

Requests for Information

1 **Q. What was the basis of Newfoundland Power's short-term interest rates assumptions**
2 **for 2003 and 2004?**
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4 A. The forecast of short-term interest rates for 2003 was determined based on an analysis of
5 forecast short-term interest rates as provided in the January 2003 economic forecasts of
6 the five major Canadian banks, namely Royal Bank of Canada (RBC), Canadian Imperial
7 Bank of Commerce, Scotiabank Group, Toronto Dominion Bank and Bank of Montreal
8 (BMO).
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10 A comparison of previous forecast rates indicates that three benchmark rates have
11 historically been closer to the Company's actual borrowings rates. These three
12 benchmark rates were therefore used for purposes of forecasting Newfoundland Power's
13 2003 short-term interest rates. The average of the three benchmark rates was rounded up
14 to the nearest quarter of a percentage for forecast purposes.
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16 These three benchmark rates are:

- 17 ➤ RBC – Overnight Bank Rate
- 18 ➤ RBC – 3 month T-Bill Rate
- 19 ➤ BMO – 3 month Bankers Acceptance Rate

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22 Table 1 below provides a summary of the three benchmark short-term interest rate
23 forecasts by Quarter for 2003, along with the rate used by Newfoundland Power.
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| 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 | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| 2 | 3.50% | 3.50% | 3.30% | 3.43% | 3.50% |
| 3 | 4.00% | 4.00% | 3.80% | 3.93% | 4.00% |
| 4 | 4.75% | 4.75% | 4.30% | 4.60% | 4.75% |
| Avg. | 3.81% | 3.81% | 3.60% | 3.74% | 3.81% |

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26 ¹ Financial Markets Monthly, RBC Financial Group, January 2003.

27 ² North American Outlook, Canada, Economics Department, BMO Financial Group,
28 January 2003.
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1 Forecast short-term interest rates from the major banks were not available beyond 2003.
2 The 2004 short-term interest rate forecast was determined based on forecast rates from
3 Quarter 4 in 2003 and an assumption of a 25 basis point increase in Quarter 1 of 2004 and
4 a further 25 basis point increase in Quarter 3 of 2004. This approach is consistent with the
5 continued economic growth forecast for 2004 by the Conference Board of Canada in
6 December 2002.

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8 Table 2 below provides a summary of the forecast short-term interest rates by Quarter for
9 2004 used by Newfoundland Power
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| 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% |

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