

1 **Q. CA 25.0 NP**

2
3 **Reference: NP-14, Forecast Financial Statements, page 5**

4
5 **Preamble: NP's Forecast Financial Statements notes that "Average Short-term**
6 **interest rates are assumed to be 3.25% in 2005 and 4.00% in 2006."**

7
8 **Please provide a current forecast for short-term interest rates for 2006 and explain**
9 **the definition used for the 2006 average short-term interest rate and the method**
10 **used to derive NP's current forecast.**

11
12 **A. *Current Forecast***

13
14 The current forecast 2006 short term interest rate is 4.34% and is based on the economic
15 and financial forecast from the five major Canadian chartered banks.

16
17 Attachment A shows the 2006 forecast short-term interest rates based on the latest
18 available economic and financial forecasts from the five major Canadian chartered banks.

19
20 The forecast 2006 short-term interest rate of 4.0% included in the 2006 Accounting
21 Policy Application was based on the economic and financial forecasts from the five
22 major Canadian chartered banks as of June 30th, 2005.

23
24 *Definition*

25
26 The 2006 forecast short-term interest rate is defined as the average of the 3-month
27 treasury-bill rates based on the latest forecasts from the five major chartered banks plus
28 applicable stamping fees as required by the January 2005 Committed Credit Facility
29 Agreement approved by the Board in Order No. P.U. 1 (2005).

30
31 *Methodology*

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33 On a quarterly basis, the economic and financial forecasts of the five major Canadian
34 chartered banks are used to record the quarterly forecast interest rates for both the current
35 and subsequent year. From these quarterly forecasts, an average of the forecast rates from
36 all the five major banks is derived. This average is then added to the applicable stamping
37 fee to arrive at an overall average interest rate forecast.

38
39 Based on an analysis of rates available, the 3-month treasury-bill rates provide the most
40 accurate proxy for forecasting short-term interest rates.

Requests for Information

2006 Short-term Interest Rate Forecasts

	3 Month Treasury Bill Rates					<u>Average</u>	Credit Facility	Forecast
	<u>RBC¹</u>	<u>BMO²</u>	<u>Scotia³</u>	<u>CIBC⁴</u>	<u>TD⁵</u>		<u>Fee⁶</u>	<u>Rates⁷</u>
Q1 2006 F	3.85%	3.60%	3.50%	3.60%	3.80%	3.67%	0.575%	4.25%
Q2 2006 F	4.10%	4.03%	3.50%	3.45%	4.00%	3.82%	0.575%	4.39%
Q3 2006 F	4.10%	4.18%	3.50%	3.40%	3.75%	3.79%	0.575%	4.36%
Q4 2006 F	4.10%	4.45%	3.50%	3.40%	3.50%	3.79%	0.575%	4.37%
Average Rate	4.04%	4.07%	3.50%	3.46%	3.76%	3.77%	0.575%	4.34%

Notes:

¹ RBC Financial Group, *Financial Markets Monthly*, November 2005.

² BMO Financial Group, *North American Outlook*, November 2005.

³ Scotiabank Group, *Market Trends*, November 25, 2005.

⁴ CIBC World Markets Inc., *Monthly Indicators*, November 7, 2005.

⁵ TD Economics, *TD Quarterly Economic Forecast*, September 27, 2005.

⁶ Stamping Fee based on an 'A' bond rating. Committed Credit Facility Agreement, Schedule G, January 2005.

⁷ Is equal to the average rate plus the credit facility stamping fee.