

1 Q. RE: Return on Equity (ROE)

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3 57.1 Provide a calculation of forecast average common equity for 2001 and
 4 2002 (JCR, Schedule XI). Include details on how net earnings related
 5 to export sales to Hydro-Quebec and other non-regulated items are
 6 treated in this calculation.

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8 57.2 How are forecast dividends allocated between regulated earnings
 9 versus non-regulated earnings such as profit on export sales to Hydro-
 10 Quebec? Does Hydro have a policy with respect to payment of
 11 dividends from non-regulated earnings versus regulated earnings?

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13 57.3 Provide calculations of rate of return on regulated average common
 14 equity using forecast earnings for 2001 and 2002 as per JCR,
 15 Schedule 1, line 41.

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17 A. 57.1 The calculated forecast average common equity is as follows:

	Regulated	Export	CF(L)Co	Non-Regulated Expense	Total
Opening retained earnings 2001	267,616	32,437	228,475		528,528
Net Income	13,727	24,077	16,099	(147)	53,756
Dividends	(11,976)	(31,332)	(9,992)		(53,300)
Closing retained earnings 2001 / Opening retained earnings 2002	269,367	25,182	234,582	(147)	528,984
Net Income	9,610	27,020	17,774	(149)	54,255
Dividends	(70,147)	(26,637)	(8,116)		(104,900)
Closing retained earnings 2002	208,830	25,565	244,240	(295)	478,340

1 Cumulative net earnings, less dividends, related to export sales to
2 Hydro-Quebec and subsidiary companies are deducted from retained
3 earnings to arrive at forecast common equity. Net earnings from other
4 unregulated sales are included in forecast common equity.

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6 57.2 Hydro's policy is to pay as dividends, 75% of corporate net operating
7 income net of recall revenues, plus 100% of net recall revenues. For
8 the purposes of this rate application, only the former were included as
9 an anticipated cash outlay for purposes of determination of the
10 revenue requirement.

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12 57.3 The calculation of rate of return on regulated average common equity
13 is as follows:

	<u>2000</u>	<u>2001</u>	<u>2002</u>	
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15				
16	Retained earnings	267,616	269,367	208,830
17	Average retained earnings		268,507	239,085
18	Net income		13,727	9,610
19	Rate of return		5.1%	4.0%

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21 The net income above includes unregulated sales to IOCC.