

NLH-154 PUB (Re: Page 5, lines 1-3)

Dr. Waverman states: "Hydro is a Crown corporation, and, has no common stock equity, and, as such, need not compensate common stockholders for the risks such common stock shareholders face in providing equity capital to investor-owned utilities". Does Hydro's shareholder bear any business risk associated with the retained earnings that have been reinvested in Hydro?

- A. Yes. Hydro's business risk is priced by Canadian capital markets and will be a normal part of Hydro's regulated prices if regulated rates reflect its capital costs—*i.e.*, its embedded cost of debt, and for shareholder's equity (primarily retained earnings) the marginal cost of debt. As a Crown corporation, Hydro enjoys a lower cost of capital that is consistent with its ability to raise funds under Provincial debt guarantees, and the opportunity cost of capital should reflect that fact.