Q. (a) In the light of (1) the correction noted in Hydro's Response to NP 23 and (2) the procedure for calculating Hydro's embedded cost of debt as shown in Mr. Bradbury's Finance and Accounting Evidence, Schedule IV, please explain why the embedded cost of debt should not be lowered to 8.185% (i.e., $103.7 divided by $1267.0) or to some other figure. Does there need to be some corresponding adjustment to the "Total Debt" figure in the before-referenced Schedule IV, and, if so, what is it and how is it derived?

(b) How has the correction noted in Hydro's Response to NP 23 been incorporated into the "iterative process" that is described in Hydro's Response to CA 215, particularly in the light of the statement in Response to CA 215 that "Hydro utilizes all projected cash flows to produce a forecast interest cost and weighted average cost of capital." Since Hydro's Response to NP 23 indicates that there is a revised division between regulated and non-regulated income and expenses, does this not drive a new "iterative process", resulting in a revised "interest impact", a revised embedded cost of debt, and a revised weighted average cost of capital? If not, please explain clearly why not? If so, please detail all revisions stemming from the correction noted in Hydro's Response to NP 23, including any revision to the estimated embedded cost of debt.

A. (a) The interest earned referred to in NP 23 NLH was not deducted from the $106.3 million interest total as noted on Schedule IV in the computation of Hydro's regulated cost of debt because it relates to a non-regulated asset which is not included in the rate base. As a result, Hydro receives no regulated return on this asset and hence it would be inappropriate to reduce the regulated cost of debt for this interest. In similar fashion, the related non-regulated debt and interest associated with this asset were also removed (please refer to CA 91 NLH).

(b) All projected cash flows are included in Hydro's iterative process, but then the effects of the non-regulated components are removed in computing the final cost of debt. There is no need to rerun this process for this item since it was treated correctly in the first instance in the determination of Hydro's cost of debt as explained in (a) above. The correction noted in NP 23 NLH only affected the regulated net interest as reported for financial statement purposes. Regulated net interest was increased by the correction amount and correspondingly Hydro's regulated net income was reduced. There was no change in Hydro's overall return on rate base or revenue requirement.