

1 **Q. In its discussion of its credit ratings, NP indicates the issue ratings of A2 from**
2 **Moody's and A from DBRS, both stable. However, in its filing page 3-12 NP refers**
3 **to what appears to be its issuer rating from Moody's of Baal. Please indicate which**
4 **rating NP believes that investors use in deciding to buy NP's bonds: the issuer or the**
5 **issue rating and justify its answer.**

6
7 A. Newfoundland Power (the "Company") cannot provide an indication of what level of
8 consideration individual investors may give to certain information provided in credit
9 rating agency reports, including credit ratings, when analyzing the Company's bonds.

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11 Generally, a rating is a credit rating agency's opinion of the credit quality of individual
12 obligations or of an issuer's general creditworthiness.¹ According to Moody's Investor
13 Services ("Moody's"), ratings are not recommendations to buy or sell, nor are they a
14 guarantee that default will not occur. Investors use ratings to *help* price the credit risk of
15 fixed-income securities they *may* buy or sell.²

16
17 Moody's issuer rating for Newfoundland Power is Baal. Moody's states that "...the
18 *credit profile rating is constrained by the risk of future cost recovery associated with the*
19 *Province of Newfoundland and Labrador's sizeable Muskrat Falls hydroelectric*
20 *project.*"³

21
22 Moody's also provides the first mortgage bond rating for Newfoundland Power of A2.
23 The rating reflects the first mortgage security over the Company's property, plant and
24 equipment and floating charge on all other assets.³

25
26 DBRS provides that both Newfoundland Power's issuer rating and first mortgage bond
27 rating are A.³

¹ A credit rating agency will use a particular methodology to ultimately determine a Company's credit rating. For example, Moody's has indicated that the overall regulatory environment is the most important consideration in determining a credit rating for regulated utilities. See Moody's *Methodology Report: Regulated Electric and Gas Utilities, June 2017*. See Response to Request for Information CA-NP-095.

² See Moody's publication, *Rating System in Brief*. In this report, Moody's further provides that "...Many also use ratings as limits on their investment parameters and as means for expanding their investment horizons to markets or security types they do not cover by their own analysis. Because major investors globally rely on Moody's ratings, the ratings help to provide issuers of debt with stable, flexible access to those sources of capital."

³ See *Volume 1, Application, Company Evidence and Exhibits, Exhibit 4, Credit Ratings Reports: Moody's and DBRS*.