

- 1 Q. Provide updates for the 2006 and 2007 forecast columns to Tables 1 and 2  
2 and Schedule I, pages 1, 2, 4 and 6 of the Finance and Accounting Evidence  
3 for the revision related to Interest Earned. (NP-29)  
4  
5  
6 A. The following table and the attached schedules have been revised to show  
7 correct treatment of interest earned only, as requested. Table 2 does not  
8 change.

**Table 1 (taken from Finance and Accounting: Evidence)**

<b>Weighted Average Cost of Capital 2007 Test Year</b>			
	<b><u>Cost Rate</u></b>	<b><u>Capital Structure Ratios</u></b>	<b><u>Weighted Component</u></b>
Debt	8.39%	83.58%	7.01%
Employee Future Benefits	0.00%	2.42%	0.00%
Equity	5.20%	14.00%	0.73%
Weighted Average Cost of Capital			7.74%

**Newfoundland and Labrador Hydro**  
**Financial Results and Forecasts**  
**Income Statement**  
**(\$000s)**

Schedule I  
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		Actual				Forecast	Proposed
		2002	2003	2004	2005	2006	2007
1	Revenue						
2	Energy Sales	308,215	321,139	342,622	349,889	344,380	441,375
3	Other Revenue	1,589	2,257	2,240	2,253	1,940	2,021
4	Total Revenue	<u>309,804</u>	<u>323,396</u>	<u>344,862</u>	<u>352,142</u>	<u>346,320</u>	<u>443,396</u>
5							
6	Expenses						
7	Operating Expenses	88,515	87,488	85,951	89,877	89,289	94,884
8	Fuels	73,249	84,594	83,109	84,537	83,264	155,614
9	Purchased Power	15,881	26,064	35,343	36,156	37,716	38,348
10	Depreciation and Loss on Disposal	33,870	35,700	36,611	38,771	37,475	40,762
11	Interest	88,547	92,138	96,527	99,479	102,661	103,715
12	Total Expenses	<u>300,062</u>	<u>325,984</u>	<u>337,541</u>	<u>348,820</u>	<u>350,405</u>	<u>433,323</u>
13							
14	Net Income	<u>9,742</u>	<u>(2,588)</u>	<u>7,321</u>	<u>3,322</u>	<u>(4,085)</u>	<u>10,073</u>
15							
16	Retained Earnings						
17	Balance at Beginning of the Period	269,770	213,789	204,927	211,012	212,530	208,445
18	Dividends	65,723	6,274	1,236	1,804	0	2,518
19	Balance at End of the Period	<u>213,789</u>	<u>204,927</u>	<u>211,012</u>	<u>212,530</u>	<u>208,445</u>	<u>216,000</u>
20							
21	Rate of Return on Regulated Equity	4.03%	-1.24%	3.52%	1.57%	-1.94%	4.75%

**Newfoundland and Labrador Hydro**  
**Financial Results and Forecasts**  
**Balance Sheet**  
**(\$000s)**

Schedule I  
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	Actual				Forecast	Proposed
	2002	2003	2004	2005	2006	2007
<b>1 Assets</b>						
2 Capital assets						
3 Capital assets in service	1,755,560	1,902,508	1,920,225	1,936,965	1,973,736	2,016,023
4 Less: Contributions in aid of construction	87,569	85,055	85,082	84,626	88,982	92,256
5 Accumulated depreciation	433,572	456,695	481,799	506,376	528,004	560,713
6	1,234,419	1,360,758	1,353,344	1,345,963	1,356,750	1,363,054
7 Construction in progress	104,447	1,432	3,673	7,519	6,217	275
8	1,338,866	1,362,190	1,357,017	1,353,482	1,362,967	1,363,329
9 Current assets						
10 Accounts receivable	46,570	44,646	56,024	57,269	58,015	65,754
11 Fuels and supplies at average cost	40,013	40,682	39,897	51,242	41,371	37,833
12 Prepaid expenses	2,201	2,052	1,587	1,859	2,071	2,160
13	88,784	87,380	97,508	110,370	101,457	105,747
14 Rate stabilization plans	124,765	155,705	137,041	93,065	33,350	(6,186)
15 Deferred Charges	88,771	88,662	84,643	84,783	88,833	85,216
16	1,641,186	1,693,937	1,676,209	1,641,700	1,586,607	1,548,106
17						
18 <b>Liabilities and Shareholder's Equity</b>						
19 Long-term debt	1,179,933	1,279,291	1,252,630	1,217,315	1,186,792	1,126,192
20 Current liabilities						
21 Bank indebtedness	4,129	5,679	7,387	4,596	0	0
22 Accounts payable and accrued liabilities	51,797	42,447	40,828	49,322	17,860	16,157
23 Accrued interest	27,215	30,168	30,056	29,284	31,270	31,267
24 Promissory notes	139,391	104,486	104,581	96,387	107,082	120,338
25	222,532	182,780	182,852	179,589	156,212	167,762
26 Employee future benefits	24,932	26,939	29,715	32,266	35,158	38,152
27 Shareholder's equity						
28 Retained earnings	213,789	204,927	211,012	212,530	208,445	216,000
29	1,641,186	1,693,937	1,676,209	1,641,700	1,586,607	1,548,106

**Newfoundland and Labrador Hydro  
Financial Results and Forecasts  
Capital Structure  
(\$000s)**

Schedule I  
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	<b>Actual</b>				<b>Forecast</b>	<b>Proposed</b>
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
1 <u>Regulated Capital Structure (\$):</u>						
2 Debt	1,319,324	1,383,777	1,357,211	1,313,702	1,293,874	1,246,530
3 less: Debt Discount and Financing Expenses	(3689)	(4377)	(3383)	(2469)	(3504)	(2861)
4 Net Debt	1,315,635	1,379,400	1,353,828	1,311,233	1,290,370	1,243,669
5 Employee future benefits	24,932	26,939	29,715	32,266	35,158	38,152
6 Retained Earnings	213,789	204,927	211,012	212,530	208,445	216,000
7 Total	<u>1,554,356</u>	<u>1,611,266</u>	<u>1,594,555</u>	<u>1,556,029</u>	<u>1,533,973</u>	<u>1,497,821</u>
8						
9 <u>Regulated Capital Structure (%):</u>						
10 Debt	84.64%	85.61%	84.90%	84.27%	84.12%	83.03%
11 Employee future benefits	1.60%	1.67%	1.86%	2.07%	2.29%	2.55%
12 Retained Earnings	13.75%	12.72%	13.23%	13.66%	13.59%	14.42%
13 Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
14						
15 <u>Regulated Average Capital Structure (%):</u>						
16 Debt		85.13%	85.26%	84.59%	84.19%	83.58%
17 Employee future benefits		1.64%	1.77%	1.97%	2.18%	2.42%
18 Retained Earnings		13.24%	12.98%	13.45%	13.62%	14.00%
19 Total		<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
20						
21 <u>Weighted Average Cost of Capital (WACC)</u>						
22 Embedded Cost of Debt		7.87%	7.80%	7.80%	7.80%	8.39%
23 Employee future benefits		0.00%	0.00%	0.00%	0.00%	0.00%
24 Retained Earnings		3.00%	5.83%	5.83%	5.83%	5.20%
25 WACC		<u>7.10%</u>	<u>7.41%</u>	<u>7.38%</u>	<u>7.36%</u>	<u>7.74%</u>

26

27

28 Note:

29

30 Average capital structure is the average of beginning of year and end of year balances.

**Newfoundland and Labrador Hydro**  
**Financial Results and Forecasts**  
**Rate of Return on Rate Base**  
**(\$000s)**

Schedule I  
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		<b>Actual</b>				<b>Forecast</b>	<b>Proposed</b>
		<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
1	Return on Regulated Equity	9,742	(2,588)	7,321	3,322	(4,085)	10,073
2							
3	<u>Interest expense</u>						
4	Gross Interest	95,159	103,941	104,936	101,153	102,796	101,398
5	Debt guarantee fee	12,170	13,908	14,587	14,099	13,995	13,645
6	Amortization of debt issue expenses	1,178	896	996	917	921	643
7	Amortization of foreign exchange losses	2,157	2,155	2,159	2,291	2,157	2,157
8	Allowance for funds used during construction	(7,679)	(7,254)	(3,595)	(518)	(1,276)	(1,021)
9	Interest Earned	(14,438)	(21,508)	(22,556)	(18,463)	(15,932)	(13,107)
10	Net interest	88,547	92,138	96,527	99,479	102,661	103,715
11							
12	Return on Rate Base	98,289	89,550	103,848	102,801	98,576	113,788
13							
14	Average Rate Base	1,356,207	1,422,412	1,476,726	1,475,561	1,483,067	1,491,183
15							
16	Rate of Return on Rate Base	7.25%	6.30%	7.03%	6.97%	6.65%	7.63%