Q. Reference: Finance and Accounting evidence, p. 10 (lines 1 to 5) where it states, "Hydro has forecast its marginal cost of debt in 2007 to be 5.20%, which is the sum of the 2007 forecast yields for the 30-year Government of Canada bond of 4.65% plus Hydro's current borrowing risk premium of 0.55%. The yield of 4.65% has been determined based on the average of the interest rate forecasts of the managers of Hydro's borrowing syndicate."

Please confirm that it is the assessments of actual conditions prevailing at the end of the hearing that will be used to calculate (and not forecast) the marginal cost of Hydro's debt to be used as the return on equity (ROE) value in the return on rate base calculation for the 2007 Test Year.

A. The rate used as part of Order No. P.U. 14 (2004) was as adopted by the Board based on the testimony of Dr. Kalymon on December 4, 2003. It was on that date that he quoted his determination of Hydro's long-term opportunity cost of new debt based on market conditions at the time. Hydro submits that estimates of Hydro's marginal cost of debt for a forthcoming test year should be based on a forecast that is founded on an informed consideration of expected market conditions for that timeframe. In the past, the Board has accepted estimates as to interest expectations based on the average of the rate forecasts as published by the managers of Hydro's borrowing syndicate.