Volume 1, Section 3 – Finance

Q. (pages 20-21, and Section 3: Finance, page 58)

a. Please provide the Company's current best estimate of its gross capital expenditure requirements and external 31 financing requirements, annually for the years 2007 through 2012, both assuming that accrual accounting for its other post-employment benefits (OPEBs) (i) is, and (ii) is not adopted.

b. Under both assumptions with reference to the adoption of accrual accounting for OPEBs, when is it likely that the Company will next require a new medium or long-term debt issue, or a significant infusion of new equity capital, after the completion of the planned sale of $60 million in long-term debt in the summer of 2007?

A. (a) Table 1 provides Newfoundland Power's forecast capital expenditures for the period 2007 to 2012 assuming (i) the adoption of accrual accounting for OPEBs on January 1, 2008 and (ii) the Company continue to account for OPEBs on the cash basis.

Table 1
Forecast Capital Expenditures[1]
Including GEC
2007 to 2012
($000s)

	OPEBs on Cash Basis	OPEBs on Accrual Basis[2]
2007	62,851	62,851
2008	52,854	52,756
2009	56,412	56,257
2010	53,224	53,073
2011	53,908	53,773
2012	55,683	55,564

Table 1 shows that the proposed adoption of the accrual method of accounting would, if approved by the Board, not have a material impact on the Company's forecast capital expenditures.

[1] Forecast capital expenditures for 2007 are based on the 2007 Capital Budget approved in Order No. P.U. 30 (2006) and supplemental expenditures related to the Maple Valley Road Service building approved in Order No. P.U. 34 (2006). Forecast capital expenditures for 2008 to 2012 are based on the approved 2007 Capital Budget.

[2] Under the cash method of accounting for OPEBs, the amount capitalized is based on the cash payments for the period. In contrast, under the accrual method of accounting for OPEBs, capitalization is based on the actuarially determined service costs for the period. This is consistent with the capitalization of employee future benefits costs associated with the Company's defined benefit pension plans.

Table 2 provides Newfoundland Power's forecast financing requirements for the period 2007 to 2012 assuming (i) the adoption of accrual accounting for OPEBs and (ii) the Company continues to account for OPEBs on the cash basis.

Table 2
Forecast Financing Requirements
2007 to 2012
($000s)

	OPEBs on Accrual Basis		OPEBs on Cash Basis	
	Long-term Debt Issues	**Average Short-term Debt**	**Long-term Debt Issues**	**Average Short-term Debt**
2007	60,000	30,397	60,000	30,397
2008	-	39,486	-	40,043
2009	50,000	43,447	50,000	46,876
2010	-	11,193	-	16,545
2011	-	22,534	-	28,767
2012	-	36,169	-	45,318

(b) The Company's forecast short-term borrowing requirements for the period 2007 to 2012 are higher assuming the Company continues to account for OPEBs on the cash basis. The Company does not expect any change in the timing of long-term debt issues as outlined above in Table 2.

With respect to common equity, the Company would manage its common share dividends so that the forecast common equity component of its capital structure does not exceed the existing and proposed thresholds of 45%.