

- 1    Q.    Provide the impact on Hydro's test year revenue requirement of employing  
2           the balance sheet method for preparing cash forecasts. (NP-25 NLH)  
3  
4  
5    A.    Test year revenue requirement would be increased by approximately \$0.9  
6           million under the balance sheet method as outlined in the attached schedule.

**NP 111 NLH**  
**2006 NLH General Rate Application**

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	(millions)	
	<b>Accounts Payable</b>	<b>Promissory Notes</b>
As filed 2006	16.9	113.0
As adjusted*	46.0	83.9
Change	29.1	-29.1
As filed 2007	14.4	131.7
As adjusted	46.0	100.1
Change	31.6	-31.6

\* Based on four year average 2002 to 2005.

	Average Debt Outstanding	Prom Note Interest	G Fee Impact	Net Interest	Cost of Debt
As filed	\$ 1,267	\$ 5.0		\$ 106.3	8.39%
As adjusted	\$ 1,237	\$ 3.9	\$ (0.3)	\$ 104.9	8.48%

**Weighted Average Cost of Capital (As Filed)**

	Balance 31-Dec-06	Balance 31-Dec-07	Average	Weight	Financing Costs	Weighted Avg. Cost of Capital
Debt	1,290	1,244	1,267	83.51%	8.39%	7.00%
Employee Future Benefits	35	38	37	2.42%	0.00%	0.00%
Retained Earnings	209	218	214	14.08%	5.20%	0.73%
	1,535	1,500	1,517			7.74%

**Weighted Average Cost of Capital (As Adjusted)**

	Balance 31-Dec-06	Balance 31-Dec-07	Average	Weight	Financing Costs	Weighted Avg. Cost of Capital
Debt	1,261	1,212	1,237	83.17%	8.48%	7.05%
Employee Future Benefits	35	38	37	2.47%	0.00%	0.00%
Retained Earnings	209	218	214	14.36%	5.20%	0.75%
	1,506	1,468	1,487			7.80%

	Return as Filed	Return as Adjusted
Ratebase available for equity return	\$ 98.9	\$ 99.7
Rural portion	\$ 14.9	\$ 15.0
	\$ 113.8	\$ 114.7

Note: Retained earnings impacts are minimal and have not been factored into this analysis.