Q. Refer p.28 of the July 27, 2007 Financial Consultants Report; what implications does the Board's Financial Consultant identify arising out of Newfoundland Power's consistent pattern of going over budget on capital expenditures over the period 2002 to 2007 as we go into a 2008 a test year in this General Rate Application.

A. In any given year where actual capital expenditures exceed budget (assuming all other things being equal) the implications for Newfoundland Power would primarily be as follows:

- there would be an increase in the rate base for that year, as well as future years, equal to the amount of the additional expenditures (less related accumulated amortization);
- depreciation expense would increase in the current and future years; and,
- financing costs (interest expense and/or return on equity) would increase in the current and future years due to additional funding required to pay for the additional expenditures.

With respect to 2008, the forecast test year revenue requirement and resulting rates as set out in the Company's Application are based on the forecast (budget) capital expenditures for that year.