

Q. Should the review of this accounting policy application lead to a public hearing, what would be the impact, over the short term, on the normal functioning of the Automatic Adjustment Formula? Consider the impact of a delayed decision on rate of return on rate base and any consequential changes in customer rates in 2006.

A. Newfoundland Power is not requesting that the normal functioning of the Automatic Adjustment Formula (the "Formula") be changed.

The Formula adjusts Newfoundland Power's rate of return annually based on changes in the forecast cost of common equity. Changes in the forecast cost of common equity are based on changes in long term Government of Canada Bond yields. Whether an adjustment to Newfoundland Power's rate of return for 2006 is required will be based on long term Government of Canada Bond yields during the period from October 25th to November 7th, 2005.

The Company typically seeks approval of the forecast values for rate base and invested capital to be used in the Formula as part of its annual capital budget application. However, the subject matter of the 2006 Accounting Policy Application made it a more appropriate context for the consideration of these values.

By the end of November 2005, the Company expects to file an application concerning operation of the Formula for 2006.

The forecasts of rate base and invested capital contained in the 2006 Accounting Policy Application can be used in the Formula to set rates for 2006 on an interim basis. If the decision of the Board with respect to the 2006 Accounting Policy Application affects these forecast values for rate base and invested capital, then the Company will file an application with the Board to deal with the matter.