

1   Q.    In response to CA-99 NLH, NLH has indicated that “the fair return on the  
2           regulated utility should be based on the regulated utility business risk and  
3           capital structure”. If this were the case, would that not artificially inflate the  
4           required return on equity if NLH’s credit ranking is really supported by its  
5           financial parameters on a consolidated basis?  
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8   A.    No. Basing the fair return for the utility on the regulated utility business risk  
9           and capital structure is recognizing the fact that Hydro’s non-regulated  
10          operations are not relevant to matters before the Board at this hearing.  
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12         The return on equity for Hydro’s consolidated operations is a function of the  
13         separate business and financial risks of its regulated and unregulated  
14         operations. These operations should be assessed separately to determine if  
15         the performance is commensurate with their own risks. Regulated  
16         operations should not subsidize unregulated operations, nor should  
17         unregulated operations subsidize regulated operations.