Q. In the Moody's bond report on page 3 it indicates a debt ratio for NP of about 49% for each year from 2016 to 2019. With a 55% deemed debt (45% equity) ratio for ratemaking purposes please explain why Moody's reports a significantly lower number. In NP's judgment which number do investors pay attention to 55% or 49%?

A. The calculation of debt to capitalization on page 3 of Moody's credit rating report is based on Moody's methodology and includes adjustments made by Moody's based on their individual proprietary rating methodology.[1]

Moody's also reports Newfoundland Power's approved equity thickness of 45% on page 4 of its report.[2]

There are a number of differences in the calculation of the debt to capitalization ratio by Moody's when compared to Newfoundland Power's calculation.[3] First, Moody's calculates the debt ratio based on year end values, whereas Newfoundland Power uses average values. Second, Moody's includes deferred income tax liabilities in its total capital structure.[4] Third, Moody's makes a number of standard adjustments to the reported debt in its calculation of the debt ratio.[5]

Newfoundland Power cannot confirm what level of consideration individual investors may give to certain information provided in credit rating reports. The Company does, however, observe that the underlying financial data used in Moody's credit rating report reflects the Company's authorized capital structure of 45% equity and 55% debt, as approved by the Board.

[1] See response to Request for Information CA-NP-095 for the most recent Moody's rating methodology for regulated utilities.

[2] See Moody's credit rating report in the *2022/2023 General Rate Application, Volume 1, Application, Company Evidence and Exhibits, Exhibit 4, Credit Rating Reports: Moody's,* page 4.

[3] Newfoundland Power's capital structure is calculated and reported on Return 24 of the *Annual Reports to the Board.*

[4] The Company's deferred income tax liability at December 31, 2020 was approximately $175.4 million. The inclusion of deferred income taxes in capital structure by Moody's will reduce the reported debt ratio when compared to the Company's calculations.

[5] For example, a pension adjustment to recognize the unfunded pension liability.