Q. RE: BVP-24: Early Retirement Programs 2000, 2001 Newfoundland Power used a weighted average cost of capital of 9.31% to evaluate its decision to purchase Aliant support structures. Recalculate the schedules contained in BVP-24 using a discount rate of 9.31%.

A. A discount rate of 9.31% was not used to evaluate the Company's decision to purchase support structures from Aliant. The 9.31% rate represents the Company's before-tax weighted average cost of capital for the 1999 test year, adjusted for the revised rate of return for 2000 approved by the Board in Order No. P.U. 20 (1999-2000).

Due to the significant financial impact of income tax on Newfoundland Power, the financial analysis of proposed initiatives must be performed on an after-tax basis. A net present value analysis of cash flows on an after-tax basis requires the use of a discount rate based on the Company's after-tax weighted average cost of capital.

The after-tax weighted average cost of capital of 7.22% was used in the Aliant pole purchase analysis set out in Exhibit 10 of the application filed with the Board on July 26, 2001. Schedule L of Exhibit 10 sets out the derivation of the 7.22% after-tax weighted average cost of capital. The 7.22% was also used as the discount rate in the net present value analysis of the 2000 and 2001 Early Retirement Programs contained in Exhibit BVP-24.

Considering the above explanation, the Company has not completed a recalculation of the schedules contained in Exhibit BVP-24 using a discount rate of 9.31%, as this information will not contribute to an understanding of the matters to be considered in this proceeding.