Section 3: Finance/Fair Return

Q. Provide a table that shows the *pro forma* earnings test interest coverage calculation which is required for Newfoundland Power to issue First Mortgage Bonds in 2023 (sic) for the same range of equity ratios and allowed returns on equity as in PUB-NP-060, PUB-NP-061 and PUB-NP-062 above.

A. The earnings test interest coverage metric (the "Earnings Test") 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"). The Trust Deed requires an Earnings Test of 2.0 times or higher for the Company to issue additional bonds.[1]

Tables 1 and 2 are matrices which show *pro forma* Earnings Test calculations as required for Newfoundland Power to issue First Mortgage Bonds in 2026 and 2027 (which are subject to 2025 and 2026 pre-tax earnings), respectively.[2] The tables include the same range of equity ratios and allowed rates of return on equity ("ROE") as in Requests for Information PUB-NP-060, PUB-NP-061 and PUB-NP-062.[3]

---

1 *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."*

2 This Request for Information states, "…to issue First Mortgage Bonds in 2023…". The response presents *pro forma* Earnings Test metrics for the 2026 test year, consistent with the response to Request for Information PUB-NP-061.

3 The *pro forma* calculations are based on forecast earnings at the respective allowed ROEs and forecast interest rates based on the Company's existing credit ratings. For example, the calculations do not reflect increased finance charges that would be incurred if Newfoundland Power's credit ratings were downgraded as a result of a Board order to reduce the Company's equity component of capital structure. As a result, the *pro forma* calculations have practical limitations.

Table 1:
Earnings Test Interest Coverage (times)
2026 *Pro Forma*[4]

	9.85%	9.50%	9.25%	9.00%	8.75%	8.50%	8.25%
50%	2.76	2.69	2.63	2.57	2.52	2.46	2.41
49%	2.72	2.65	2.59	2.54	2.49	2.43	2.38
48%	2.68	2.61	2.56	2.50	2.45	2.40	2.34
47%	2.65	2.58	2.52	2.47	2.42	2.37	2.32
46%	2.62	2.55	2.50	2.45	2.40	2.34	2.29
45%	2.59	2.52	2.47	2.42	2.37	2.32	2.27
44%	2.56	2.49	2.44	2.39	2.35	2.30	2.25
43%	2.53	2.46	2.42	2.37	2.32	2.27	2.23
42%	2.50	2.44	2.39	2.34	2.30	2.25	2.20
41%	2.47	2.41	2.36	2.32	2.27	2.23	2.18
40%	2.44	2.38	2.34	2.29	2.25	2.20	2.16
39%	2.41	2.35	2.31	2.27	2.22	2.18	2.14
38%	2.38	2.32	2.28	2.24	2.20	2.16	2.11
37%	2.35	2.30	2.25	2.21	2.17	2.13	2.09

Table 2:
Earnings Test Interest Coverage (times)
2027 *Pro Forma*[5]

	9.85%	9.50%	9.25%	9.00%	8.75%	8.50%	8.25%
50%	2.63	2.56	2.51	2.46	2.40	2.35	2.30
49%	2.59	2.52	2.47	2.42	2.37	2.32	2.26
48%	2.55	2.48	2.43	2.38	2.33	2.28	2.23
47%	2.52	2.45	2.40	2.35	2.30	2.25	2.20
46%	2.48	2.41	2.36	2.32	2.27	2.22	2.17
45%	2.45	2.38	2.34	2.29	2.24	2.19	2.15
44%	2.42	2.35	2.31	2.26	2.22	2.17	2.12
43%	2.39	2.33	2.28	2.24	2.19	2.15	2.10
42%	2.36	2.30	2.26	2.21	2.17	2.13	2.08
41%	2.34	2.28	2.23	2.19	2.15	2.10	2.06
40%	2.31	2.25	2.21	2.16	2.12	2.08	2.04
39%	2.28	2.22	2.18	2.14	2.10	2.06	2.02
38%	2.25	2.20	2.16	2.12	2.08	2.04	2.00
37%	2.22	2.17	2.13	2.09	2.05	2.01	1.98

[4] Based on 2025 pre-tax earnings.
[5] Based on 2026 pre-tax earnings.

While the information in Tables 1 and 2 provide *pro forma* Earnings Test calculations for 2026 and 2027, the Earnings Test is dependent on the Company's actual financial results. Actual financial results can be impacted by many factors, including electricity sales, the economy, severe weather and capital markets. It is also dependent on interest rates determined by capital markets at the time debt is issued.

The Earnings test has ranged from 2.18 to 2.41 times for the Company's past six issues of First Mortgage Bonds,[6] with an average of 2.31 times.[7] For Newfoundland Power's most recent bond issues in 2023 and 2022, the Earnings Test was 2.32 and 2.37 times, respectively.

Newfoundland Power needs to maintain access to capital markets at reasonable costs in all economic and market conditions. Due to the long-term nature of utility investments, the continued ability to access capital markets to issue First Mortgage Bonds requires a long-term view. Further, a certain degree of financial flexibility is reasonably required to respond to unforeseen events that may impact the financial results of the Company.

[6] This includes: (i) Series AS bonds at 2.32 times in 2023; (ii) Series AR bonds as 2.37 times in 2022; (iii) Series AQ bonds at 2.32 times in 2020; (iv) Series AP bonds at 2.41 times in 2017; (v) Series AO bonds at 2.26 times in 2015; and (vi) Series AN bonds at 2.18 times in 2013.

[7] ((2.32 + 2.37 + 2.32 + 2.41 + 2.26 + 2.18))/6 = 2.31).