NLH-157 PUB (Re: Page 9, lines 8-9)

Dr. Waverman states: “The capital attraction—or “opportunity cost”—standard has been key in determining the fair rate of return for public utilities”. At its current level of financial leverage and business risk, and given the provincial guarantee applicable to Hydro’s outstanding debt, does Dr. Waverman believe that Hydro could attract equity capital in the open capital markets offering a return equal to Hydro’s opportunity cost of debt? If yes, please explain.

A. I have not drawn a conclusion on this question. Indeed, Hydro has no common stock equity capital on its books raised from private investors in open markets.

Nevertheless, I would note that, 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 I would expect that Hydro would continue to raise debt capital in this way.