

1 Q. Reconcile the recommendation of the use of the short-term cost of
2 debt to apply to the RSP balance with the recommendation to treat the
3 Hydraulic component of the RSP as a balance to be dealt with over the
4 long-term (page of 4 of pre-filed testimony of C.F. Osler and P.
5 Bowman).

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7 A. The hydraulic component of the RSP is properly a long-term
8 stabilization mechanism to address the variations from long-term
9 average water flows.

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11 The use of long-term debt and equity cost rates are not appropriate
12 for this type of account as the specific balance in this account may
13 vary quickly and markedly over time. For example, the hydraulic
14 component of the new RSP from September 2002 to May 2003, a nine-
15 month period, accrued a negative balance (amounts owing to Hydro
16 from customers) of nearly \$11.5 million. It is not appropriate for Hydro
17 to either raise equity capital or issue long-term debt to finance this
18 balance, as a reasonable reversal of water flows could result in the
19 balance going to zero or even positive over a similar nine month
20 period. These characteristics of the account are inconsistent with long-
21 term capitalization.