Q. Reference: Schedule I to Evidence of M. G. Bradbury, page 6 of 10, line 5 where the proposed debt guarantee fee for the 2007 Test Year is $13,645,000. Please:

a. explain whether any portion of the $13.6 million debt guarantee is being charged to non-regulated operations. If yes, what amount and on what basis? If no, why not?

b. explain whether non-regulated activities could successfully finance themselves on an independent basis and without the benefit or support of the Government's debt guarantee with the capital structures shown for them on page 3 of the Exhibit MGB-2. If the answer is "yes", please provide supporting evidence.

c. show how the forecast Test Year debt guarantee fee of $13,645,000 is calculated and explain the methodology used in the calculation.

A. a. The guarantee fee component of the non-regulated financing costs is approximately $850,000. A portion of the guarantee fee is charged to non-regulated operations through the application of the weighted average cost of capital to the non-regulated debt. Hydro's weighted average cost of capital is based on a cost of debt that includes a guarantee fee in the amount of $13.6 million.

b. The question of whether an entity can finance itself is not one that can be answered conclusively in the absence of appropriate research and discussion with potential financiers and other debt market participants. Ultimately, financiers will base their decision to finance on the perceived risk associated with the investment. A multitude of risks must be considered; some of which may be borne by the financier, and some of which may be borne by others. Depending on the results of that risk assessment and mitigation process, potential financiers may ultimately be disposed to extend financing to an enterprise.

Hydro has not conducted such a process in connection with its unregulated operations and hence is not in a position at this time to say conclusively whether non-regulated activities could successfully finance themselves.

c. The test year guarantee fee is calculated based on estimated debt outstanding at the end of 2006. The fee is generally paid in the first quarter of the following year. The calculation is as follows:

Year Issued	Coupon Rate	Year of Maturity	($000's)
1989	10.500%	2014	125,000
1992	10.250%	2017	150,000
1996	8.400%	2026	300,000
1998	5.500%	2008	200,000
2001	6.650%	2031	300,000
2003	5.700%	2033	125,000
budget 2006	5.000%	2016	225,000
	Total Canadian Issues		1,425,000
	Sinking funds (CDN.)		(173,463)
	Short term prom notes		113,010
	Net total Canadian debt guaranteed		1,364,547
	Guarantee Rate		1.00%
	Guarantee fee		13,645