

Supplemental Exhibit No. MJV-7

Total Return on Equity

	ATWACC	BTWACC	% Equity	Return on Equity	% Debt	Return on Debt	Debt Guarantee	Non-Cost Capital
	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
McShane's Recommendation								
At 40% Equity	7.08%	8.80%	40.00%	11.25%	58.45%	7.35%	0.00%	1.55%
At 25% Equity	6.40%	8.80%	25.00%	11.25%	73.45%	8.15%	0.80%	1.55%
At 20% Equity	6.18%	8.80%	20.00%	11.25%	78.45%	8.34%	0.99%	1.55%
At 15.27% Equity	5.96%	8.80%	15.27%	11.25%	83.18%	8.51%	1.16%	1.55%
Keeping ATWACC Constant								
At 40% Equity	7.08%	8.80%	40.00%	11.25%	58.45%	7.35%	0.00%	1.55%
At 25% Equity	7.08%	9.53%	25.00%	13.59%	73.45%	8.35%	1.00%	1.55%
At 20% Equity	7.08%	9.70%	20.00%	15.74%	78.45%	8.35%	1.00%	1.55%
At 15.27% Equity	7.08%	9.86%	15.27%	19.06%	83.18%	8.35%	1.00%	1.55%

Notes:

[1]: Workpaper 1 to Supplemental Exhibit No. MJV-7 [2] and Workpaper 2 to Supplemental Exhibit No. MJV-7 [2].

[2]: Workpaper 1 to Supplemental Exhibit No. MJV-7 [3] and Workpaper 2 to Supplemental Exhibit No. MJV-7 [3].

[3]: Assumed.

[4]: Workpaper 1 to Supplemental Exhibit No. MJV-7 [7] and Workpaper 2 to Supplemental Exhibit No. MJV-7 [7].

[5]: Workpaper 1 to Supplemental Exhibit No. MJV-7 [4] and Workpaper 2 to Supplemental Exhibit No. MJV-7 [4].

[6]: Workpaper 1 to Supplemental Exhibit No. MJV-7 [5] and Workpaper 2 to Supplemental Exhibit No. MJV-7 [5].

[7]: Workpaper 1 to Supplemental Exhibit No. MJV-7 [1] and Workpaper 2 to Supplemental Exhibit No. MJV-7 [1].

[8]: Workpaper 1 to Supplemental Exhibit No. MJV-7 [8] and Workpaper 2 to Supplemental Exhibit No. MJV-7 [8].

Workpaper 1 to Supplemental Exhibit No. MJV-7
Debt Guarantee Using McShane's Recommendation

	Implied Debt Guarantee	ATWACC	BTWACC	% Debt	Cost of Debt	% Equity	Cost of Equity	% Non- Cost	Tax Rate	
	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	
McShane's Recommended (BT)WACC	[a]		8.80%			40.00%	11.25%	1.55%	40%	
At 15.27% Equity	[b]	1.16%	5.96%	8.80%	83.18%	8.51%	15.27%	11.25%	1.55%	40%
At 20% Equity	[c]	0.99%	6.18%	8.80%	78.45%	8.34%	20.00%	11.25%	1.55%	40%
At 25% Equity	[d]	0.80%	6.40%	8.80%	73.45%	8.15%	25.00%	11.25%	1.55%	40%
At 40% Equity	[e]	0.00%	7.08%	8.80%	58.45%	7.35%	40.00%	11.25%	1.55%	40%

[1] = [4] - 7.35%.

[2] = [4]x[5]x(1-[9]) + [6]x[7].

[3]: Supplemental Exhibit No. MJV-9 [2].

[4] = 1 - [6] - [8].

[5] = ([3] - [6]*[7])/[4].

[6][a]: Recommended; McShane page 19.

[6][b,c,d,e]: Assumed.

[7]: Recommended; McShane page 55.

[8]: McShane Table 5.

[9]: Workpaper #1 to Exhibit No. MJV-1.

Workpaper 2 to Supplemental Exhibit No. MJV-7
Debt Guarantee Using a Constant ATWACC

		Implied Debt Guarantee	ATWACC	BTWACC	% Debt	Cost of Debt	% Equity	Cost of Equity	% Non- Cost	Tax Rate
		[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]
Constant ATWACC	[a]		7.08%						1.55%	40%
At 15.27% Equity	[b]	1.00%	7.08%	9.86%	83.18%	8.35%	15.27%	19.06%	1.55%	40%
At 20% Equity	[c]	1.00%	7.08%	9.70%	78.45%	8.35%	20.00%	15.74%	1.55%	40%
At 25% Equity	[d]	1.00%	7.08%	9.53%	73.45%	8.35%	25.00%	13.59%	1.55%	40%
At 40% Equity	[e]	0.00%	7.08%	8.80%	58.45%	7.35%	40.00%	11.25%	1.55%	40%

[1] = [4] - 7.35%.

[2]: Supplemental Exhibit No. MJV-2 [1].

[3] = [[4]x[5] + [6]x[7].

[4] = 1 - [6] - [8].

[5] = ([2] - [6]*[7])/([4]x(1-[9])).

[6]: Assumed.

[7]: Supplemental Exhibit No. MJV-8 [3].

[8]: McShane Table 5.

[9]: Workpaper #1 to Exhibit No. MJV-1.

Supplemental Exhibit No. MJV-8

Capital Structure and the Return on Equity

ATWACC [1]	% of Equity [2]	Return on Equity [3]	% of Debt [4]	Cost of Debt [5]	Representative Tax Rate [6]	% of Non- Capital Cost [7]	Change in Equity Return [8]	
Panel A: McShane's Recommendation								
[a]	7.08%	40.00%	11.25%	58.45%	7.35%	40%	1.55%	
Panel B: Return on Equity at Various Equity Levels								
[b]	7.08%	40.00%	11.25%	58.45%	7.35% *	40%	1.55%	n/a
[c]	7.08%	25.00%	13.59%	73.45%	8.35%	40%	1.55%	2.34%
[d]	7.08%	20.00%	15.74%	78.45%	8.35%	40%	1.55%	2.15%
[e]	7.08%	15.27%	19.06%	83.18%	8.35%	40%	1.55%	3.32%

Notes:

* The computation assumes that Hydro would obtain a BBB rating without the provincial debt guarantee if its equity level reaches 40%.

[1][a] = [2]x[3] + [4]x[5]x(1-[6]).

[1][b-e] = [1][a].

[2][a]: McShane Evidence Table 5.

[2][b-e]: Assumed.

[3][a]: McShane's Evidence p. 55.

[3][b-e] = ([1] - [4]x[5]x(1-[6]))/[2].

[4] = 1 - [2] - [7].

[5]: Workpaper 1 to Exhibit No. MJV-2 computes the market cost of debt. One percentage point is added due to the guarantee fee paid to the Province.

[6]: Representative tax rate for Canadian Regulated Utilities.

[7]: McShane Evidence Table 5.

[8][c] = [3][c] - [3][b].

[8][d] = [3][d] - [3][c].

[8][e] = [3][e] - [3][d].

Supplemental Exhibit No. MJV-9

The Change in Hydro's Before-Tax Weighted-Average Cost of Capital as Equity Levels Change

ATWACC [1]	Hydro's BTWACC [2]	% of Equity [3]	Return on Equity [4]	% of Debt [5]	Cost of Debt [6]	Representative Tax Rate [7]	% of Non- Cost Capital [8]	Times Interest Earned [9]
7.08%	9.86%	15.27%	19.06%	83.18%	8.35%	40%	1.55%	1.42
7.08%	9.78%	17.50%	17.27%	80.95%	8.35%	40%	1.55%	1.45
7.08%	9.70%	20.00%	15.74%	78.45%	8.35%	40%	1.55%	1.48
7.08%	9.53%	25.00%	13.59%	73.45%	8.35%	40%	1.55%	1.55
7.08%	8.80%	40.00%	11.25%	58.45%	7.35% *	40%	1.55%	2.05

Notes:

* The computation assumes that Hydro would obtain a BBB rating without the provincial debt guarantee if its equity level reaches 40%.

[1]: Supplemental Exhibit No. MJV-8, Panel A.

[2] = [3]x[4] + [5]x[6].

[3]: Supplemental Exhibit No. MJV-8, Panel B.

[4] = ([1] - [5]x[6]x(1-[7]))/[3].

[5] = 1 - [3] - [8].

[6]: Supplemental Exhibit No. MJV-8.

[7]: Representative Tax Rate.

[8]: McShane Evidence Table 5.

[9] = ([3]x[4])/([5]x[6]) + 1.

Supplemental Exhibit No. MJV-10

Return on Hydro's Rate Base as Equity Increases in the Capital Structure

ATWACC	Hydro's BTWACC	% of Equity	Return on Equity	% of Debt	Cost of Debt	Hydro's Rate Base (\$'000,000)	Hydro's Capital Charges (\$'000,000)	Change in Capital Charges (\$'000,000)
[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]
7.08%	8.80%	40.00%	11.25%	58.45%	7.35%	* \$ 1,370.5	\$ 120.6	n/a
7.08%	9.53%	25.00%	13.59%	73.45%	8.35%	\$ 1,370.5	\$ 130.6	\$ 10.07
7.08%	9.70%	20.00%	15.74%	78.45%	8.35%	\$ 1,370.5	\$ 132.9	\$ 2.29
7.08%	9.78%	17.50%	17.27%	80.95%	8.35%	\$ 1,370.5	\$ 134.1	\$ 1.14
7.08%	9.86%	15.27%	19.06%	83.18%	8.35%	\$ 1,370.5	\$ 135.1	\$ 1.02

Notes:

* The computation assumes that Hydro would obtain a BBB rating without the provincial debt guarantee if its equity level reaches 40%.

[1] - [6]: Exhibit No. MJV-9 [1] - [6].

[7]: Data Request CA-71 schedule 1.1.

[8] = [2]x[7].

[9] = [8](current line) - [8](prior line).

Supplemental Exhibit No. MJV-11 Revised

Adjustment for Embedded Cost of Debt
and for Hydro's Tax Exempt Status

[1]	ATWACC		7.08%
[2]	Percentage Debt	58.45%	
[3]	Embedded Cost of Debt	7.35%	
[4]	Market Cost of Debt	7.35%	
[5]	Representative Tax Rate	40%	
[6]	Adjustment Factor		<u>1.72%</u>
[7]	Adjusted BTWACC		<u>8.80%</u>

Notes:

[1]: Supplemental Exhibit No. MJV-8 [1].

[2]: Supplemental Exhibit No. MJV-8 [4].

[3]: McShane Evidence Table 5.

[4]: Supplemental Exhibit No. MJV-8 [5].

[5]: Supplemental Exhibit No. MJV-8 [6].

[6] = [2]*([3] - [4]x(1-[5])).

[7] = [1] + [6].