

- Q. (Re. P. 14, lines 14-16)
Dr. Kalymon states , "If the actual level of equity in Hydro were to increase to a level of 40%, as proposed in the long-term by the company, the level of the guarantee fee would need to be reduced to a level of 50 basis points."

Please provide documentation for the 50 basis point spread between debt costs for the Province and for corporate bonds of debt rating.

- A. The 50 basis point spread is based on the trading yields which can be observed on Provincial bonds and corporate bonds with ratings likely to be achieved by Hydro with a 40% level of equity. For example, on August 2, the reported yield on Province of Newfoundland bonds maturing in 2028 was 6.74%. At the same time, Westcoast Energy bonds maturing in 2027 were at an estimated yield of 7.31% and Union Gas bonds maturing in 2027 were trading at 7.26%. Based on the credit ratings achieved by Newfoundland Power bonds with a similar capital structure to that proposed for Hydro, it is likely that the spread for borrowing for Hydro without the guarantee would be similar to the observed yields cited, namely around 50 basis points above Provincial yields.

The 50 basis point spread was based on the estimated spread between a BBB rated utility and the yield on BBB rated Province of Newfoundland debt.