

1 **Q. Reference Evidence of Dr. Sean Cleary dated September 25, 2018**
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3 **Page 27, Table 10: The Canadian regulated utilities listed in Table 10 include**
4 **crown corporations. Explain whether credit rating agencies view credit metrics**
5 **for crown corporations differently than investor owned utilities and whether**
6 **crown corporations are appropriate comparators for investor owned utilities.**
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8 A. Dr. Cleary cannot say for certain if rating agencies apply specific criteria when
9 evaluating the credit metrics for crown corporations. However, it is clear that the
10 fact that the debt of crown corporations is guaranteed by the respective province is
11 an important factor (if not the most important factor) in determining the credit
12 ratings of these utilities. For example, the DBRS credit reports referenced to obtain
13 the data for Table 10 of Dr. Cleary's evidence indicate clearly on the 1st page of
14 those reports that the debt of both Hydro-Quebec and Saskatchewan Power are
15 guaranteed by their respective provinces. In addition, the number one strength under
16 "Ratings Considerations" is that the crown corporation's debt is guaranteed by the
17 province.
18

19 The fact that rating agencies consider this relationship is evident in the debt rating
20 for Hydro-Quebec, which is A(high) despite having below average credit metrics
21 (i.e., Total Debt to Capital of 66.6%, CF/Debt of 12.1% and EBIT Interest Coverage
22 of 2.15 versus averages of 58.69%, 15.08% and 2.41 respectively). It is even more
23 obvious in the AA rating of Saskatchewan Power despite having even worse credit
24 metrics than Hydro-Quebec (i.e., Total Debt to Capital, CF/Debt and EBIT Interest
25 Coverage metrics of 75.2%, 8.9% and 1.49 respectively).
26

27 Dr. Cleary would note that he provided the metrics for these crown corporations for
28 information purposes, and notes that he provided the averages and medians for all
29 credit metrics after both including and excluding them. The resulting average and
30 median credit metrics were virtually the same either way, and NP's metrics were
31 superior to all of the calculated averages (medians).