NLH-164 PUB (Re: NLH-162 PUB)

What circumstances would need to be present for Dr. Waverman to conclude that the opportunity cost of the shareholder's equity in a Crown Corporation should reflect the business and financial risks faced by the equity shareholder (i.e., an equity cost) rather than the marginal cost of debt?

A. In my testimony, I have not drawn a conclusion on this question. Nevertheless, the specific facts that I relied upon in drawing my conclusion that Hydro's opportunity cost of debt is appropriate include its ability to raise funds under Provincial debt guarantees rather than rely on raising capital in open equity markets. If a Crown corporation was expected or required to raise capital in open equity markets instead of in debt markets (backed by a provincial guarantee), a rate based on common stock equity cost might be reflective of that Crown Corporation's opportunity cost of capital.