

1 Q. Would Hydro generally agree that its cost of issuing debt during the first ten
2 trading days of October is an unbiased estimate of the average cost of its
3 issuing debt during all the business days of the subsequent Test Year? If not,
4 please explain why Hydro's cost of issuing debt during the first ten trading
5 days of October is either systematically higher or lower than that which can
6 be expected to prevail at other times during the subsequent year.

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9 A. As noted in Section II of Exhibit MGB-1, in the preparation of its submission,
10 Hydro referred to Order Nos. P.U. 16 (1998-99) and P.U. 36 (1998-99) as
11 they pertained to the establishment of an automatic adjustment mechanism
12 for Newfoundland Power. That mechanism contemplates an annual review of
13 the Rate of Return on Rate Base, predicated partially on a review of
14 underlying long term borrowing rates. These rates are determined in a
15 manner that is similar to that proposed by Hydro.

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17 The "first ten days of October" is a point in time estimate and might not be
18 representative of borrowing rates for the coming year. Hydro normally relies
19 on the advice of its financial advisors when acquiring estimates of future
20 movements in interest rates, but it is recognized that these estimates are
21 based on expected market conditions that may or may not transpire. Either
22 method of estimation could be viewed as unbiased.