Q. Reference: Corporate Finance: Evidence, p. 12 (lines 16 to 23). Why is all of the dividend suspension negotiated in March 2006 being used to help fund non-regulated investment opportunities and none of it devoted to building up regulated equity to enable Hydro to move more quickly toward a self sustaining capital structure?

A. Hydro's capital structure is self-sustaining, in that Hydro is able to service its debt on an ongoing and continuous basis with cashflows from operations.

Corporate equity balances, specifically retained earnings, are segregated between regulated and non-regulated based on the sources of the earnings. Regulated equity is the cumulative balance of net income less dividends arising from regulated sales. Non-regulated equity is the cumulative balance of net income less dividends arising from non-regulated sales. Since Hydro is forecasting a regulated loss in 2006, there were no dividends payable. The dividends that were suspended arose from net income from non-regulated sales, and therefore the suspension of those dividends only affects the non-regulated equity balance. Please also refer to the Book Equity report filed with the application as Exhibit MGB-2.