

1 **Volume 1, Section 3 – Finance**
2

3 **Q. (page 59, lines 18-21) Please provide, in tabular form, the average long-term**
4 **Government of Canada bond yields found for each year from 1985 through 2006 by**
5 **applying the procedure set out in the referenced passage.**
6

7 A. The procedure referenced at page 59, lines 18-21, of the Finance Evidence relates to a
8 component of the Automatic Adjustment Formula methodology approved by the Board
9 to adjust the Company's rate of return on rate base. This methodology was originally
10 established in 1998 in Order No. P.U. 16 (1998-99). It was utilized for the first time in
11 the fall of 1999 to determine whether any adjustment was required to the Company's rate
12 of return on rate base for 2000.
13

14 Initially the methodology utilized the bond yields of two specific long-term Government
15 of Canada bonds (the 8% issue maturing on June 1, 2027 and the 5.75% issue maturing
16 on June 1, 2029) to establish the risk free rate. In 2003, after further review of the
17 adjustment methodology, the Board directed that a third long-term Government of
18 Canada bond yield (the 5.75% issue maturing on June 1, 2033) be included in
19 establishing the average risk free rate.
20

21 These three Government of Canada bonds were issued in 1997, 1998 and 2003
22 respectively.
23

24 Attachment A provides a summary of the average bond yields for those years since 1999
25 in which the adjustment methodology approved by the Board was utilized to determine
26 the Company's rate of return on rate base. The Automatic Adjustment Formula was not
27 used in either 2002 or 2003 to adjust the Company's rate of return on rate base for 2003
28 or 2004. Newfoundland Power did not track, and has no record of, the bond yields in
29 those years, or for the years prior to 1999.

Requests for Information

<u>Government of Canada Bonds</u>	<u>Average Observed Bond Yields ¹</u>					
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
8.0% Issue (maturing 2027)	6.22	5.83	5.54	4.97	4.39	4.17
5.75% Issue (maturing 2029)	6.14	5.67	5.46	4.97	4.38	4.16
5.75% Issue (maturing 2033)	-	-	-	4.95	4.35	4.13
Average Bond Yield	<u>6.18</u>	<u>5.75</u>	<u>5.5</u>	<u>4.96</u>	<u>4.37</u>	<u>4.16</u>

¹ Average observed yields based on information published by the Globe and Mail for the last five trading days in the month of October and the first five trading days in the month of November for each year.