

1 Q. Does Mr. Bowman take issue with Hydro's proposal to pay WACC on balances
2 in the Off-Island Purchases Deferral Account? Would Mr. Bowman consider it
3 appropriate for Hydro to pay the short-term debt rate on any balance arising in
4 the Off-Island Purchases Deferral? Please explain.

5 A. Mr. P.Bowman does not have the information necessary to fully answer this
6 question.

7 Mr. P. Bowman does not take issue with Hydro's proposal to pay a cost of
8 capital on the balance in the Off-Island Purchases Deferral Account, given it
9 will clearly operate over more than the test years. Mr. P.Bowman has not seen
10 a clear proposal for what time frame would be used to accrue and then draw
11 down or extinguish the balances in the account. The key test is whether the
12 balances in the account (given both size and duration) will fundamentally alter
13 Hydro's acquisition and extinguishment of long-term capital (debt and/or
14 equity) or whether the account will be too small and or too short-lived to have
15 any material effect.

16 The 2008 shortfall is too short-lived and small to materially affect Hydro's
17 equity and debt acquisition plan. To illustrate, consider that Hydro will not issue
18 new long-term debt to finance the shortfall, nor will the balance likely be so
19 large (at \$22.6 million) as to delay or accelerate the treasury decisions
20 regarding long-term debt, given short-term debt balances are forecast at
21 \$129.4 million in 2018 per GRA Schedule 4-IV page 1.

22 The balances in the Off-Island Deferral Account however, per NP-NLH-115
23 Rev.1 are expected to grow to well over \$150 million over the course of 3 years
24 without taking into account any purchases over the Maritime Link (the balance
25 will be larger with any ML purchases). The balance may then exist for some
26 further period of years as the rate phase-in occurs. This balance clearly is of a
27 size and duration that would affect Hydro's treasury activities and borrowing
28 requirements in that it is larger than the entire promissory note balance
29 forecast for year-end 2019 (at \$148.2 million per GRA Schedule 4-IV page 1).
30 In short, it appears likely that the Off-Island Purchases deferral account may
31 affect long-term capital decisions and as such a longer-term rate, such as the

1 weighted average embedded cost of long-term debt, or the WACC, is likely
2 appropriate.