

Q. NLH-106 CA (Re: Page 16, lines 12-13)

Dr. Kalymon states that a portion of the guarantee fee is providing compensation for the implicit equity investment. Would Dr. Kalymon please discuss whether he believes the existence of the guarantee eliminates the financial risk to the equity holder and explain why or why not.

A. **The guarantee fee does not eliminate the risk for the equity holder. However, the stated fee is arbitrary and can be viewed as an element of compensation to the equity holder, namely the Province. Thus, this fee must be included in the determination of the appropriate levels of risk compensation for the totality of capital services, namely, both debt guarantee and equity investment by the Province to Hydro. Thus, I have applied a deemed capital structure to estimate an efficient overall level of return on rate base which should be allowed. This return provides compensation both for equity risk and for the guarantee fee at market rates.**