

Q: Re: Schedule 2-A, Page 16.

- (a) All other things being equal, would Dr. Cannon's forecast embedded cost of debt for 2008 change if, during the review of the Automated Adjustment Mechanism in the fall of 2007, it is determined that Hydro's cost of issuing long-term debt (30-year term) on the first ten trading days in the month of October is 8%?
- (b) Please reflect the changes on a revised Schedule 2-A, page 18.
- (c) Please reflect the change in WACC and return on rate base that would flow from such revised assumptions in a table similar in format to Table 1, page 3 of Exhibit MBG-1.
- (d) If this revised calculation results in a return on rate base outside of the range, please confirm that a change in rates (effective January 1) would result.

A: (a) Dr. Cannon's proposal is that the embedded cost of debt (ECD) value to be used in Hydro's Automatic Adjustment Mechanism (AAM) for 2008 would be established by the Board at the current hearing and **not** be changed during the term of the AAM as result of any evolving capital market conditions. So, the answer to part (a) of the question is "no".

As Dr. Cannon understands Hydro's AAM proposal, the trigger for any possible early review of the AAM by the Board is an after-the-fact comparison of Hydro's actual embedded cost of debt (ECD) with the ECD built into the AAM that then leads to Hydro's realized return on regulated equity (ROE) deviating from its allowed ROE by 100 basis points or more, and **not** any change in the forecasted ECD for the subsequent year, as suggested in the question.

Dr. Cannon's forecast for Hydro's ECD for 2008 in this hearing can change only on the basis of what he knows or can reasonably forecast at the present time. In this regard, Hydro's response to CA 212 NLH, in which it has provided its "Regulated Activities Financial Projection: 2007 to 2011", has enabled Dr. Cannon to update his forecast of Hydro's likely ECD for years 2007 through 2010. His revised Schedules 1-A through 4-B are attached to this RFI Response. It is still important to note, however, that in his revised Schedules, Dr. Cannon is relying on the information filed in the hearing to date and that these Schedules and the forecasts of the ECD that they contain may need to be re-visited in the event that Hydro files further updated information that bears upon the ECD for years 2007 through 2010.

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- (b) There are no changes to reflect other than those shown in revised Schedules 1-A through 4-B. Moreover, if Dr. Cannon were to reconsider his forward interest rate forecasts during this hearing, none of the figures in his Schedules for 2008 and beyond would be based on “Hydro’s cost of issuing long-term debt (30-year term) on the first ten trading days in the month of October [2007].”
- (c) In addition to the reasons set out in (a) and (b), Dr. Cannon cannot comply with this request because he has not provided any evidence about what he expects or believes Hydro’s appropriate ROE for 2008 – an essential component of the requested WACC and RORB calculations – will be.
- (d) Dr. Cannon cannot provide the requested confirmation because he has not attempted to forecast and calculate the required input values to make such a determination. See his response to part (c).

Schedule 1-A (Revised)

**Newfoundland and Labrador Hydro
Forecast Average Cost of Debt
As At December 31
(\$000s)**

Series	Interest Rate %	Year of Issue	Year of Maturity	<u>Forecast 2006</u>	<u>Proposed 2007</u>
AC	5.05	2001	2006		
AA	5.50	1998	2008	200.0	200.0
V	10.50	1989	2014	125.0	125.0
X	10.25	1992	2017	150.0	150.0
Y	8.40	1996	2026	300.0	300.0
AB	6.65	2001	2031	300.0	300.0
AD	5.70	2003	2033	125.0	125.0
2006 new issue	4.30	2006	2016	225.0	225.0
2008 new issue	4.40	2008	?		
Total debentures				1425.0	1425.0
Capital Leases				0.5	0.3
Total long-term debt				1425.5	1425.3
Promissory notes				106.2	78.6
Less: Sinking funds				-173.5	-192.8
Non-regulated allocated debt				-71.2	-69.2
Unamortized debt discount & financing				-3.4	-2.8
Total Debt				<u>1283.6</u>	<u>1239.2</u>
Average Debt					<u><u>1261.4</u></u>
Embedded Cost of Debt (\$)					
Gross Interest				105.169	
Amortization of debt issue expenses				0.633	
Amortization of foreign exchange loss				2.157	
Guarantee fee				13.577	
Non-regulated debt interest allocation				-5.200	
Sinking fund interest				-11.187	105.149
Embedded Cost of Debt (%)					8.336%

Schedule 1-B (Revised)
(\$000s)

Canadian Bond Interest

<u>Issue</u>	<u>Maturity</u>	<u>Year-end 2006-12-31</u>	<u>Year-end 2007-12-31</u>	<u>Average</u>	<u>Interest 2007-12-31</u>
5.50%	2008-04-30	200,000	200,000	200,000	11,000
10.50%	2014-06-15	125,000	125,000	125,000	13,125
4.30%	2016-10-01	225,000	225,000	225,000	9,675
10.25%	2017-07-14	150,000	150,000	150,000	15,375
8.40%	2026-02-27	300,000	300,000	300,000	25,200
6.65%	2031-08-27	300,000	300,000	300,000	19,950
5.70%	2033-07-14	125,000	125,000	125,000	7,125
	2008 new issue				
		1,425,000	1,425,000	1,425,000	101,450

Capital Leases

5.476%	494	337	415	23
	494	337	415	23

Short-Term Debt

4.00%	106,200	78,600	92,400	3,696
	106,200	78,600	92,400	3,696

Gross Interest Expense 105,169

Discount & Issues Expense

<u>Issue</u>	<u>Maturity</u>	<u>Year-end 2006-12-31</u>	<u>Year-end 2007-12-31</u>	<u>Average</u>	<u>Amortization 2007-12-31</u>
5.50%	2008-04-30	362	91	227	272
10.50%	2014-06-15	344	298	321	46
4.30%	2016-10-01	1,817	1,631	1,724	186
10.25%	2017-07-14	605	548	577	57
8.40%	2026-02-27	5,534	5,246	5,390	289
6.65%	2031-08-27	-6,646	-6,377	-6,511	-269
5.70%	2033-07-14	1,393	1,341	1,367	52
4.50%	2008 new issue				
		3,409	2,778	3,094	633

Sinking Fund

<u>Sinking Fund</u>	<u>Estimated Opening Balance</u>	<u>Annual Contribution</u>	<u>Estimated Annual Earnings</u>	<u>Estimated Average Balance</u>	<u>Estimated Average Earning Rate</u>	<u>Estimated Closing Balance</u>
Total	173,463	8,150	11,187	183,131	6.11%	192,800

**Guarantee Fee
Canadian Bonds**

<u>Issue</u>	<u>Maturity</u>	<u>Year-end 2006-12-31</u>
5.50%	2008-04-30	200,000
10.50%	2014-06-15	125,000
4.30%	2016-10-01	225,000
10.25%	2017-07-14	150,000
8.40%	2026-02-27	300,000
6.65%	2031-08-27	300,000
5.70%	2033-07-14	125,000
4.50%	2008 new issue	
		1,425,000

Short-Term Debt	106,200
Sinking Funds	-173,463
Total Guaranteed Debt	1,357,737
Guarantee Fee @ 1%	13,577

Schedule 2-A (Revised)

**Newfoundland and Labrador Hydro
Forecast Average Cost of Debt
As At December 31
(\$000s)**

Series	Interest Rate %	Year of Issue	Year of Maturity	<u>Forecast 2007</u>	<u>Proposed 2008</u>
AA	5.50	1998	2008	200.0	-
V	10.50	1989	2014	125.0	125.0
X	10.25	1992	2017	150.0	150.0
Y	8.40	1996	2026	300.0	300.0
AB	6.65	2001	2031	300.0	300.0
AD	5.70	2003	2033	125.0	125.0
2006 new issue	4.30	2006	2016	225.0	225.0
2008 new issue	4.40	2008	?	<u>-</u>	<u>200.0</u>
Total debentures				1425.0	1425.0
Capital Leases				0.34	0.18
Total long-term debt				1425.34	1425.18
Promissory notes				78.6	56.0
Less: Sinking funds				-192.8	-213.3
Non-regulated allocated debt				-69.2	-70.2
Unamortized debt discount & financing				<u>-2.8</u>	<u>-4.1</u>
Total Debt				<u>1239.2</u>	<u>1193.6</u>
Average Debt					<u><u>1216.4</u></u>
Embedded Cost of Debt (\$)					
Gross Interest				103.056	
Amortization of debt issue expenses				0.632	
Amortization of foreign exchange loss				2.157	
Guarantee fee				13.108	
Non-regulated debt interest allocation				-5.200	
Sinking fund interest				-12.350	101.403
Embedded Cost of Debt (%)					8.336%

Schedule 2-B (Revised)
(\$000s)

Canadian Bond Interest

<u>Issue</u>	<u>Maturity</u>	<u>Year-end 2007-12-31</u>	<u>Year-end 2008-12-31</u>	<u>Average</u>	<u>Interest 2008-12-31</u>
5.50%	2008-04-30	200,000	-	100,000	5,500
10.50%	2014-06-15	125,000	125,000	125,000	13,125
4.30%	2016-10-01	225,000	225,000	225,000	9,675
10.25%	2017-07-14	150,000	150,000	150,000	15,375
8.40%	2026-02-27	300,000	300,000	300,000	25,200
6.65%	2031-08-27	300,000	300,000	300,000	19,950
5.70%	2033-07-14	125,000	125,000	125,000	7,125
4.40%	2008 new issue		200,000	100,000	4,400
		1,425,000	1,425,000	1,425,000	100,350

Capital Leases

5.476%	337	181	259	14
	337	181	259	14

Short-Term Debt

4.000%	78,600	56,020	67,310	2,692
	78,600	56,020	67,310	2,692

Gross Interest Expense 103,056

Discount & Issues Expense

<u>Issue</u>	<u>Maturity</u>	<u>Year-end 2007-12-31</u>	<u>Year-end 2008-12-31</u>	<u>Average</u>	<u>Amortization 2008-12-31</u>
5.50%	2008-04-30	91	-	46	91
10.50%	2014-06-15	298	252	275	46
4.30%	2016-10-01	1,631	1,445	1,538	186
10.25%	2017-07-14	548	491	520	57
8.40%	2026-02-27	5,246	4,958	5,102	289
6.65%	2031-08-27	-6,377	-6,108	-6,243	-269
5.70%	2033-07-14	1,341	1,289	1,315	52
4.40%	2008 new issue	-	1,800	900	180
		2,778	4,127	3,453	632

Sinking Fund

<u>Sinking Fund</u>	<u>Estimated Opening Balance</u>	<u>Annual Contribution</u>	<u>Estimated Annual Earnings</u>	<u>Estimated Average Balance</u>	<u>Estimated Average Earning Rate</u>	<u>Estimated Closing Balance</u>
Total	192,800	8,150	12,350	203,050	6.08%	213,300

**Guarantee Fee
Canadian Bonds**

<u>Issue</u>	<u>Maturity</u>	<u>Year-end 2007-12-31</u>
5.50%	2008-04-30	200,000
10.50%	2014-06-15	125,000
4.30%	2016-10-01	225,000
10.25%	2017-07-14	150,000
8.40%	2026-02-27	300,000
6.65%	2031-08-27	300,000
5.70%	2033-07-14	125,000
4.40%	2008 new issue	
		1,425,000

Short-Term Debt	78,600
Sinking Funds	-192,800
Total Guaranteed Debt	1,310,800
Guarantee Fee @ 1%	13,108

Schedule 3-A (Revised)

**Newfoundland and Labrador Hydro
Forecast Average Cost of Debt
As At December 31
(\$000s)**

Series	Interest Rate %	Year of Issue	Year of Maturity	<u>Forecast 2008</u>	<u>Proposed 2009</u>
V	10.50	1989	2014	125.0	125.0
X	10.25	1992	2017	150.0	150.0
Y	8.40	1996	2026	300.0	300.0
AB	6.65	2001	2031	300.0	300.0
AD	5.70	2003	2033	125.0	125.0
2006 new issue	4.30	2006	2016	225.0	225.0
2008 new issue	4.40	2008	?	<u>200.0</u>	<u>200.0</u>
Total debentures				1425.0	1425.0
Capital Leases				0.18	0.00
Total long-term debt				1425.18	1425.00
Promissory notes				56.0	70.3
Less: Sinking funds				-213.3	-235.1
Non-regulated allocated debt				-70.2	-74.4
Unamortized debt discount & financing				<u>-4.1</u>	<u>-3.6</u>
Total Debt				<u>1193.6</u>	<u>1182.2</u>
Average Debt					<u><u>1187.9</u></u>
Embedded Cost of Debt (\$)					
Gross Interest				101.781	
Amortization of debt issue expenses				0.541	
Amortization of foreign exchange loss				2.157	
Guarantee fee				12.677	
Non-regulated debt interest allocation				-5.500	
Sinking fund interest				-13.650	98.006
Embedded Cost of Debt (%)					8.250%

Schedule 3-B (Revised)
(\$000s)

Canadian Bond Interest

<u>Issue</u>	<u>Maturity</u>	<u>Year-end 2008-12-31</u>	<u>Year-end 2009-12-31</u>	<u>Average</u>	<u>Interest 2009-12-31</u>
10.50%	2014-06-15	125,000	125,000	125,000	13,125
4.30%	2016-10-01	225,000	225,000	225,000	9,675
10.25%	2017-07-14	150,000	150,000	150,000	15,375
8.40%	2026-02-27	300,000	300,000	300,000	25,200
6.65%	2031-08-27	300,000	300,000	300,000	19,950
5.70%	2033-07-14	125,000	125,000	125,000	7,125
4.40%	2008 new issue	200,000	200,000	200,000	8,800
		1,225,000	1,425,000	1,425,000	99,250

Capital Leases

5.476%	181	-	91	5
	181	-	91	5

Short-Term Debt

4.000%	56,020	70,300	63,160	2,526
	56,020	70,300	63,160	2,526

Gross Interest Expense 101,781

Discount & Issues Expense

<u>Issue</u>	<u>Maturity</u>	<u>Year-end 2008-12-31</u>	<u>Year-end 2009-12-31</u>	<u>Average</u>	<u>Amortization 2009-12-31</u>
10.50%	2014-06-15	252	206	229	46
4.30%	2016-10-01	1,445	1,259	1,352	186
10.25%	2017-07-14	491	434	463	57
8.40%	2026-02-27	4,958	4,669	4,814	289
6.65%	2031-08-27	-6,108	-5,839	-5,974	-269
5.70%	2033-07-14	1,289	1,237	1,263	52
4.40%	2008 new issue	1,800	1,620	1,710	180
		4,127	3,586	3,857	541

Sinking Fund

<u>Sinking Fund</u>	<u>Estimated Opening Balance</u>	<u>Annual Contribution</u>	<u>Estimated Annual Earnings</u>	<u>Estimated Average Balance</u>	<u>Estimated Average Earning Rate</u>	<u>Estimated Closing Balance</u>
Total	213,300	8,150	13,650	224,200	6.09%	235,100

**Guarantee Fee
Canadian Bonds**

<u>Issue</u>	<u>Maturity</u>	<u>Year-end 2008-12-31</u>
10.50%	2014-06-15	125,000
4.30%	2016-10-01	225,000
10.25%	2017-07-14	150,000
8.40%	2026-02-27	300,000
6.65%	2031-08-27	300,000
5.70%	2033-07-14	125,000
4.40%	2008 new issue	200,000
		1,425,000

Short-Term Debt	56,020
Sinking Funds	-213,300
Total Guaranteed Debt	1,267,720
Guarantee Fee @ 1%	12,677

Schedule 4-A (Revised)

**Newfoundland and Labrador Hydro
Forecast Average Cost of Debt
As At December 31
(\$000s)**

Series	Interest Rate %	Year of Issue	Year of Maturity	<u>Forecast 2009</u>	<u>Proposed 2010</u>
V	10.50	1989	2014	125.0	125.0
X	10.25	1992	2017	150.0	150.0
Y	8.40	1996	2026	300.0	300.0
AB	6.65	2001	2031	300.0	300.0
AD	5.70	2003	2033	125.0	125.0
2006 new issue	4.30	2006	2016	225.0	225.0
2008 new issue	4.40	2008	?	<u>200.0</u>	<u>200.0</u>
Total debentures				1425.0	1425.0
Capital Leases				0.0	0.0
Total long-term debt				1425.0	1425.0
Promissory notes				70.3	70.6
Less: Sinking funds				-235.1	-258.2
Non-regulated allocated debt				-74.4	-78.9
Unamortized debt discount & financing				<u>-3.6</u>	<u>-3.0</u>
Total Debt				<u>1182.2</u>	<u>1155.5</u>
Average Debt					<u><u>1168.8</u></u>
Embedded Cost of Debt (\$)					
Gross Interest				102.068	
Amortization of debt issue expenses				0.541	
Amortization of foreign exchange loss				2.157	
Guarantee fee				12.602	
Non-regulated debt interest allocation				-5.800	
Sinking fund interest				-14.950	96.618
Embedded Cost of Debt (%)					8.266%

Schedule 4-B (Revised)
(\$000s)

Canadian Bond Interest

<u>Issue</u>	<u>Maturity</u>	<u>Year-end 2009-12-31</u>	<u>Year-end 2010-12-31</u>	<u>Average</u>	<u>Interest 2010-12-31</u>
10.50%	2014-06-15	125,000	125,000	125,000	13,125
4.30%	2016-10-01	225,000	225,000	225,000	9,675
10.25%	2017-07-14	150,000	150,000	150,000	15,375
8.40%	2026-02-27	300,000	300,000	300,000	25,200
6.65%	2031-08-27	300,000	300,000	300,000	19,950
5.70%	2033-07-14	125,000	125,000	125,000	7,125
4.40%	2008 new issue	200,000	200,000	200,000	8,800
		1,225,000	1,425,000	1,425,000	99,250

Capital Leases

5.476%	-	-	-	-
	-	-	-	-

Short-Term Debt

4.000%	70,300	70,600	70,450	2,818
	70,300	70,600	70,450	2,818

Gross Interest Expense 102,068

Discount & Issues Expense

<u>Issue</u>	<u>Maturity</u>	<u>Year-end 2009-12-31</u>	<u>Year-end 2010-12-31</u>	<u>Average</u>	<u>Amortization 2010-12-31</u>
10.50%	2014-06-15	206	160	183	46
4.30%	2016-10-01	1,259	1,073	1,166	186
10.25%	2017-07-14	434	377	406	57
8.40%	2026-02-27	4,669	4,380	4,525	289
6.65%	2031-08-27	-5,839	-5,570	-5,705	-269
5.70%	2033-07-14	1,237	1,185	1,211	52
4.40%	2008 new issue	1,620	1,440	1,530	180
		3,586	3,045	3,316	541

Sinking Fund

<u>Sinking Fund</u>	<u>Estimated Opening Balance</u>	<u>Annual Contribution</u>	<u>Estimated Annual Earnings</u>	<u>Estimated Average Balance</u>	<u>Estimated Average Earning Rate</u>	<u>Estimated Closing Balance</u>
Total	235,100	8,150	14,950	246,650	6.06%	258,200

**Guarantee Fee
Canadian Bonds**

<u>Issue</u>	<u>Maturity</u>	<u>Year-end 2009-12-31</u>
10.50%	2014-06-15	125,000
4.30%	2016-10-01	225,000
10.25%	2017-07-14	150,000
8.40%	2026-02-27	300,000
6.65%	2031-08-27	300,000
5.70%	2033-07-14	125,000
4.40%	2008 new issue	200,000
		1,425,000

Short-Term Debt	70,300
Sinking Funds	-235,100
Total Guaranteed Debt	1,260,200
Guarantee Fee @ 1%	12,602