Q. Re: p. 22, line 19

Mr. Browne is asked the question, "If the Board considers Hydro's dividends to be excessive, what should it do?" to which he responds (lines 20-21), "Where the dividend payments results in higher revenue requirements, one option is to deem a capital structure as if the dividends had not been paid."

(a) As an expert on cost of equity, does Mr. Browne agree that Hydro is requesting a return on equity that is less than the opportunity cost of equity for a Canadian utility as referred to on p. 15, lines 20-22 of his testimony?

(b) As an expert on cost of equity, does Mr. Browne agree that the current opportunity cost of equity to a utility is higher than the total of Hydro's embedded cost of debt plus the guarantee fee? If no, please explain.

(c) Would Mr. Browne agree that the "higher revenue requirements" he refers to results from Hydro's proposal to earn a return on equity which is less than its embedded debt cost? If the answer is no, please explain the answer in detail.

A. (a) Mr Browne believes that it is reasonable to assume that the 3% return on equity that Hydro is requesting is less than the opportunity cost of equity invested in a Canadian utility.

(b) The cost of equity can vary among utilities. In the case of Hydro, Mr. Browne has not completed an analysis to determine its cost of equity; however, it is not unreasonable to assume that Hydro's opportunity cost of equity would be higher that the sum of its average embedded debt rate and the debt guarantee fee.

(c) No. Mr. Browne believes that his statement stands without the qualification proposed by Hydro.