further, as explained in the response to Request for Information PUB-NP-063 filed in the 2025/2026 GRA, the maintenance of Newfoundland Power's creditworthiness and its ability to maintain a sound credit rating is not solely a matter of credit metrics.[7] Moody's, for example, attributes 60% of its rating to: (i) the regulatory framework, including legislation and the consistency and predictability of regulation; (ii) the ability to recover costs and earn returns, including the timeliness of recovery of costs and sufficiency of rates and returns; and (iii) diversification, including market position and generation and fuel diversity.[8] Moody's explains:

> *"For rate-regulated utilities, which typically operate as a monopoly, the regulatory environment and how the utility adapts to that environment are the most important credit considerations."*[9]

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4 Ibid., page 6, lines 3-6.

5 Attachment A, page 2.

6 A 1% change in customer rates currently results in a $8.8 million change in customer billings (based on existing customer billing of $881.6 million outlined in the response to Request for Information PUB-NP-004, Attachment C). A $8.8 million decrease in pre-working capital operating cash flows would decrease the Company's Cash Flow Interest Coverage (times) and its Cash Flow Debt Coverage (%) by an estimated 0.2 and 1.0%, respectively. As such, customer rate smoothing initiatives over the 2025 to 2027 timeframe could have a material impact on Newfoundland Power's cash flows and credit metrics in those years.

7 The Company's credit ratings are determined by Moody's Investor Services ("Moody's") and DBRS Morningstar ("DBRS"). For Moody's and DBRS's credit rating reports, see *Exhibit 4 (1st Revision)* filed with the Board on May 2, 2024.

8 See the response to Request for Information PUB-NP-063 filed in the 2025/2026 GRA.

9 See Moody's, *Regulated Electric and Gas Utilities, Rating Methodology*, June 23, 2017, page 6. This is provided as Attachment A in response to Request for Information CA-NP-081 filed in the 2025/2026 GRA.

On October 8, 2024, Moody's issued a press release confirming the Company's existing credit ratings, however, changed its outlook on Newfoundland Power from stable to negative due to the delays in cost recovery as a result of Order Nos. P.U. 16 (2024) and P.U. 20 (2024).[10] On October 15, 2024 Moody's provided an updated credit opinion for the Company following the outlook change to negative, which is provided in Attachment A. The change in Moody's outlook for Newfoundland Power marks the first negative change in the Company's credit rating, including its outlook/trend, since 1998.

In its updated credit opinion, Moody's provided the following factors could lead to a downgrade in the Company's credit metrics:[11]

- Continued unsupportive regulatory outcomes including insufficient rate increases, ongoing delays in recovering costs or an inability to earn allowed returns.

- CFO pre-W/C to debt adjusted for power supply cost recoveries remaining below 14%.[12]

On October 4, 2024, DBRS issued a press release confirming Newfoundland Power's existing credit rating at "A" with stable trends. DBRS's press release is provided in Attachment B.

In its press release, DBRS also expressed concerns about current rate pressure and that future rate increases for recovery of Newfoundland Power's costs may be more challenging.[13] DBRS also stated that, if the recovery of purchased power costs and the Company's other costs of service continue to be delayed in future and ongoing rate cases, it may lower the score on the Energy Cost Recovery and Capital and Operating Cost Recoveries considerations in its assessment of the regulatory framework.[14]

Finally, as provided in the response to Request for Information PUB-NP-061 filed in the 2025/2026 GRA, in addition to affecting credit metrics, Newfoundland Power's debt-to-total capitalization ratio is its own factor assessed by credit rating agencies when rating the Company's financial strength. Consistent with its position in that response, it is Newfoundland Power's view that reducing the 45% common equity ratio represents a risk to maintaining its existing credit ratings.

Since Newfoundland Power's credit rating outlook has been changed to negative by Moody's, this risk is further heightened.

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[10] For a discussion on delays in cost recovery being a credit negative for Moody's, see Attachment A, page 3.
[11] Attachment A, page 2.
[12] CFO pre-W/C is Cash flow from Operations, pre-Working Capital.
[13] Attachment B, page 1.
[14] Ibid.

**Moody's Updated Credit Opinion**

MOODY'S
RATINGS

CREDIT OPINION
15 October 2024

Update

Send Your Feedback

RATINGS

**Newfoundland Power Inc.**

| | |
|---|---|
| Domicile | St. John's, Newfoundland, Canada |
| Long Term Rating | Baa1 |
| Type | LT Issuer Rating - Dom Curr |
| Outlook | Negative |

*Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.*

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| Japan | 81-3-5408-4100 |
| EMEA | 44-20-7772-5454 |

# Newfoundland Power Inc.

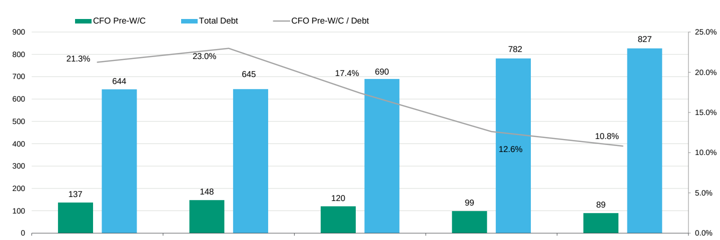
## Update following outlook change to negative

## Summary

Newfoundland Power Inc.'s (NPI) credit profile reflects the company's low business risk as a primarily electric transmission and distribution cost-of-service regulated utility with no unregulated businesses. We have historically viewed the PUB as one of the more supportive regulators in Canada because decisions have been timely and balanced, deferral accounts generally reduce risks from factors beyond management's control and NPI's 45% equity capital is among the highest authorized levels in Canada. We expect regulatory decisions will continue to provide the company with an opportunity to recover its costs, however the pace and magnitude of customer rate increases is leading to regulatory concerns. As a result, NPI has been negatively impacted by the challenges associated with timely cost recovery of prudently incurred costs, in particular power supply costs, leading to unsupportive regulatory outcomes. There are more rate pressures on the horizon which could weigh on both the company's regulatory and financial profiles, a key rationale for the negative outlook.

The credit profile has also been adversely affected by weak financial metrics including a CFO pre-W/C to debt ratio falling to 12.6% at 31 December 2023 and declining further to 10.8% at 30 June 2024, primarily caused by the under-recovery of power supply costs. We forecast that CFO pre-W/C to debt will recover from these low levels to the 14-16% range inclusive of power supply cost recoveries. NPI's senior secured first mortgage bonds (FMB) rating reflects the first mortgage security over NPI's property, plant and equipment and a floating charge on all other assets.

Exhibit 1
**Historical CFO Pre-W/C, Total Debt and CFO Pre-W/C to Debt**




All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Periods are fiscal year-end unless indicated.
*Source: Moody's Financial Metrics™*

## Credit strengths

» Low risk regulated, primarily transmission and distribution utility

» Historically credit supportive regulatory environment

» Track record of earning allowed returns

## Credit challenges

- » Customer rate pressures driving material delays in rate increases
- » Timeline for cost recovery of prudently incurred costs is uncertain
- » Weak cash flow coverage metrics

## Rating outlook

The negative outlook reflects delays in cost recovery that have adversely affected the company's financial performance and credit profile and are likely to persist for the next several years given regulatory concerns about the pace of rate increases.

## Factors that could lead to upgrade

- » An upgrade is unlikely given the negative outlook
- » The outlook could return to stable if the company sees a material improvement in regulatory support such that it recovers its costs in a more timely manner and we forecast CFO pre-W/C to debt adjusted for power supply cost recoveries to be sustained above 14%.

## Factors that could lead to downgrade

- » Continued unsupportive regulatory outcomes including insufficient rate increases, ongoing delays in recovering costs or an inability to earn allowed returns.
- » CFO pre-W/C to debt adjusted for power supply cost recoveries remaining below 14%.

## Key indicators

Exhibit 2

**Newfoundland Power Inc.**

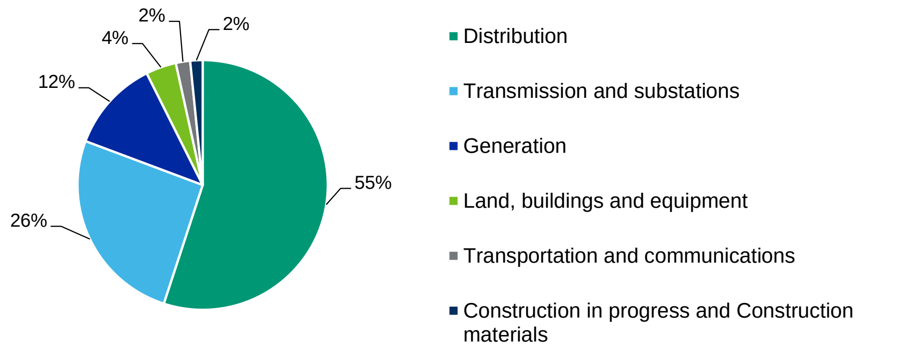
| | 2019 | 2020 | 2021 | 2022 | 2023 | LTM Jun-24 |
|---|---|---|---|---|---|---|
| CFO Pre-W/C + Interest / Interest | 4.0x | 4.7x | 5.2x | 4.4x | 3.6x | 3.2x |
| CFO Pre-W/C / Debt | 17.4% | 21.3% | 23.0% | 17.4% | 12.6% | 10.8% |
| CFO Pre-W/C – Dividends / Debt | 13.0% | 14.0% | 17.8% | 13.2% | 11.7% | 10.8% |
| Debt / Capitalization | 48.1% | 48.2% | 47.6% | 48.5% | 49.6% | 50.3% |

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Periods are fiscal year-end unless indicated.
*Source: Moody's Financial Metrics™*

## Profile

Headquartered in St. John's, Newfoundland and Labrador, NPI is primarily an electric transmission distribution utility serving a customer base of approximately 275,000. NPI operates under cost-of-service regulation and is regulated by the PUB under the Public Utilities Act (the Act). NPI purchases the majority of its power from NL Hydro, which is indirectly held, but wholly owned by the Province of Newfoundland and Labrador. NPI's generating capacity is 145 MW, including 98 MW of hydro. NPI is a wholly-owned subsidiary of Fortis Inc. (FTS: Baa3 stable), which is primarily a diversified electric and gas utility holding company also based in St. John's.

Exhibit 3
**Net Property, Plant and Equipment by segment**
**As of 31 December 2023**




*Source: Company filings*

## Detailed credit considerations

### Delays in cost recovery are credit negative

Recent PUB decisions have led to delays in NPI recovering its costs which weighs on the company's regulatory and financial profiles. The PUB points to rate shock issues as customer rate increases approach or exceed 10%.

On 12 June, the company filed an application with the PUB to recover the balance in its Rate Stabilization Account (RSA). The company requested a 9.3% rate increase largely attributable to power supply costs, which are a pass through to customers, to be effective 1 July 2024. Instead, the company received a 7% rate increase effective 1 August 2024 with the remainder left to be recovered in a future RSA application. We had assumed that the company would recover the balance in the RSA over the following 12 months. In its decision, published in late July, the PUB did accept that the costs were prudently incurred and that they should be recovered without any disallowance. Nevertheless, the PUB also indicated in its decision that it was trying to balance concerns around customer rate impacts and NPI's entitlement to timely recovery, highlighting the elevated social risks that the company faces.

Similarly, in a separate return on rate base application, the company sought a 1.5% rate increase effective 1 July 2024 largely driven by higher debt financing costs. Instead of approving the full rate increase, the PUB directed NPI to use the CAD5.1 million 2023 excess earnings account to reduce pressure on rates, made an adjustment to the requested rate increase and transferred the remaining amount to the RSA for recovery in a future period.

There remains pressure for material rate increases in the near term, which could lead to further delays in cost recovery. The company has estimated that growth in the RSA in 2024, including the under-recoveries from the most recent decisions, could drive a rate increase of approximately 5% effective 1 July 2025. In a separate proceeding, the company has also filed a general rate application (GRA) for new rates effective on 1 July 2025 that would lead to an additional 5.5% rate increase.

The RSA has been growing largely because the marginal cost of power that NPI obtains from NL Hydro exceeds the average supply costs embedded in customer rates. NL Hydro and NPI have filed applications to reset the wholesale rates charged to NPI and the rebasing of power supply costs could lead to a 4.3% increase in rates effective 1 July 2025. This would result in less volatility in the RSA in the future.

### Low-risk business model

NPI's credit profile reflects the company's low business risk as a cost of service regulated utility. NPI owns and operates a transmission and distribution system located on the island portion of the province of Newfoundland and Labrador and dominates that market, which is geographically isolated and effectively protected from potential competition. NPI serves roughly 87% of the province's electricity customers. Growth in rate base over time has not historically taxed NPI either operationally or financially due to relatively timely recovery of capital and operating costs.

NPI owns some generation assets that are regulated and represent only 12% of NPI's net property, plant and equipment at year-end 2023. The majority of generation assets are low risk, small scale hydro electric generation. Accordingly, we consider the business risk of NPI to be similar to that of a transmission and distribution utility rather than that of a typical vertically integrated utility, which are often directly exposed to commodity price risk and the operational, financial and environmental risks associated with electricity generation.

### Historically supportive regulatory environment

NPI has benefited from a well-developed regulatory framework that we have considered credit supportive with the notable exception of recent decisions materially delaying cost recovery. The regulatory outcomes follow a track record of reasonably timely and balanced decisions that has led to a lengthy history of NPI earning its allowed ROE. The company has not been subject to political interference despite increasing rate pressure related primarily to power supply costs. We expect NPI to continue to recover its costs albeit with some delays in an increasing rate environment. NPI has access to the courts to address disputes with the PUB although the company has not pursued legal remedies for at least 20 years.

The PUB's annual review and approval of NPI's capital spending plans and long-term debt issuances significantly reduce the risk of cost disallowances. NPI submits a proposed capital plan for PUB approval annually before the next fiscal year with the most recent plan approved on 18 January 2024 allowing capex of CAD114 million in 2024. NPI is required to obtain PUB pre-approval for the issuance of any FMB's or the incurrence of credit facilities with maturities exceeding one year, which we see as reducing the risk of cost disallowances related to these activities. In September 2024, the PUB approved an increase in the size of the company's committed credit facility to CAD130 million from CAD100 million.

Several other cost recovery mechanisms reduce NPI's exposure to unexpected costs due to variations in purchased power costs, weather, pension and other post-employment benefit (OPEB) costs and are recovered in the RSA. While NPI foregoes some upside (and downside) potential, the stability and predictability of its cash flows are typically enhanced by these mechanisms.

For example, the RSA facilitates recovery of purchased power costs in excess of those forecasted for ratemaking purposes. We had expected the RSA to provide for the amortization of the under or over collection over a 12 month period, although the period of ultimate recovery is now longer and not yet defined. The power supply costs that the company began recovering on 1 August 2024 were incurred in 2023. The RSA also captures fluctuations in NL Hydro's rate stabilization plan which is a pass through for NPI. Other mechanisms included in the RSA include a Demand Management Incentive Account (which limits NPI's exposure to variations in purchased power costs to 1% of demand costs reflected in the test year for ratemaking purposes).

NPI is allowed to file a rate application based on a forward test year and forecast rate base. We view these mechanisms positively because they reduce revenue lag associated with the capital program. In November 2023, NPI filed a general rate case for 2025/26 seeking a roughly 5.5% rate increase effective 1 July 2025. Key areas of focus, that are consistent with the sector, include productivity improvements, cost increases driven by inflation and the allowed ROE given the inflation and interest rate environments. In its last rate case, the company reached a settlement on 22 November 2021 for the period 2022-2023 that was approved by the PUB in the first quarter of 2022. NPI's allowed ROE of 8.5% for the period 2022-2024 was unchanged. While the ROE remains relatively low, it is mitigated by one of the highest deemed equity levels in Canada at 45%.

Exhibit 4
**Historical Approved ROE, Approved Equity thickness and Rate Base**
**Newfoundland Power Inc.**

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|
| Approved Return on Equity (ROE) | 8.5% | 8.5% | 8.5% | 8.5% | 8.5% | 8.5% | 8.5% |
| Approved Equity thickness | 45% | 45% | 45% | 45% | 45% | 45% | 45% |
| Midyear Rate base, CAD billion | 1.1 | 1.1 | 1.2 | 1.2 | 1.2 | 1.2 | 1.3 |

*Source: Company filings*

### Power supply cost pressures are stabilizing, but with more rate increases to come

In May 2024, the Province of Newfoundland and Labrador (A1 stable) announced a rate mitigation plan that came into effect on 1 July 2024. The plan limits domestic customer rate increases associated with Muskrat Falls and NL Hydro's operations to 2.25% through annual rate increases on 1 July of each year through 1 July 2030. It requires NL Hydro to spend more than $2 billion on rate mitigation over that period.

However, the rate mitigation plan does not include additional costs that may stem from NL Hydro's own general rate application which may add to rate pressure with a decision likely in 2027. By legislation, we understand that rate pressure may build until NL Hydro is able to increase its rates again beyond 2.25% in 2031. The announcement of the Province's rate mitigation plan is credit positive for NPI as it reduces uncertainty around the size of rate increases through the end of the decade and limits rate increases associated with this portion of customer's bills to levels broadly in line with inflation.

One of the rate mitigation actions taken in 2023 included the provincial government providing CAD190.4 million of rate mitigation to NL Hydro to offset energy supply cost increases. The total cost of Muskrat Falls and associated transmission in Newfoundland and Labrador increased to about CAD13.5 billion, up from an initial cost estimate of CAD7.4 billion. The size of the project and associated rate pressures are exacerbated by the relatively small size of NPI and the Newfoundland and Labrador economy. The 824 MW hydro electric project was completed in November 2021, although the Labrador Island Link (LIL) a key transmission project, was only fully commissioned in April 2023.

### Recovery of weakened financial profile dependent on future rate increases

NPI's CFO pre-W/C to debt ratio has declined to 10.8% over the last twelve months ending 30 June 2024, well below our expectations. We forecast that CFO pre-W/C to debt ratios will recover from recent low levels to the 14-16% range inclusive of power cost recoveries, assuming supportive regulatory outcomes. The range of financial metrics is largely dependent on the timing and size of future rate increases. Further delays in cost recovery will lead to weaker financial metrics, while more timely cost recovery will lead to stronger financial metrics. Ultimately, we expect the company to continue to recover its prudently incurred costs, although the timing of this recovery is less certain. The 7% rate increase that was effective 1 August 2024 will support power supply cost recoveries, that are included in working capital on the cash flow statement and we will add this figure to our CFO pre-W/C to debt calculations.

Changes in regulatory assets and liabilities add volatility to CFO pre-W/C, although we expect all of these costs to be eventually recovered from rate payers. Regulatory assets have grown rapidly as power sales exceeded forecasts. Exacerbating the situation, as mentioned above, the marginal cost of power purchased from NL Hydro was greater than the average price of power charged to customers. This reversed the growth in regulatory liabilities in 2020 and 2021 that was in part due to marginally lower demand than forecast. The same marginal power pricing dynamics led to over-recoveries from customers and growth in the company's regulatory liabilities.

We expect other elements of the company's cash flow to remain more predictable, a key credit strength. Driving this stability, the company's net income is largely a function of its allowed return on equity, its deemed capital structure (equity thickness) and rate base. The other large component of its predictable cash flow is depreciation and amortization.

The company forecasts annual capital investments of about CAD140 million over the period 2024 to 2028. We expect the company to continue to file regular cost of service rate applications to ensure timely recovery of costs. The steady growth in the company's rate base drives growth in cash flow and a proportionate growth in debt. Primarily as a result of changes in working capital and long term regulatory assets and liabilities outlined above, the company had a CAD94 million free cash flow shortfall in 2023. In an effort to reduce pressure on the balance sheet, the company has not paid a dividend since Q1 of 2023, which highlights a credit benefit of being part of a much larger corporate entity, which is not reliant on quarterly distributions from its smaller subsidiaries.

Exhibit 5
### Historical Moody's–adjusted CFO Pre-W/C reconciliation
Newfoundland Power Inc.

| (in CAD millions) | 2019 | 2020 | 2021 | 2022 | 2023 | LTM Q2 2024 |
|---|---|---|---|---|---|---|
| **Net Income** | **42.3** | **43.6** | **43.8** | **45.7** | **46.0** | **42.8** |
| Depreciation | 64.6 | 67.3 | 69.7 | 73.7 | 76.9 | 78.8 |
| Amortization of Investments | 3.6 | 4.1 | 4.5 | 4.7 | 5.7 | 6.2 |
| Deferred income taxes and itc | 5.2 | (5.1) | 0.9 | (3.1) | 14.7 | 0.7 |
| Other | (2.3) | 2.9 | 3.5 | (3.8) | (7.3) | (8.0) |
| **Funds from Operations** | **113.5** | **112.8** | **122.4** | **117.2** | **136.0** | **120.6** |
| Changes in Other Oper. Assets & Liabilities - LT | (2.8) | 24.0 | 25.7 | 2.9 | (37.3) | (31.1) |
| **CFO Pre-W/C** | **110.7** | **136.8** | **148.1** | **120.1** | **98.7** | **89.5** |

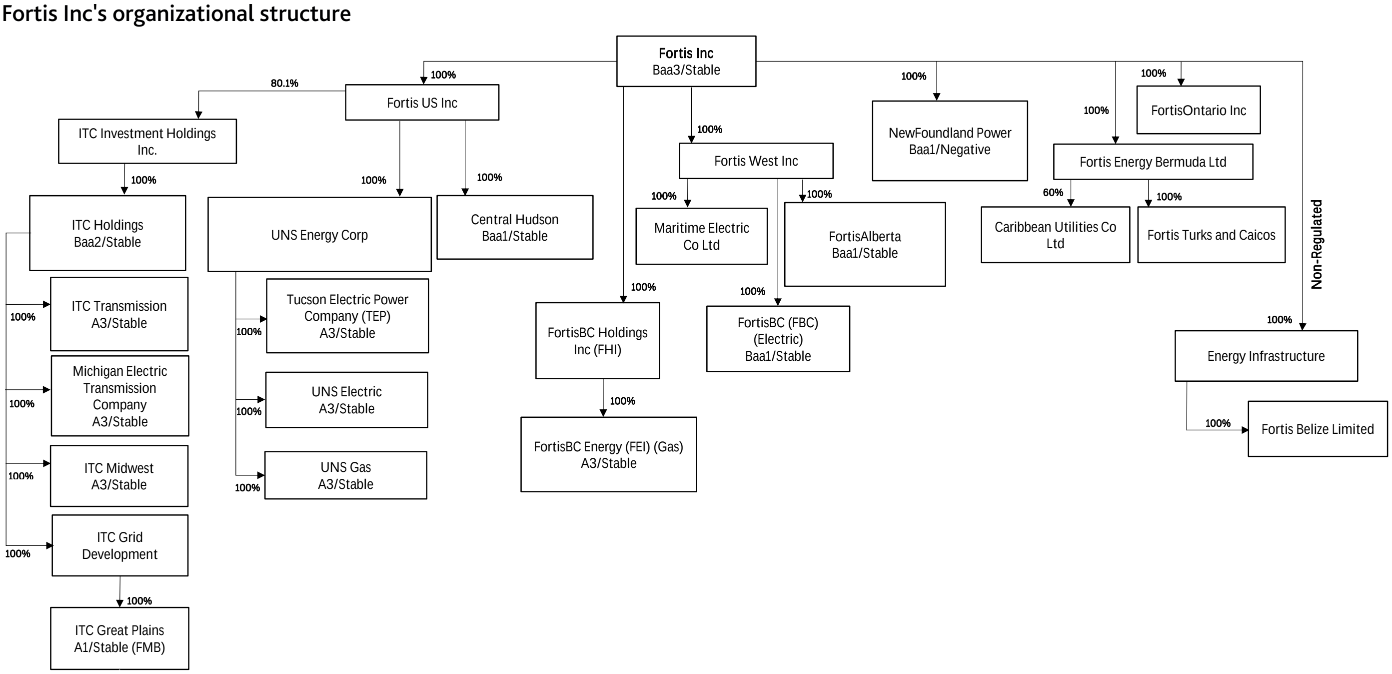
All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Periods are fiscal year-end unless indicated.
*Source: Moody's Financial Metrics™*

## NPI is independent of parent Fortis Inc.

We consider NPI to be operationally and financially independent of ultimate parent FTS. FTS has consistently demonstrated good management and support of its subsidiaries and we view NPI's access to the executive and strategic support of FTS to be a credit positive. However, FTS has very high leverage and material holding company debt that adds financial risk across the entire FTS corporate family. FTS is dependent upon its many subsidiaries, including NPI, to make distributions to service its obligations. Despite this leverage, we view FTS ownership as generally credit positive for NPI since it benefits from access to a large and diversified parent that may facilitate streamlining operations and costs and provides strong access to capital markets.

NPI may periodically rely on its parent for equity injections to maintain its capital structure in line with the regulator's established parameters, or reduce or eliminate dividends as NPI did in the last 3 quarters of 2023 and the first half of 2024. We expect that FTS would provide extraordinary support to NPI, if required, provided that the parent had the economic incentive to do so. We believe that the parent will continue to have sufficient resources to provide support, if required. As of 31 December 2023, FTS had about CAD1.5 billion of unused committed revolving credit facility at the FTS corporate level. Our view of parent FTS does not constrain the credit profile of NPI.

Exhibit 6
### Fortis Inc's organizational structure




*Source: Moody's Financial Metrics™ and Company filings*

## ESG considerations

### Newfoundland Power Inc.'s ESG credit impact score is CIS-3

Exhibit 7
**ESG credit impact score**

CIS-3


ESG considerations have a limited impact on the current rating, with potential for greater negative impact over time.

*Source: Moody's Ratings*

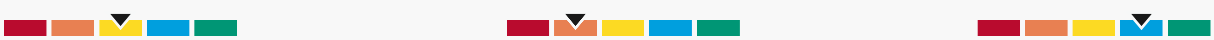
NPI's **CIS-3** indicates that ESG considerations have a limited impact on the current credit rating with potential for greater negative impact over time, resulting from exposure to social risks stemming from the potential rapid increase in power costs and environmental risks related to physical climate risks.

Exhibit 8
**ESG issuer profile scores**

ENVIRONMENTAL
E-3

SOCIAL
S-4

GOVERNANCE
G-2



*Source: Moody's Ratings*

#### Environmental
NPI's **E-3** score is driven primarily by its exposure to physical climate risks, mostly in the form of extreme weather events including storms which is a challenge for the sector. NPI has low exposure to carbon transition risks since 93% of its power is purchased from NL Hydro which generates almost all of its power from hydro electric sources and just 12% of NPI's PP&E is comprised of generation assets, the majority of which are small hydro.

#### Social
NPI's **S-4** score is driven by its exposure to demographic and social trends stemming from rate pressures that have led to delays in recovering its costs from customers as the PUB tries to balance concerns around customer rate impacts and NPI's timely recovery of costs.

#### Governance
NPI's **G-2** score is driven by that of its parent FTS. NPI's governance risk is broadly in line with other utilities and does not pose a particular risk. This is supported by a key financial policy to maintain the capital structure established by the regulator with reductions in dividends paid to the parent in an effort to maintain the target capital structure. NPI's management credibility and track record also support the low risk governance outcome.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

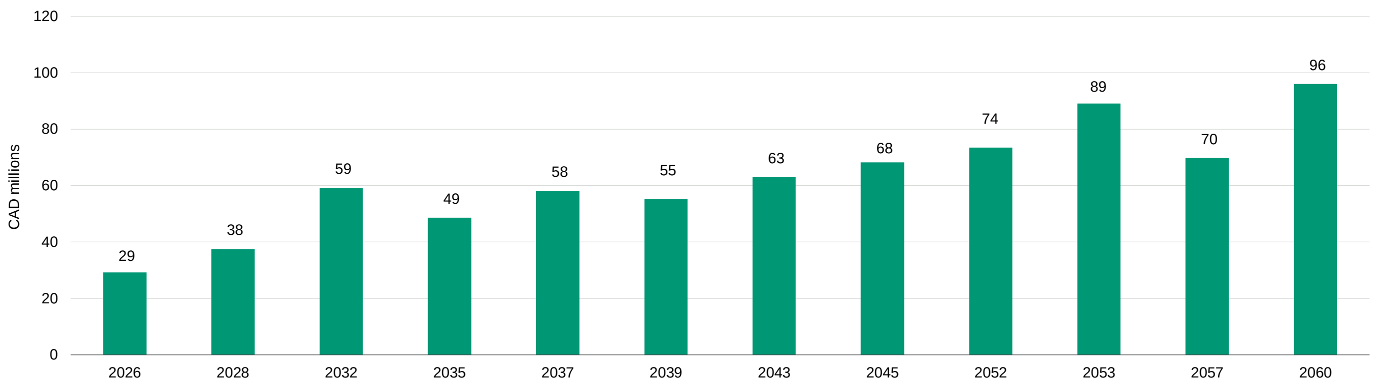
## Liquidity analysis

We consider NPI's liquidity arrangements to be adequate.

The company's primary sources of funds includes cash flow from operations of CAD110-140 million over the next 12 months and a CAD130 million committed revolving credit facility that matures in August 2029. While the credit agreement contains a covenant that NPI maintain its debt to capitalization ratio at or below 65%, it does not include a material adverse change (MAC) clause or representation and warranty declaration prior to drawdown. There was $53 million available under the committed facility at 30 June 2024.

NPI plans to spend around CAD130 million on capital expenditures over the next 12 months and pay dividends (if any) in amounts commensurate with maintaining the 45% deemed equity layer. The company does not have a significant debt maturity until 2026.

Exhibit 9
**Newfoundland Power Inc's long-term debt maturity profile as of 31 December 2023**




NPI's debt consists of first mortgage sinking fund bonds.
Periods are fiscal year-end unless indicated.
*Source: Company filings*

## Structural considerations

NPI's senior secured FMB rating reflects the first mortgage security over NPI's property, plant and equipment and a floating charge on all other assets. The A2 rating for these bonds is consistent with the two notch differential between senior secured debt ratings and senior unsecured debt ratings of investment-grade regulated utilities operating in North America.

## Rating methodology and scorecard factors

We use our global Regulated Electric and Gas Utilities rating methodology as the primary methodology for analyzing NPI. The scoring for Subfactor 2a, Timeliness of Recovery of Operating and Capital has been lowered to Baa from A to reflect recent regulatory decisions delaying cost recovery.

Exhibit 10

**Methodology scorecard factors**

Newfoundland Power Inc.

| Regulated Electric and Gas Utilities Industry [1][2] | Current LTM 6/30/2024 | | Moody's 12-18 Month Forward View As of LTM | |
|---|---|---|---|---|
| **Factor 1 : Regulatory Framework (25%)** | **Measure** | **Score** | **Measure** | **Score** |
| a) Legislative and Judicial Underpinnings of the Regulatory Framework | A | A | A | A |
| b) Consistency and Predictability of Regulation | A | A | A | A |
| **Factor 2 : Ability to Recover Costs and Earn Returns (25%)** | | | | |
| a) Timeliness of Recovery of Operating and Capital Costs | Baa | Baa | Baa | Baa |
| b) Sufficiency of Rates and Returns | Baa | Baa | Baa | Baa |
| **Factor 3 : Diversification (10%)** | | | | |
| a) Market Position | Ba | Ba | Ba | Ba |
| b) Generation and Fuel Diversity | N/A | N/A | N/A | N/A |
| **Factor 4 : Financial Strength (40%)** | | | | |
| a) CFO pre-WC + Interest / Interest (3 Year Avg) | 3.9x | Baa | 3x - 4x | Baa |
| b) CFO pre-WC / Debt (3 Year Avg) | 14.2% | Baa | 14% - 16% | Baa |
| c) CFO pre-WC – Dividends / Debt (3 Year Avg) | 11.7% | Baa | 12% - 14% | Baa |
| d) Debt / Capitalization (3 Year Avg) | 49.9% | A | 46% - 50% | A |
| **Rating:** | | | | |
| Scorecard-Indicated Outcome Before Notching Adjustment | | Baa1 | | Baa1 |
| HoldCo Structural Subordination Notching | | 0 | | 0 |
| a) Scorecard-Indicated Outcome | | Baa1 | | Baa1 |
| b) Actual Rating Assigned | | Baa1 | | Baa1 |

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Moody's forecasts are Moody's opinion and do not represent the views of the issuer.
*Source: Moody's Financial Metrics™ and Moody's Ratings forecasts*

# Appendix

Exhibit 11

### Peer comparison

**Newfoundland Power Inc.**

| | Newfoundland Power Inc. Baa1 (Negative) | | | Hydro One Inc. A3 (Stable) | | | FortisAlberta Inc. Baa1 (Stable) | | |
|---|---|---|---|---|---|---|---|---|---|
| (In CAD millions) | FYE Dec-22 | FYE Dec-23 | LTM Jun-24 | FYE Dec-22 | FYE Dec-23 | LTM Jun-24 | FYE Dec-22 | FYE Dec-23 | LTM Jun-24 |
| Revenue | 736 | 774 | 777 | 7,740 | 7,799 | 8,066 | 750 | 814 | 860 |
| CFO Pre-W/C | 120 | 99 | 89 | 2,185 | 2,160 | 2,227 | 386 | 419 | 434 |
| Total Debt | 690 | 782 | 827 | 14,766 | 15,329 | 16,014 | 2,567 | 2,765 | 2,968 |
| CFO Pre-W/C + Interest / Interest | 4.4x | 3.6x | 3.2x | 4.9x | 4.4x | 4.3x | 4.5x | 4.3x | 4.3x |
| CFO Pre-W/C / Debt | 17.4% | 12.6% | 10.8% | 14.8% | 14.1% | 13.9% | 15.0% | 15.2% | 14.6% |
| CFO Pre-W/C – Dividends / Debt | 13.2% | 11.7% | 10.8% | 10.3% | 9.5% | 9.4% | 11.1% | 11.4% | 10.9% |
| Debt / Capitalization | 48.5% | 49.6% | 50.3% | 54.5% | 54.0% | 54.3% | 55.1% | 55.8% | 57.1% |

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
*Source: Moody's Financial Metrics™*

Exhibit 12

### Moody's-adjusted cash flow metrics

**Newfoundland Power Inc.**

| CF Metrics | Dec-20 | Dec-21 | Dec-22 | Dec-23 | LTM Jun-24 |
|---|---|---|---|---|---|
| As Adjusted | | | | | |
| **FFO** | **113** | **122** | **117** | **136** | **121** |
| +/- Other | 24 | 26 | 3 | -37 | -31 |
| **CFO Pre-WC** | **137** | **148** | **120** | **99** | **89** |
| +/- ΔWC | 9 | -7 | -12 | -35 | -8 |
| **CFO** | **146** | **141** | **108** | **64** | **81** |
| - Div | 46 | 33 | 29 | 7 | 0 |
| - Capex | 102 | 119 | 127 | 150 | 150 |
| **FCF** | **-2** | **-12** | **-48** | **-94** | **-68** |
| | | | | | |
| (CFO Pre-W/C) / Debt | 21.3% | 23.0% | 17.4% | 12.6% | 10.8% |
| (CFO Pre-W/C - Dividends) / Debt | 14.0% | 17.8% | 13.2% | 11.7% | 10.8% |
| FFO / Debt | 17.5% | 19.0% | 17.0% | 17.4% | 14.6% |
| RCF / Debt | 10.3% | 13.8% | 12.8% | 16.5% | 14.6% |
| | | | | | |
| Revenue | 719 | 713 | 736 | 774 | 777 |
| Interest Expense | 37 | 35 | 36 | 38 | 41 |
| Net Income | 44 | 43 | 40 | 41 | 38 |
| Total Assets | 1,720 | 1,764 | 1,814 | 1,950 | 1,988 |
| Total Liabilities | 1,204 | 1,238 | 1,270 | 1,368 | 1,385 |
| Total Equity | 516 | 526 | 544 | 583 | 603 |

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Periods are fiscal year-end unless indicated.
*Source: Moody's Financial Metrics™*

## Ratings

Exhibit 13

| Category | Moody's Rating |
|---|---|
| **NEWFOUNDLAND POWER INC.** | |
| Outlook | Negative |
| Issuer Rating -Dom Curr | Baa1 |
| First Mortgage Bonds -Dom Curr | A2 |
| **PARENT: FORTIS INC.** | |
| Outlook | Stable |
| Issuer Rating -Dom Curr | Baa3 |
| Senior Unsecured | Baa3 |

*Source: Moody's Ratings*

REPORT NUMBER 1425012

## CLIENT SERVICES


| | |
|---|---|
| Americas | 1-212-553-1653 |
| Asia Pacific | 852-3551-3077 |
| Japan | 81-3-5408-4100 |
| EMEA | 44-20-7772-5454 |

**DBRS Press Release**

MORNINGSTAR | DBRS

PRESS RELEASE

OCTOBER 04, 2024

# Morningstar DBRS Confirms Newfoundland Power Inc. at "A" With Stable Trends

UTILITIES & INDEPENDENT POWER

DBRS Limited (Morningstar DBRS) confirmed the Issuer Rating and the First Mortgage Bonds rating of Newfoundland Power Inc. (Newfoundland Power or the Company) at "A" with Stable trends.

KEY CREDIT RATING CONSIDERATIONS

Newfoundland Power's ratings are based on its stable regulated electricity operations, mainly consisting of electricity distribution, the reasonable regulatory framework under the Board of Commissioners of Public Utilities (PUB), and key credit metrics that have been in line with the "A" credit rating range.

Newfoundland Power is regulated by the PUB under a cost-of-service framework where the Company can recover all prudent expenditures and has an opportunity to earn a reasonable return on rate base. The PUB has also approved the use of several regulatory accounts, such as the Rate Stabilization Account (RSA), to absorb fluctuations and pass-through purchased power costs. Historically, the PUB has approved the Company disposing of the balance in the RSA annually, with the amounts then recovered in rates over the next year. In July 2024, the PUB issued an order on Newfoundland Power's 2024 RSA application, approving a 7% rate increase effective August 1, 2024, consisting effectively of (1) 2.3% for Newfoundland and Labrador Hydro's (Hydro) Rate Stabilization Plan and the Muskrat Falls Project Cost Recovery Rider as outlined in the Province of Newfoundland and Labrador's (the Province; 100% owner of Hydro; both rated "A" with Stable trends) rate mitigation plan, and (2) the remaining 4.7% to clear a portion of the amount in the Company's RSA also related to purchased power costs. This order, however, effectively leaves a $19 million balance in Newfoundland Power's RSA that will have to be recovered later.

Morningstar DBRS had noted the potential risk of costs associated with the Muskrat Falls project leading to a rate shock for Newfoundland Power's customers and was concerned that upward pressure on rates could affect the Company's ability to pass on costs. Morningstar DBRS is satisfied that, with the Province's rate mitigation plan now in place limiting residential rate increases to 2.25% annually until (and including) 2030 for the recovery of Muskrat Falls costs, the probability of rate shock associated with Muskrat Falls has been reduced. However, Morningstar DBRS remains concerned about current rate pressure and that future rate increases for recovery of Newfoundland Power's costs may be more challenging. In August 2024, the PUB did not approve the Company's application for its 2024 rate of return on rate base, but requested that the revenue shortfall, which has largely been because of increases in debt costs, be deferred to the RSA and recovered in a future period. The Company also filed its 2025-26 General Rate Application (GRA) in December 2023, requesting an overall rate increase of 5.5%; the PUB's decision is expected by the end of 2024.

Morningstar DBRS notes that the PUB has not specifically denied the recovery of the amounts in the RSA but deferred their recovery. Newfoundland Power has also proactively addressed any liquidity concerns about carrying the extra balance by increasing its credit facility by $30 million. However, if the recovery of purchased power costs and the Company's other costs of service continue to be delayed in future and ongoing rate cases, Morningstar DBRS may lower the score on the Energy Cost Recovery and Capital and Operating Cost Recoveries considerations in its assessment of the regulatory framework.

CREDIT RATING DRIVERS
A positive credit rating action is unlikely because of the weaker franchise area and rate pressure. A negative credit rating action could occur if Newfoundland Power's ability to fully pass on costs was negatively affected.

EARNINGS OUTLOOK
Newfoundland Power's earnings have been relatively stable because of the regulated nature of the Company's operations. Net income historically increased modestly year over year, reflecting growth in the rate base. Morningstar DBRS expects earnings to continue to see a modest increase in 2025 assuming approval of the 2025-26 GRA.

FINANCIAL OUTLOOK
Newfoundland Power's financial risk assessment has remained stable, with all key credit metrics supportive of the current credit rating. Morningstar DBRS expects the Company to continue managing any free cash flow deficits from the capital expenditures program and dividends in a prudent manner in order to maintain leverage in line with the regulatory capital structure of 55% debt. Morningstar DBRS notes that Newfoundland Power's cash flows are expected to be weaker in the short term because the PUB deferred some cost items to a future period. Morningstar DBRS expects the cash flow-to-debt metric to return to historical levels once the PUB approves the Company clearing the balance in its RSA.

CREDIT RATING RATIONALE
Newfoundland Power's ratings are supported by the supportive regulatory environment and its solid financial profile. This is partly offset by the weak economic outlook and limited population growth in the Province and its reliance on one major power supplier.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE CONSIDERATIONS
There were no Environmental/Social/Governance factors that had a significant or relevant effect on the credit analysis.

A description of how Morningstar DBRS considers ESG factors within the Morningstar DBRS analytical framework can be found in the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings (August 13, 2024) at https://dbrs.morningstar.com/research/437781.

BUSINESS RISK ASSESSMENT (BRA) AND FINANCIAL RISK ASSESSMENT (FRA)
(A) Weighting of BRA Factors
In the analysis of Newfoundland Power, the BRA factors are considered in the order of importance contemplated in the methodology.

(B) Weighting of FRA Factors
In the analysis of Newfoundland Power, the FRA factors are considered in the order of importance contemplated in the methodology.

(C) Weighting of the BRA and the FRA
In the analysis of Newfoundland Power, the BRA carries greater weight than the FRA.

Notes:
All figures are in Canadian dollars unless otherwise noted.

Morningstar DBRS applied the following principal methodology:
-- Global Methodology for Rating Companies in the Regulated Utility and Independent Power Producer Industries (June 27, 2024), https://dbrs.morningstar.com/research/435127.

Morningstar DBRS credit ratings may use one or more sections of the Morningstar DBRS Global Corporate Criteria (April 15, 2024;

https://dbrs.morningstar.com/research/431186), which covers, for example, topics such as holding companies and parent/subsidiary relationships, guarantees, recovery, and common adjustments to financial ratios.



The following methodologies have also been applied:
-- Morningstar DBRS Global Corporate Criteria (April 15, 2024), https://dbrs.morningstar.com/research/431186 and
-- Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings (August 13, 2024) https://dbrs.morningstar.com/research/437781.

The credit rating methodologies used in the analysis of this transaction can be found at: https://dbrs.morningstar.com/about/methodologies.

A description of how Morningstar DBRS analyzes corporate finance transactions and how the methodologies are collectively applied can be found at: https://dbrs.morningstar.com/research/397223.

The related regulatory disclosures pursuant to the National Instrument 25-101 Designated Rating Organizations are hereby incorporated by reference and can be found by clicking on the link under Related Documents or by contacting us at info-DBRS@morningstar.com.

The credit rating was initiated at the request of the rated entity.

The rated entity or its related entities did participate in the credit rating process for this credit rating action.

Morningstar DBRS had access to the accounts, management, and other relevant internal documents of the rated entity or its related entities in connection with this credit rating action.

This is a solicited credit rating.

The conditions that lead to the assignment of a Negative or Positive trend are generally resolved within a 12-month period. Morningstar DBRS trends and credit ratings are under regular surveillance.

Information regarding Morningstar DBRS credit ratings, including definitions, policies, and methodologies, is available on dbrs.morningstar.com or contact us at info-DBRS@morningstar.com.

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Toronto, ON M5H 3M7 Canada
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**Ratings**

**Newfoundland Power Inc.**

| Date Issued | Debt Rated | Action | Rating | Trend | Attributes |
|---|---|---|---|---|---|
| 04-Oct-24 | Issuer Rating | Confirmed | A | Stb | CA |
| 04-Oct-24 | First Mortgage Bonds | Confirmed | A | Stb | CA |

## Contacts

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