Q. At 3-10 NP starts a discussion of its credit metrics and notes that its embedded debt cost is declining as it refunds more expensive debt, while at 3-11 its statutory tax rate is increasing. Please confirm that all else constant a declining embedded interest cost and higher tax rate increases its pre-tax interest coverage ratio. Further that the pre-tax interest coverage ratio is a key credit metric and part of its new issue restrictions when it issues debt.

A. Newfoundland Power can confirm generally, excluding the effect of regulatory lag, that declining interest costs and higher taxes increases the pre-tax interest coverage ratio.[1]

Newfoundland Power cannot confirm "that the pre-tax interest coverage ratio is a key credit metric and part of its new issue restrictions when it issues debt."

The *Earnings Test* metric is used by the Company when issuing First Mortgage Bonds. While similar to the pre-tax interest coverage ratio, it is calculated as defined in the Company's Deed of Trust and Mortgage (the "Trust Deed").[2] The Trust Deed requires, *in effect*, an interest coverage of 2.0 times or higher for the Company to issue additional bonds. Under existing customer rates, by 2020, Newfoundland Power will have only limited ability to issue First Mortgage Bonds.[3]

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1 The calculation of the pre-tax interest coverage ratio is based on earnings before income taxes. At existing customer rates (i.e. constant), an increase in income taxes would not be reflected in the Company's revenue requirement and, therefore, would not lead to any change in the pre-tax interest coverage ratio. An increase in income taxes and a corresponding increase in the revenue requirement, would result in a higher pre-tax interest coverage ratio.

2 Deed of Trust & Mortgage By Newfoundland Light & Power Co. Limited, dated September 15, 1966, Article 6.2. The trust deed requires that *"No additional bonds shall be certified and delivered hereunder unless the Net Earnings of the Company for the Earnings Period selected by the Directors shall have been at least two (2) times the maximum annual interest charges on all Bonds to be outstanding after the proposed issue of Additional Bonds."*

3 See *Volume 1, Application, Company Evidence and Exhibits, Section 3: Finance, Table 3-11: Credit Metrics*, which shows the Company's interest coverage is expected to decline to 2.0 times by 2020 forecast.