

Q. What was the basis of Newfoundland Power's short-term interest rates assumptions for 2003 and 2004?

A. The forecast of short-term interest rates for 2003 was determined based on an analysis of forecast short-term interest rates as provided in the September economic forecasts of the five major Canadian banks, namely Royal Bank of Canada (RBC), Canadian Imperial Bank of Commerce, Scotiabank Group, Toronto Dominion Bank and Bank of Montreal (BMO).

A comparison of previous forecast rates indicates that three benchmark rates have historically been closer to the Company's actual borrowings rates. These three benchmark rates were therefore used for purposes of forecasting Newfoundland Power's 2003 short-term interest rates. The average of the three benchmark rates was rounded down to the nearest quarter of a percentage for forecast purposes.

These three benchmark rates are:

- RBC – Overnight Bank Rate
- RBC – 3 month T-Bill Rate
- BMO – 3 month Bankers Acceptance Rate

Table 1 below provides a summary of the three benchmark short-term interest rate forecasts by Quarter for 2003, along with the rate used by Newfoundland Power.

Table 1 Forecast of Short-Term Interest Rates for 2003					
Quarter	RBC¹ Overnight Rate	RBC¹ 3 Month T-Bill Rate	BMO² 3 Month BA Rate	Average Rate	Rate used by Newfoundland Power
1	4.25%	4.25%	3.85%	4.12%	4.00%
2	4.75%	4.75%	4.50%	4.67%	4.50%
3	5.25%	5.25%	5.10%	5.20%	5.00%
4	5.25%	5.25%	5.10%	5.20%	5.00%
Avg.	4.88%	4.88%	4.64%	4.80%	4.63%

¹ Financial Markets Monthly, RBC Financial Group, September 2002.

² North American Outlook, Canada, Economics Department, BMO Financial Group, September 2002.

Forecast short-term interest rates from the major banks were not available beyond 2003. The 2004 short-term interest rate forecast was determined based on forecast rates from Quarter 4 in 2003 and an assumption of a 25 basis point increase in Quarter 3 of 2004. This approach is consistent with the continued economic growth forecast for 2004 by the Conference Board of Canada in July 2002.

Table 2 below provides a summary of the forecast short-term interest rates by Quarter for 2004 used by Newfoundland Power

Table 2 Forecast of Short-Term Interest Rates for 2004	
Quarter	Rate used by Newfoundland Power
1	5.00%
2	5.00%
3	5.25%
4	5.25%
Avg.	5.13%