

Dr. Kalymon states at page 16, lines 11-13, "Based on the analysis provided in the previous section, the guarantee fee of the Province is not excessive if recognition is given to the fact that a portion of the fee is providing compensation for the implicit equity investment." Please provide Dr. Waverman's views on the validity of Dr. Kalymon's statement at page 16 that the Province has approximately 26% implicit equity in Hydro.

- A. Dr. Kalymon's premise is that the debt guarantee provides "implicit equity" beyond that recorded on the balance sheet of Hydro. However, this is not shareholder's equity but rather a hypothetical or deemed capital structure that differs from Hydro's actual capital structure, as shown in its accounting books. I have used Hydro's actual structure rather than some hypothetical or deemed structure because that capital structure is most relevant for determining the opportunity cost of debt.