Q. **Evidence of the Company page 3-6**

(a) **The Mercer pension study does not lay out the underlying economic assumptions used in the valuation of the going concern pension other than the assumption of 6.0% on total assets minus a margin for adverse deviations.**
Please indicate the specific forecast returns for each of the asset classes listed on page 15 of the Mercer Report.
Please indicate the magnitude of the "margin for adverse deviations" and how it was estimated.

(b) **On page 3-7 the average embedded debt cost is given as 7.60% for 2008 and increases to 7.69% for 2009 even though $65 m was issued in mortgage bonds at 6.61%, please explain how this happened?**

(c) **Please provide a table with all the outstanding debt, its maturity and cost with an explanation of how the 7.69% was estimated.**

(d) **Please provide the relevant extracts of the covenant restriction mentioned in footnote 37.**

(e) **Please provide full information of the credit facility from the banks (F-12) in terms of standby fees, upfront fees, credit spreads and drawdown costs.**

A. (a) Table 1 shows the long term expected returns for the asset classes listed on page 15 of the Mercer Report.

Table 1
Long Term Expected Returns

Asset Class	**Long Term Expected Return**
Canadian Equities	8.50%
US Equities	8.50%
Non-North American Equities	8.50%
Fixed Income	4.40%
Cash and short term	1.90%

The margin for adverse deviations is calculated to be 1.09% as at December 31, 2008. The selection of the margin takes into account the target asset mix of the pension fund, the asset classes in which the fund is invested and the risk associated with those asset classes.

(b) In May 2009, Newfoundland Power issued $65 million in First Mortgage Sinking Fund Bonds at a rate of 6.61% to finance its ongoing capital programs. The debt was issued for a term of 30 years representative of the average life of the assets being financed. The bond issue essentially refinanced existing short-term debt. The forecast average short-term borrowing rate for 2009 is 1.27%. Attachment A provides details of Newfoundland Power's forecast average cost of debt for 2009.

(c) Attachment A provides details of Newfoundland Power's forecast average cost of debt for 2009.

(d) The relevant passage from the Company's First Mortgage Bond Trust Deed is found in Article 6.2, which states as follows:

*6.2 **Earnings Test**. No Additional Bonds shall be certified and delivered hereunder unless the Net Earnings of the Company for the Earnings Period selected by the Directors shall have been at least two (2) times the maximum annual interest charges on all Bonds to be outstanding after the proposed issue of Additional Bonds.*

(e) In Order No. P.U. 1 (2005), the Board approved Newfoundland Power's issue of a $100,000,000 committed revolving term credit facility (the "Committed Credit Facility"). In Order No. P.U. 4 (2006), the Board approved an amendment to the Committed Credit Facility that extended the maturity date to January 1, 2009 and established the current pricing grid for drawdowns against the credit facility. In Order No. P.U. 22 (2008), the Board approved a second amendment to the Committed Credit Facility that extended the maturity date to August 29, 2011.

Attachment B is the original Committed Credit Facility agreement issued in January 2005. Attachment C is the January 2006 amendment to the Committed Credit Facility, which includes the current pricing grid as Schedule G. Attachment D is the August 2008 second amendment to the Committed Credit Facility.

Table 2 shows a summary of Newfoundland Power's credit facility costs based on the current pricing grid of the Committed Credit Facility.

Table 2
Committed Credit Facility Pricing
(%)

Stamping Fee	.675
Prime Rate Margin	0
Standby Fee	.1375
Utilization Fee	.0750

2009 Forecast Average Cost of Debt

Newfoundland Power Inc.
2009 Forecast Average Cost of Debt
($000's)

First Mortgage Sinking Fund Bonds

Series	Maturity	Cost	Amount
AD	2014	10.550%	30,553
AE	2016	10.900%	32,800
AF	2022	10.125%	33,200
AG	2020	9.000%	34,000
AH	2026	8.900%	34,835
AI	2028	6.800%	44,500
AJ	2032	7.520%	69,750
AK	2035	5.441%	57,000
AL	2037	5.901%	67,900
AM	2039	6.606%	64,350
			468,888

Credit Facility Debt	7,700	
Less: Deferred Debt Issue Costs	(2,979)	
Total Debt Outstanding at December 31, 2009	473,609	
Total Debt Outstanding at December 31, 2008	438,154	
Average Debt 2009	455,882	A
Finance Charges 2009	34,841	B
Average Cost of Debt 2009	7.64%	B/A