

1 Q. (a) Please provide the detailed calculations for Hydro's most recent
2 forecast of its embedded costs of debt (ECDs) for 2007, 2008, 2009,
3 and 2010 in the format used by Dr. Cannon in his Responses to NLH
4 22 CA.

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6 (b) With respect to (a), please indicate where and how Hydro's forecast
7 input assumptions differ from those used by Dr. Cannon, including,
8 among other forecast values, Hydro's assumed coupon rate on its
9 planned \$200 million new debenture issue during 2008.

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12 A. (a) Based on assumptions contained in Hydro's financial projection as
13 filed in CA 212 NLH and as subsequently adjusted for changes
14 noted in Hydro's December 6, 2006 revised filing of the 2006 General
15 Rate Application, Table 1 attached reflects Hydro's revised projection
16 for the embedded cost of debt for 2007 - 2010.

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18 (b) Dr. Cannon's schedules as contained in his answer to NLH 22 CA
19 were based on assumptions contained in Hydro's financial projection
20 filed in answer to CA 212 NLH, with the exception that assumptions as
21 to interest rate projections differed. The details of these differences
22 are outlined in Table 2 attached. Hydro's interest rate forecasts are
23 based on the latest available forecasted Government of Canada
24 interest rates plus a Provincial credit spread per market conditions at
25 the time of estimation. For 2007, Hydro's forecasts are based on an
26 average of the financial advisor forecasts for that year. For 2008,
27 Hydro used the average of the financial advisor forecasts for the last
28 quarter 2007 for both the short term interest rate and the long term

1 interest rate applicable to the re-financing. For 2009 and 2010, Hydro
2 used the Conference Board of Canada long-term forecasts.

Table 1

Series	Rate %	Yr of Issue	Year of Maturity	Revised 2007	Revised 2008	Revised 2009	Revised 2010
AA	5.50	1998	2008	200.0	-	-	-
V ⁽¹⁾	10.50	1989	2014	125.0	125.0	125.0	125.0
X ⁽¹⁾	10.25	1992	2017	150.0	150.0	150.0	150.0
Y ⁽¹⁾	8.40	1996	2026	300.0	300.0	300.0	300.0
AB ⁽¹⁾	6.65	2001	2031	300.0	300.0	300.0	300.0
AD ⁽¹⁾	5.70	2003	2033	125.0	125.0	125.0	125.0
AE	4.30	2006	2016	225.0	225.0	225.0	225.0
F ⁽²⁾⁽³⁾	4.48	2008	-	-	200.0	200.0	200.0
Total debentures				1,425.0	1,425.0	1,425.0	1,425.0
Capital leases				0.3	0.2	-	-
Total long-term debt				1,425.3	1,425.2	1,425.0	1,425.0
Promissory notes				94.7	70.6	81.0	84.4
Less sinking fund investments				(193.1)	(214.1)	(236.3)	(260.0)
Less non-regulated allocated debt				(69.0)	(70.0)	(74.0)	(78.4)
Less unamortized DDI				(2.8)	(2.3)	(2.0)	(1.6)
Regulated debt				1,255.1	1,209.4	1,193.7	1,169.4
Average net debt				1,266.7	1,232.2	1,201.5	1,181.6
Cost of debt:							
Gross Interest				105.2	103.5	102.9	103.2
Amortization of debt discount and fiduciary fees				0.6	0.5	0.4	0.4
Amortization of realized foreign exchange losses				2.2	2.2	2.2	2.2
Guarantee fee				13.5	13.3	12.8	12.7
Less sinking fund interest				(11.8)	(13.0)	(14.3)	(15.7)
Less interest allocations				(5.1)	(5.0)	(5.4)	(5.7)
Cost of debt				104.7	101.4	98.5	97.0
Embedded cost of debt				8.27%	8.23%	8.20%	8.21%

(1) Sinking funds are associated with these issues.

(2) "F" denotes a forecast series.

(3) This issue has an indefinite maturity date.

(4) The slight variation in the 2007 embedded cost of debt as calculated above (8.27%) and that as noted in the December 6, 2006 revised filing (8.26%) relates to the use of an annualized approach when performing longer term modeling. A monthly approach is used in budget preparation.

Table 2

	Per Hydro 5 Year Projection Filed in CA 212 NLH	Per Table 1	Per Dr. Cannon in NLH 22 CA
SHORT-TERM INTEREST RATES			
2007	4.19%	4.07%	4.00%
2008	4.04%	3.75%	4.00%
2009	4.57%	4.57%	4.00%
2010	4.56%	4.56%	4.00%
Long-Term Interest Rate on 2008 Refinancing	5.24%	4.48%	4.40%