Q. Provide the methodology that will be used to isolate future debt issues associated with non-regulated activities. For example, if a future debt issue was undertaken with respect to CF(L)Co, would the “iterative process” (described on page 18 in the Finance and Accounting Evidence) result in the full amount or a portion of the debt issue being allocated to the non-regulated debt pool?

A. In the future, Hydro will continue to monitor non-regulated cash flows and amend non-regulated debt balances accordingly. Interest will continue to be applied to such balances at a rate equal to Hydro’s approved weighted average cost of capital.

In the example provided, it is not likely that Hydro would borrow directly and then lend monies to CF(L)Co. It would be more likely that CF(L)Co would issue debt directly and thus such debt would not form part of Hydro’s non-consolidated results. It would be recorded and tracked directly as a liability on the books of CF(L)Co. A more likely example would be where Hydro provides monies directly to a non-regulated development project, which is being constructed and accounted for under the Hydro Group. In this case, a notional non-regulated debt balance for the amount of monies invested would be tracked and removed from Hydro’s debt total for purposes of calculating Hydro’s regulated cost of debt and weighted average cost of capital. Deemed interest applicable to that debt would be at a rate equal to Hydro’s weighted average cost of capital.