1   Q.   In reference to the Evidence of K.C. McShane:

2

3   1.   P.9, lines 1-3. Please explain why "fuel expense" should be

4   eliminated from the estimate of working capital.

5

6   2.   P. 17, line 22. Please explain more fully why "fuel cost risk (e.g.

7   thermal efficiency)" is a "challenge" for Hydro.

8

9   3.   P.23, line 28-p.24, line 2. Please provide the record of dividends paid

10   by Hydro to the Province of Newfoundland for all years from initial

11   incorporation to the present. Please also separate the portion that can

12   be attributed to "regulated earnings."

13

14   4.   P. 31, lines 12-16. Please explain more fully what you have in mind

15   by your reference to "the administered nature of short-term rates."

16

17   5.   P. 40, Table 4. Are all companies in the TSE 300 included in the 14

18   TSE 300 Group Indices? If so, how is it possible for the average

19   standard deviation of the 14 Groups to be less than the standard

20   deviation of the TSE 300?

21

22   6.   P.53, lines 1-2. Please provide a copy of the report referenced.

23

24   A.   1.   Fuel expense is excluded from the lead lag analysis of <u>cash</u> working

25   capital needs, because it is included as a separate item in the working

26   capital estimate (fuel inventory).

27

1	2.	Rates are set on the basis of forecast thermal efficiency (kWh//barrel).
2		To the extent that the achieved thermal efficiency is less than provided
3		for in rates, Hydro is at risk for underrecovery of fuel costs.
4		
5	3.	Please refer to NP-72(b).
6		
7	4.	Short-term rates are primarily driven by monetary policy, i.e., the
8		decisions of the Bank of Canada to raise or lower the bank rate to
9		control inflation or stimulate economic activity.
10		
11	5.	Yes. The standard deviation of the TSE 300 as a portfolio is less than
12		the average of the 14 Group Indices due to the impact of
13		diversification on the size of the standard deviation. To illustrate with
14		a simple example:
15		
16		Assume you have two stocks, each worth $100 in Year 0. The two
17		stocks perform as follows:
18		

Year	Stock 1		Stock 2		Portfolio	
	Value $	Return %	Value $	Return %	Value $	Return %
0	100.00		100.00		200.00	
1	110.00	10	95.00	-5	205.00	2.5
2	115.50	5	114.00	20	229.60	12
3	144.38	25	125.40	10	269.55	17.4
4	137.16	-5	131.67	5	268.47	-0.4
5	164.59	20	164.59	25	328.61	22.4
Standard Deviation		11.9		11.9		9.7

1   The average standard deviation of the two stocks is less than the

2   portfolio standard deviation, because the annual returns for each stock

3   are not perfectly correlated.

4

5   6.   The requested publication is proprietary. The summary pages relied

6   upon are attached.