Q. (Re: Table on p.13)
(a) Please explain why employee benefits are included as part of equity at zero cost, rather than a separate zero cost capital item.

A. The assumption has been made that a 60% Debt level is sustainable for a utility with the business risk level of Hydro and that the employee benefits can offset the level of common equity required within the range considered.

Q. (Re: Table on p.13)
(b) Would Dr. Kalymon agree that, if the capital structure were restated to include employee benefits of 1.55% as a separate item, the 60/40 debt/equity capital structure could be restated so that debt and equity are 60% and 40% respectively of the capital structure not represented by employee benefits as follows:

Debt	59.07%
Equity	39.38%
Employee Benefits	1.55%

If Dr. Kalymon disagrees, please explain why.

A. Yes.

Q. (Re: Table on p. 13)

(c) For ease of understanding, please assume that there are no employee benefits, and that Hydro's capital structure actually includes 60% debt and 40% equity. Would Dr. Kalymon's analysis indicate that the return on rate base is 8.307%, calculated as follows:

	Structure	Cost	Fee	Total
Debt	60%	7.345		4.407
			0.5	.300
Equity	40%	9.0		3.60
				8.307

If no, please explain why not.

A. If the Employee Benefits are excluded from the calculation of the equity component, the adjusted return on rate base required shown is misleading. The 8.168% shown on page 13 line 16 would rise not to 8.307% as suggested in the question, but to 8.178% [=8.307x(1-.0155], an inconsequential adjustment.

Q. (Re: Table on p.13)
(d) Would Dr. Kalymon agree that the Table on p.13 indicates that he is recommending a return on the 15.27% of funded equity equal to 10.76%, inclusive of 50 basis points of the 100 basis point guarantee fee? If he does not agree, please explain why not.

A. It is unclear on what basis the 10.76% return has been computed. However, the actual total returns to the Province exceeds the 9.00% recommended on funded equity due to the obligations arising from the guarantee provided by the Province. In effect, the funded equity understates the actual level of equity committed by the Province as a result of the guarantee of the debt. Such an obligation is not part of the normal conditions of funded equity and thus provisions for this exposure cannot be properly considered as the return to funded equity.