

Q. NLH-88 CA (Re: Page 7, line 24)

Dr. Kalymon refers to investor returns over the past twenty years as “moderate.” Please define moderate as used in this context. Specifically, is the average return of 9.52% cited at Page 8 considered to be higher, lower or equal to future expected returns. Please explain the rationale for the response.

A. **The use of the term “moderate” is again in the context of the observed returns shown in Schedule 4A . It can be seen from column 5 for example that the returns achieved on equity were higher in many of the 5 year periods shown. Similarly, from column 6 we see that the 10 year returns have been higher than the most recent 9.52% cited, in most (but not all) of the periods shown. If used to indicate market expectations, the actual performance of the market has been moderate. To determine expected future returns, I have relied on many alternative tests of investor expectations beyond the statistics of Schedule 4A and, given my overall conclusions on the cost of equity capital to Hydro, I would expect higher risk investments such as the TSX composite to somewhat exceed the 9.52% level of the past 10 years.**