Q. In the second paragraph of its response to NP-21 where Hydro is addressing the issue of how its debt amounts and costs are separated between its regulated and its non-regulated businesses, Hydro states that it "performs" an "iterative process" involving "successive revenue and interest runs … until the resultant revenue requirement no longer impacts on the weighted average cost of debt." With respect to this "iterative process":

(a) Please explain what variable (or variables) is (are) being "solved for" or uncovered through the "successive runs," and

(b) Given (i) that the division of Hydro's consolidated capital structure components between its regulated and non-regulated entities is a **deterministic** process (reference response to CA- 91), and (ii) given that the estimation of Hydro's weighted average cost of capital and its embedded cost of debt (references Exhibit MGB-1 and Schedule IV of Mr. Bradbury's Finance and Accounting: Evidence, respectively) are also **deterministic** processes, and (iii) given that Hydro's **deterministically-determined** weighted average cost of capital is taken to be the cost of its (actual or notional) non-regulated debt (reference response to CA-103), why is any "iterative process" needed "to determine the debt balances and interest associated with the non-regulated debt pools" (reference RPI NP-21 and Hydro's response to it)?

A. (a) Hydro utilizes all projected cash flows to produce a forecast interest cost and weighted average cost of capital. The weighted average cost of capital so determined is then used as an input to the Cost of Service model in producing a forecast revenue requirement and revenues by rate class. These revenues are then used as an input to Hydro's statement of net income, which will result in a revised net income. This revised net income will result in a revised expected dividend payout. This revised dividend payout, along with the revised revenue, have a cash impact and hence an interest impact. This interest impact drives a revised weighted average cost of capital figure. The iteration then repeats until the resultant change in weighted average cost of capital is negligible.

(b) As noted in (a) above, each successive iteration produces a revised weighted average cost of capital rate. This revised rate is then applied to the outstanding non-regulated debt balances, thereby producing a revised ending balance.