

In reference to P.U. 37 (1981):

Q. Please provide the formula for the calculation of interest.

A. In Order No. P.U. 37 (1981) the Board directed that:

“For the purpose of calculating the rate to be used in determining Interest During Construction NLP will use the mid point of the rate of return on rate base on the percentage of funds used for net capital expenditures generated from operations and the prime bank rate on the balance of the funds used. This calculation is to be determined monthly.”

Each month the Company determines the amount of any internally generated revenue that is available for capital expenditures after payment of all operating expenses and dividends. This amount is compared to the value of capital expenditures for the month. If the amount of internally generated revenue exceeds the value of capital expenditures, then Interest During Construction (IDC) for the month is calculated on the basis of the mid point of the Company’s rate of return on rate base.

If in any given month there is no internally generated revenue available for capital expenditures after payment of all operating expenses and dividends, then IDC is calculated on the basis of the prevailing prime bank rate for the Company’s short-term borrowings.

If internally generated revenue, after payment of all operating expenses and dividends, is not sufficient to cover the full value of the Company’s capital expenditures for the month, then IDC will be calculated on the basis of a weighted average of the mid point of the rate of return on rate base and the prevailing prime bank rate.

The table below shows the calculation of the IDC rate for the month of June 2002.

Internally generated revenue (after expenses & dividends)	\$5,481
Capital expenditures for the month	6,324
Difference (portion of capital expenditures financed from external borrowings)	\$ 843
<u>Calculation of IDC</u>	
$\frac{\$5,481}{\$6,324} \times 10.06\% \text{ (mid point of rate of return)} = 8.7\%$	9.1% IDC rate (or 0.75% per month ¹)
$\frac{\$843}{\$6,324} \times 2.75\% \text{ (prevailing bank interest rate)} = 0.4\%$	
1. Based on 365 calendar days.	