Q. In Volume 1: Application and Company Evidence, at page 68 and 69, the Company offers its proposed change in depreciation rates. Please provide a complete description and assessment of how the change in depreciation rates will impact the Company's credit metrics: 1) cash flow interest coverage ratio, and 2) cash flow to debt coverage ratio, as described at page 55.

A. The implementation of the proposed depreciation rates resulting from the 2006 Depreciation Study will reduce forecast depreciation expense in 2008 by approximately $621,000.[1] This reduction in depreciation costs reduces revenue requirement by approximately $948,000 in 2008.[2]

The reduction in the 2008 revenue requirement (i.e. cash flow) resulting from the implementation of the proposed depreciation rates slightly reduces the cash flow interest coverage and cash flow to debt ratios in 2008.

Table 1 shows the cash flow interest coverage and the cash flow to debt metrics for 2008 before and after the implementation of proposed depreciation rates.

Table 1
Impact of Proposed Depreciation Rates
Forecast 2008 Credit Metrics

	2008F	
	Current Depreciation Rates[3]	**Proposed Depreciation Rates[4]**
Cash Flow Interest Coverage (times)	3.31	3.29
Cash Flow to Debt Ratio (percent)	17.2	17.1

[1] See Table 44 of Newfoundland Power's Application.
[2] $621,000 divided by .655 (1-tax rate) = $948,000.
[3] Current depreciation rates are based on the 2001 Depreciation Study updated for 2002.
[4] Proposed depreciation rates are based on the 2006 Depreciation Study.