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1 Q. With reference to NLH's 2005 Annual Financial Statements and those of the  
2 four preceding years, the "Long-Term Debt" note accompanying these  
3 financial statements details the gross amounts of each of Hydro's  
4 outstanding long-term debt issues and then deducts an amount for "sinking  
5 fund investments in own debentures" to get an aggregate net amount  
6 outstanding for Hydro's long-term debt issues, but without indicating what  
7 amounts of the sinking fund investments are associated with each of the  
8 individual series of bonds/debentures that have some sort of sinking fund  
9 requirement. Therefore, in this connection, would you please address the  
10 following questions.

11

12 (a) Describe what are the sinking fund provisions (especially amounts and  
13 dates) for each of Hydro's V, X, Y, AB, and AD debenture series and  
14 how these sinking fund provisions are met or carried out — that is, are  
15 specific debentures called in from investors or does the Company buy  
16 a certain amount of debentures in the bond market, and, in either  
17 case, does the Company hold the debentures in its Treasury or cancel  
18 them, or are the sinking fund arrangements handled in some other  
19 way? If the debentures are held in the Company's Treasury, what  
20 happens to the interest earned on them, and where does this interest  
21 show up in the Company's financial statements? Please describe any  
22 contingencies or discretionary elements with respect to the size and  
23 timing of these sinking fund obligations.

24

25 (b) What is the ultimate economic effect of the operation of the sinking  
26 fund arrangements inquired about in (a)? Does the net interest  
27 expense of each of the affected issues go down over time as the  
28 sinking fund payments or investments are made?

1 If not, why not?

2  
3 (c) For each of the debenture series referred to in (a), what are the  
4 scheduled or required minimum sinking fund payments or investments  
5 for 2006, 2007, 2008, 2009, and 2010, and what are the dates (if any)  
6 associated with these requirements?

7  
8 (d) Please separate the figures for "Required repayments of long-term  
9 debt and sinking fund requirements over the next five years" on page  
10 40 of the Company's 2005 Annual Report between (i) Hydro and  
11 CF(L)Co amounts and, within the Hydro portion, (ii) separate the  
12 amounts between repayments (on debt maturities) and sinking fund  
13 requirements.

14  
15 A. (a) Please refer to IC 113 NLH and IC 114 NLH.

16  
17 Hydro's sinking fund investments are in securities that most closely  
18 match the characteristics of the underlying debenture, with a focus on  
19 securities of similar credit quality and maturity.

20  
21 Sinking fund investments are normally bought and held until maturity,  
22 which usually coincides with the maturity of the underlying debenture  
23 issue. Interest earned on sinking fund investments is accrued monthly  
24 and is reported on the Company's financial statements as a  
25 component of Interest.

(b) Interest on sinking fund investments increase each year as required cash contributions are made. This cash is then invested in appropriate securities. Sinking fund earnings are applied as a credit to interest expense each year.

(c) Please refer to IC 113 NLH. The contribution dates are the same each year and are as follows:

Series V	June 15
Series X	July 14
Series Y	February 27
Series AB	August 27
Series AD	July 14

		(\$Millions)				
		<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<u>Hydro</u>						
	Debt Maturity	200.2	0.1	200.2	0.2	
	Sinking Funds	<u>8.2</u>	<u>8.2</u>	<u>8.2</u>	<u>8.2</u>	<u>8.2</u>
		208.4	8.3	208.4	8.4	8.2