Q. Dr. Basil Kalymon has recommended a rate of return in the range of 8.50-9.00 on equity. If the Board were to accept this recommendation, please advise as to how Newfoundland Power's revenue requirement would be impacted for the test year and beyond.

A. In order to determine with accuracy the impact for the test year of a change in rate of return on equity to 8.50 – 9.00% from the proposed 10.75%, it would be necessary to rerun the Company's entire financial model. Adjusting the rate of return on equity in the test year would result in secondary impacts such as changes in interest cost attributable to changes in cash flow, elasticity effects on energy consumption, etc.

However, without adjusting for the potential secondary impacts, the estimated impact of a change in rate of return on equity to the range of 8.50 – 9.00% would be as follows:

Proposed rate of return on equity		10.75%
Dr. Basil Kalymon recommended range 8.50-9.00%	midpoint	8.75%
Decrease in rate of return		2.00%
Regulated average common equity for 2003 test year[1]		$ 295,920,000
Estimated reduction in earnings		$ 5,918,400
Statutory tax rate		37%
Estimated impact on revenue requirement		$ 9,394,300

(1) As per the February 10, 2003 revision. Assumes no change in the amount of average common equity in the capital structure.