

3. FINANCIAL OBJECTIVES AND TARGETS

3.1 Overview

This section of the evidence reviews the elements of a sound financial position for Hydro, including a consideration of the financial and business risks that are faced by Hydro.

The appropriate financial targets for Hydro are addressed, along with a discussion of Hydro's plans to reach these targets. These targets include achieving and maintaining a percentage of debt to capital of 80%, a return on equity of 9.75% and a return on rate base for 2004 of 8.15%.

The Electrical Power Control Act, 1994 states that rates should be set to allow Hydro to earn a just and reasonable return as construed under the Public Utilities Act so that it is able to achieve and maintain a sound credit rating in the financial markets of the world.

The actual financial results for 2002 and forecast results for 2003, assuming no change in electrical rates, are set out in Table 1 below.

Table 1

| Financial Results | | |
|--------------------------|---------------------------|-----------------------------|
| | <u>2002 Actual</u> | <u>2003 Forecast</u> |
| Return on Rate Base | 7.25% | 6.17% |
| Return on Equity | 4.0% | (3.8%) |
| Debt to Capital | 85% | 86% |

Hydro does not consider these 2003 levels of return to be just and reasonable. These results, if continued, are inadequate to maintain the financial integrity of Hydro. Hydro is requesting an increase in its revenue requirement for 2004, as