

1 Q. Mr. Browne refers to the reduction in risk that arises with deferral accounts and the  
2 resultant reduction in a utility's cost of capital due to the decreased risk. On page  
3 16 he states that the Off Island Purchases Deferral Account tends to reduce Hydro's  
4 cost of capital. What weight if any should the Board give to this factor given that  
5 Hydro's return on equity is directed by Government and is not related to its risk?

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8 A. This response has been provided by JT Browne Consulting.

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10 To the extent that changes in risk have no direct impact on Hydro's cost of capital, it  
11 may be argued that no consideration should be given. However, changes in risk may  
12 result in changes to the Government directions. Also, in the context of setting "just  
13 and reasonable" rates, the Board should consider whether a rate-regulated entity  
14 should be asked to bear risks for which it is not compensated.