

1   **Q.     Reference:   CA-NP-008**

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3       **According to Graph 1 provided in response to CA-NP-008, as well as the evidence**  
4       **provided in Table 4-9 on page 4-12 of Company evidence, NP's cost of debt has**  
5       **declined steadily from over 8.5% in 2005 to an expected level of just slightly over**  
6       **6% by 2017. Over this period, the equity ratio has remained steady, while the cost of**  
7       **equity (as proxied by the allowed ROE) has remained stable between 8.5% and**  
8       **9.0%. Does the Company agree that this decline in the cost of debt, combined with**  
9       **no change in either the cost of equity or the financing weights, implies that NP's cost**  
10      **of capital has declined significantly since 2005? If not, explain how this is possible?**  
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12   **A.**    The steady decline in Newfoundland Power's embedded cost of debt shown in Graph 1 of  
13           the response to Request for Information CA-NP-008 and referred to in this Request for  
14           Information is strongly influenced by the refinancing of maturing debt which was issued  
15           in the 1990s.

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17           Over the 2005 to 2015 period, the coupon rate on Newfoundland Power First Mortgage  
18           Bonds has declined by just under 1 % (from 5.441% to 4.446%). By comparison, the  
19           decline in the ratemaking return on equity allowed by the Board has been just under ½ of  
20           1 % (from 9.24 % to 8.80 %).

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22           Please see the response to Request for Information CA-NP-305.