

1 **Section 3: Finance/Fair Return**
2

3 **Q. (Section 3) In its 2022-23 GRA, Newfoundland Power indicated that it may have**
4 **difficulty issuing further funded debt due to the constraint in its trust deed and the**
5 **forecast decline in its interest coverage ratio. Please indicate whether any problems**
6 **in fact materialized between 2021-24 and provide the relevant sections of its trust**
7 **deed dealing with the interest coverage ratio.**
8

9 A. Between 2021 and 2023, Newfoundland Power issued two series of First Mortgage
10 Bonds.¹ Each of those bond issues were subject to the earnings test interest coverage
11 metric. While similar to the pre-tax interest coverage ratio, it is calculated as defined in
12 the Company's Deed of Trust and Mortgage (the "Trust Deed"). The Trust Deed requires
13 that:
14

15 *"No Additional Bonds shall be certified and delivered hereunder unless the Net*
16 *Earnings of the Company for the Earnings Period selected by the Directors shall*
17 *have been at least two (2) times the maximum annual interest charges on all*
18 *Bonds to be outstanding after the proposed issue of Additional Bonds."*²
19

20 The Trust Deed defines the earnings period as follows:
21

22 *"...at the option of the Company (a) the last completed fiscal year of the*
23 *Company; or (b) a period of any twelve (12) consecutive calendar months*
24 *terminating within the twenty-four (24) calendar months next preceding the*
25 *certification and delivery of such Additional Bonds..."*³
26

27 In compliance with the Trust Deed, Newfoundland Power met the earnings test coverage
28 for all issued First Mortgage Bonds.

¹ See response to Request for Information CA-NP-067.

² *Deed of Trust and Mortgage By Newfoundland Light & Power Co. Limited*, dated September 15, 1966, Article 6.2.

³ *Deed of Trust and Mortgage By Newfoundland Light & Power Co. Limited*, dated September 15, 1966, Article 1.1.