NLH-179 PUB (Re: Page 7, lines 27-28)

Dr. Waverman states that, "cross-utility comparisons are not the foundation for North America's utility rates." Would Dr. Waverman agree that the concept of opportunity cost as defined above is compatible with the standard of cost based rates as applied to investor-owned public utilities. If he does not agree, please explain why.

A. As discussed in my response to NLH-177 PUB, cross-utility comparisons (e.g., proxy groups) can be used to identify the opportunity cost of common stock capital for investor-owned public utilities. Thus, while rates are cost-based, the cost of common stock equity capital cannot be measured directly and indirect financial models and proxy groups are used instead.

For Hydro, one must carefully distinguish the types of capital when discussing the opportunity cost concept. For Hydro, which issues only debt in public markets, that cost of debt is set by reference to the private debt investor's next best debt market alternative.