Q. Reference: "2024 Rate of Return on Rate Base Application," Newfoundland Power Inc., November 23, 2023, sec. 4.0, p. 5.

Newfoundland Power's application states

> **The higher cost of debt is the result of financing arrangements which were approved by the Board under Section 91 of the Act. In Order No. P.U. 20 (2023), the Board approved the Company's issue of 5.122% First Mortgage Bonds in an amount of $90 million. In Order No. P.U. 22 (2008), the Board approved the Company's current committed credit facility. Under this facility, the Company is forecasting 2024 short-term debt costs of approximately 5.5%.**

In Newfoundland Power's "2022/2023 General Rate Application,"

a) What were the assumptions on the issuance of long-term debt in 2023 and the forecast interest rate?

b) What is the current interest rate on the (sic) Newfoundland Power's current committed credit facility?

c) Please explain the assumptions used in estimating short-term debt costs of approximately 5.5% in 2024.

A. a) To finance its operations, Newfoundland Power typically issues long-term first mortgage bonds every two years, in series of $100 million or less. The Company issued $75 million in Series AR First Mortgage Bonds in 2022 and had forecast its next issuance of First Mortgage Bonds for 2024. Due to higher than anticipated short-term interest rates, interest rates on long-term first mortgage bonds were lower than borrowing rates on the Company's committed credit facility. As such, Newfoundland Power advanced its planned 2024 long-term debt issuance. On August 11, 2023, the Company issued $90 million in Series AS First Mortgage Bonds for a 30-year term at a coupon rate of 5.122%.

The Company's 2023 forecast cost of debt is 5.11%, which is 44 basis points higher than the 2023 test year cost of debt of 4.67%.

b) The Company's most recent borrowing under its committed credit facility was $30 million on November 20, 2023 at an average interest rate of 6.20%.

c) The 2024 forecast short-term debt rate of 5.54% was based on the average three-month treasury bill forecasts for 2024 published in September 2023 by the five major Canadian Chartered banks, plus the observed credit facility spreads to August 31, 2023.[1]

[1] The average three-month treasury bill forecasts as published by RBC Capital Markets, BMO Capital Markets, Scotiabank Global Economics, CIBC World Markets and TD Economics was 4.34%. The average observed credit facility spread, based on the three-month treasury bill rates as shown on the Bank of Canada website, was approximately 1.20%.