

- Q. At p. 12, line 7, Dr. Kalymon refers to "over estimates of costs of debt due to the use of short-term debt in place of long-term debt". Please identify each example of the overestimates of cost of debt referred to, including when the over estimates occurred.
- A. **In setting the allowed rate of return on rate base, the Board relies on estimates of the cost of debt based on submissions by Newfoundland Power. From the time of the last hearing, the percentage of the rate base financed by short-term debt increased substantially. This implies that the average cost of debt would have declined relative to the forecasted costs assumed at the time of the last hearing as short-term debt costs are generally below those of long-term debt.**