

NLH-173 PUB

Is it Dr. Waverman's view that the shareholders' equity would be adequately compensated by the marginal cost of debt because the retained earnings could be replaced by debt which, in turn, could be raised at the Province's cost of debt?

- A. No, it is based on the opportunity cost of incremental new debt capital assuming that Hydro's retained earnings remains in place. In the special case where Hydro raises debt capital to replace its retained earnings, that opportunity cost of debt would likely be higher as Hydro's financial integrity would be weakened if retained earnings were to be replaced with debt.