NLH-168 PUB (Re: Page 5, lines 17-21)

Dr. Waverman states, “Compensating those owners simply means raising through regulated rates funds sufficient to maintain operations and satisfy: (1) the interest obligations on the outstanding guaranteed debt; and (2) the opportunity cost of the Province’s citizens (as represented by the marginal cost of Provincial guaranteed debt) for the shareholder’s equity portion of the capital structure.” Does Dr. Waverman believe that the equity in Crown corporations that are not public utilities, e.g. the Newfoundland Liquor Corporation, should be viewed as providing adequate compensation to the owners as long as they cover the marginal cost of debt? Please explain the response.

A. I have not investigated how these other Crown corporations go about raising capital, *e.g.*, whether they raise funds under Provincial debt guarantees, and therefore can express no opinion with respect to their opportunity cost of capital.