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2		<u>Structure</u>	<u>Cost</u>	<u>Fee</u>	<u>Total</u>
3	Debt				
4	Funded	86.14%	7.28%		6.271%
5	Pre-funded	(26.14%)			
6	Deemed	60.00%		0.5%	0.300%
7	Equity				
8	Funded	12.14%	8.75%		1.062%
9	Guaranteed	26.14%		1.47%	0.384%
10	Empl. Benefits	1.72%	0%		0%
11	Deemed	40.00%			
12	Total Rate Base	100.00%			8.017%

13
 14 The above calculation indicates that the target return on rate base (excluding Rural
 15 Interconnected & Isolated Assets) for Hydro in the future should be limited to the level of
 16 8.017%. Such a return on rate base would provide an interest coverage ratio of 1.28
 17 $[(8.017\%/6.271\%)]$ excluding the guarantee fees. The level of return on rate base
 18 proposed by Hydro is 8.322% and exceeds the above estimated required return on rate
 19 base. The main reason for the difference is the proposed return on equity which, when
 20 combined with the existing 100 basis point provincial guarantee fee, results in a return on
 21 rate base which is excessive. If the recommended 8.017% return on rate base is awarded,
 22 the return would provide for fair compensation to the Province based on market investor
 23 requirements for risks comparable to that of Hydro.
 24

1 premium test and the results of the utility sample. My conclusion is that the risk
2 premium which would reflect the cost of equity to Hydro regulated operations is in the
3 range of 2.00% to 3.25% before consideration of market pressure and 2.50% to 3.75%
4 with a 50 basis point allowance.
5

6 Given that the current yield on 30 year Canada bonds is 5.26%, I would recommend that
7 Hydro be allowed a return on equity in the range of 8.50% and 9.00% on a deemed
8 equity component of 40%. As discussed above, this level of equity return would imply
9 that a target return on rate base (excluding Rural Interconnected & Isolated Assets) of
10 8.017% would be appropriate over the medium term. (This target return on rate base
11 includes a provision for the debt guarantee fee paid to the Province.)
12

13 Q. Does this complete your written testimony?
14

15 A. Yes.
16