Section 3: Finance/Fair Return

Q. Volume 1, Section 3, pages 3-10 to 3-11.

a) Please compute a pro-forma short-term borrowing rates forecast to reflect the most recent available information (i.e., from the same financial sources used to develop the forecast short-term borrowing rates used in the application). In the response state the change in the forecast borrowing rates for the 2025 and 2026 test years relative to the pro-forma short-term borrowing forecast.

b) Please provide a comparison of short-term borrowing costs for the 2025 and 2026 test years to the pro-forma short-term borrowing costs based on the response to part a).

c) What is the interest expense impact of a reduction of 1% in short-term borrowing rates for the 2025 and 2026 test years?

A. a) Table 1 provides a comparison of the interest rate forecast for 2025 based on the most recent available economic and interest rate forecasts by the five main Canadian chartered banks, compared to the rates filed in the Application.[1]

Table 1:
Average Short-Term Borrowing Rates (%)
2025

	RBC[2]	BMO[3]	Scotia[4]	CIBC[5]	TD[6]	Average	Forecast Spread[7]	Forecast Rate[8]
Recent Rates[9]	3.05	3.36	3.24	2.80	2.41	3.00	1.25	4.25
Prior Rate[10]								4.75
Difference								(0.50)

1 Forecast three-month treasury bill rates for 2026 from the five major banks were not available at the time of this response.
2 RBC Capital Markets, Financial Market Forecasts, January 2024.
3 BMO Capital Markets Economic Research, Canadian Economic Outlook, February 2024.
4 Scotiabank Global Economics, Forecast Tables, February 2024.
5 CIBC Capital Markets, Economics and FICC Strategy, Forecast Update, February 2024.
6 TD Economics, Latest Forecast Tables, January 2024.
6 The revised forecast spread was determined based on the actual borrowing rates and the average daily three-month treasury bill yield for January and February of 2024.
8 Forecast rate is calculated as the average three-month treasury bill rate plus the forecast spread.
9 Revised short-term borrowing rates for 2025 based on the most recent economic and interest rate forecasts as published by the five major Canadian chartered banks.
10 The 2025 forecast average short-term borrowing rate of 4.75% filed in the Application was determined based on the forecast short-term borrowing rate for the fourth quarter of 2024 of 4.88% rounded down to the nearest quarter percentage point. At the time the Application was filed, 2025 forecast short-term borrowing rates were not available.

b) Table 2 provides a comparison of the 2025 and 2026 forecast short-term borrowing costs based on the short-term rates calculated in part a).

Table 2:
Finance Costs
2025 and 2026
($000s)

	2025	**2026**
Proposed Finance Costs[11]	42,240	43,427
Pro Forma Finance Costs	41,880	43,273
Impact of Change in Interest Rate Forecast[12]	(360)	(154)

Newfoundland Power observes that forecast short-term borrowing costs included in the Application reflect borrowings under the Company's existing credit facilities, including the $100 million committed credit facility and $20 million demand facility. Should the Company have the need to increase the limit on its committed credit facility, this would increase forecast finance costs.[13]

c) A one percent reduction in short-term borrowing rates for 2025 and 2026 would reduce interest expense by approximately $720,000 and $307,000, respectively.[14]

[11] See Newfoundland Power's *2025/2026 General Rate Application, Volume 1, Application, Company Evidence and Exhibits, Exhibit 3, Financial Performance: 2022 to 2026F,* page 1, line 19.

[12] Calculated as:

		2025	**2026**
Average Borrowings ($000s)	A	72,004	30,713
Reduction in Interest Rate	B	0.005	0.005
Pro-forma Reduction in Interest Expense	C = A x B	360	154

[13] For example, standby fees on the Company's committed credit facility are 16 bps.

[14] Calculated as:

		2025	**2026**
Average Borrowings ($000s)	A	72,004	30,713
Reduction in Interest Rate	B	0.01	0.01
Pro-forma Reduction in Interest Expense	C = A x B	720	307