Q: Re: Page 5, lines 18 - 33.
On what documentation or external sources does Dr. Cannon rely in making the assumptions stated on page 5, and which assumptions underlie his calculations on all schedules. Please provide copies of all such documentation.

A: In the absence of Hydro's five-year financial projections at the time Dr. Cannon prepared his evidence, he simply chose a neutral assumption that Hydro's average total net debt would remain at the projected level of $1,267 million during the intended term of the Automatic Adjustment Mechanism. This was not a forecast, but rather a neutral assumption to allow him to illustrate that Hydro's embedded cost of debt (ECD) would change over time even if there were no change in its overall debt level. He also realized that he would get an opportunity to update his evidence with regard to Hydro's likely ECD in future years, once Hydro's five-year financial projections had been filed.

Dr. Cannon relied on Hydro's Response to CA 176 to project that a new $200 million debenture would be issued by Hydro during 2008 to replace the $200 million Series AA debenture that will mature that year.

To arrive at the estimated annual coupon rate of 4.50% for the $200 million 2008 debenture issue, Dr. Cannon considered (a) that Hydro had raised similar-maturity debt very recently at a coupon rate of 4.30% and (b) that the then-prevailing yield curve was indicating that the consensus forecast among bond professionals was that 10-year bond yields would be approximately the same in two years (2008) as they are today. Please see Dr. Cannon's Response to NLH 30 CA for an elaboration on this latter point.

The debt discount and underwriting/issuing expense assumption of $1.9 million, or 0.95% of the face value of the anticipated 2008 debenture issue, is based on the percentage costs for Hydro's recent $225 million issue (see Response to CA 213 NLH, page 2), which were 0.825% of face value. To be conservative, Dr. Cannon built in a moderately higher percentage cost for the 2008 issue.

Finally, the assumed returns on (a) sinking fund contributions and re-invested earnings and (b) promissory notes are derived from Dr. Cannon's reading of the implied forward rates in the Government of Canada yield curves prevailing during the time he was preparing his evidence, which he read daily in The *Report on Business* section of *The Globe and Mail*. See his Response to NLH 30 CA for an elaboration. Based on Hydro's Response to CA 175 NLH, part (a), Dr. Cannon assumed that new sinking fund monies would be invested in bonds with 6 to 25 year maturities, whose returns could be expected to be somewhat higher than the cost of short-term debt to Hydro. The rate assumptions discussed in this paragraph apply to the calculations for all years in the Schedules included in Dr. Cannon's prefiled evidence.