Q. Provide the basis for the statement on page 31, lines 2-3 that the Company believes that the bottom level of the interest coverage range previously set by the Board (2.4 times) was too low.

A. The Company believes that it will be extremely difficult to maintain an A bond rating if interest coverage is maintained at the bottom level of the interest coverage (i.e., 2.4 times) previously set by the Board in Order No. P.U. 16 (1998-99).

On October 19, 1998, the Canadian Bond Rating Service (CBRS) issued a rating opinion that downgraded Newfoundland Power's First Mortgage Bonds from single A to A(Low). The CBRS report on the downgrade, which is provided as Attachment C to the Company's response to Request for Information CA-215, refers to a projected decline in coverage ratios, from 2.7 times in 1997 to 2.4 times in 1998, as being a contributor to the downgrade. The CBRS report on the Company for 2000 (Attachment E to the Company's response to Request for Information CA-215) continued to cite the lower interest coverage ratio as a credit risk.

As shown in Exhibit BVP-2, page 3, before the impact of the purchase of Aliant Telecom Inc. joint use poles and tax refunds, which the Company considered extraordinary events, the interest coverage ratio for 2000 and 2001 would have been 2.38 times. This is marginally below the bottom level of 2.40 times previously set by the Board.

As noted in the Prepared Testimony of Kathleen C. McShane, when the Standard & Poors rating agency (S&P) combined its operations with CBRS it assigned an A rating to Newfoundland Power's First Mortgage Bonds. In Ms. McShane's opinion, set out at page 10 of her Prepared Testimony, Newfoundland Power's business risk profile score would be no less than 3. The S&P financial guidelines for an A rating for a company with a business risk profile score of 3, as set out in Table 1 at page 10 of the Prepared Testimony of Kathleen C. McShane, includes an interest coverage range of 2.8 to 3.4 times. The further the Company's interest coverage moves away from the recommended coverage the greater the risk of a credit rating downgrade.

Considering these factors, the Company believes that the bottom level of the interest coverage range previously set by the Board was too low. The Company has targeted its interest coverage over the longer term to be in the range of 2.5 to 2.7 times. The Company believes that maintaining interest coverage within 2.5 to 2.7 times is an essential requirement to sustain the Company's credit worthiness as measured by its A bond rating.