Q. Reference July 27, 2007 Financial Consultants Report – page 25 at lines 8 – 9; the Board's Financial Consultant states that from 2002 to 2006 actual interest coverage has been declining from 2.66 in 2002 to 2.28 in 2006. Can the Financial Consultant please comment on the extent to which the decline in credit metrics reported on page 25 was attributable to reduced recovery of depreciation costs during a part of this period (as referred to at page 3 of Section 1 of the Company's evidence).

A. The table below recalculates 2006 interest coverage incorporating recovery of $5,793,000 in deferred depreciation expense approved under P.U. 40 (2005). This assumes that higher rates would have been charged to Newfoundland Power's customers in order to generate $8,912,000 in additional revenue to recover the increased costs (based on a 35% income tax rate). This analysis excludes any impact of price elasticity on demand due to increased rates as well as any potential reduction in interest expense due to increased cash flow available to reduce debt. Pro-forma 2006 interest coverage, based on full recovery of the depreciation costs, increased from 2.28 to 2.37.

(000's)		**Pro-forma 2006**
Net income	$	30,666
Income taxes		13,639
Interest on long term debt		32,759
Interest during construction		(436)
Other interest		1,502
Add: revenue required to recover depreciation expense		8,912
Less: increased depreciation expense		(5,793)
Total	$	81,249
Interest on long term debt	$	32,759
Other interest		1,502
Total	$	34,261
Interest coverage (times)		2.37