

NLH-181 PUB (Re: Page 9, lines 24-28)

Dr. Waverman states, "However, as Hydro does not have common stock equity investors, it does not face the risk borne by common stock equity investors in IOUs – for example, the risk that Provincial (or state) rate regulation will create volatility in common stock equity returns or prevent common stockholders from earning a fair return." Would Dr. Waverman agree that rate regulation for Crown Corporations does not guarantee that the returns on the existing shareholders' equity (including retained earnings) will not be volatile nor does it guarantee that the shareholders' equity will not be impaired (i.e., reduced)? If no, please explain.

- A. Yes. I agree, although as a Crown corporation, owned by the Province's citizens and not owned by common stock equity investors who acquire shares in the open capital markets of the world, there should be less conflict between ratepayers and owners than is the case for an IOU.