

1 Q. (1) How does Hydro propose over the medium and longer term to reduce
2 the debt to equity ratio?

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4 (2) If and to the extent that the reduction is intended to be achieved
5 increasing equity, what is proposed to be the source of such equity?

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7 (3) Have there been any discussions with the Government of
8 Newfoundland relative to reducing or eliminating dividends in the
9 future so as to increase equity? If so, provide particulars of any such
10 discussions.

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12 (4) If and to the extent that the reduction is intended to be achieved by
13 reducing debt, what is to be the source of funds for such reduction?

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16 A. (1) It is Hydro's objective to move toward an appropriate debt equity ratio
17 over time. Mr. Osmond on Page 6 lines 12-16 of his evidence
18 indicates that Hydro is asking the Board to "make it clear that Hydro
19 should be allowed the opportunity to earn an appropriate ROE as
20 outlined by Hydro's financial advisors. Hydro, at each of its future rate
21 applications, would be outlining its recommendations to the Board for
22 achieving reasonable, medium and long term financial targets."

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24 As Hydro's ROE improves over time, in conjunction with a stable
25 dividend policy, then Hydro's retained earnings would increase
26 thereby improving the debt/equity ratio.

- 1 (2) An increase in Hydro's retained earnings would be the source of such
2 equity.
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- 4 (3) There have been no discussions with the Government of
5 Newfoundland to reduce or eliminate dividends in the future so as to
6 increase equity. Several times each year Hydro meets with the
7 Deputy Minister of Finance to discuss Hydro dividends required by the
8 Province and the financial impacts on both the Province and Hydro.
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- 10 (4) Please see response to (2) above.