

1 Q. **2013 General Rate Application, Finance**

2 What is the impact on the 2015 Test Year Revenue Requirement of the \$100 million
3 equity contribution by Government in 2009?

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6 A. As outlined in the Government's June 17, 2009 press release on the matter, the
7 \$100 million equity contribution was to assist in retiring debt. In order to estimate
8 the impact of the \$100 million equity contribution on the 2015 Test Year Revenue
9 Requirement, the following assumptions were made:

- 10 • All other things equal, without the benefit of the equity contribution from
11 the Province, Hydro would have issued 30-year bonds totalling \$100 million
12 (the "New Issue") to assist in retiring existing debt¹;
- 13 • The New Issue would have been priced to yield ~4.45%. This represents a
14 spread of 50 basis points over the average mid-market closing yield on the
15 30-year Government of Canada Benchmark issue in June of 2009, which was
16 3.95% (as assessed at www.bankofcanada.ca);
- 17 • Ignoring underwriters fees and the amortization of any discount or
18 premium, the annual cost of the June 2009 issue would be \$4.45 million (i.e.
19 4.45% coupon times outstanding principal of \$100 million);
- 20 • As at December 31, 2014 and 2015, the total impact on retained earnings of
21 the additional borrowing costs would have been a reduction of \$24.5 million
22 and \$28.9 million respectively; and
- 23 • The June 2009 issue would not have been issued with a sinking fund.

¹ It is acknowledged that Hydro would have had the option to do a ten-year issue at the time, which would have had a maturity date on or around June 2019. However, given the maturity profile of the existing debt at the time, 30-year issue would have been the prudent approach.

1 Based on the above-noted assumptions, the accompanying attachment (PUB-NLH-
2 062 Attachment 1 (Revision 1)) estimates an increase of approximately \$5.8 million
3 in the 2015 Test Year Revenue Requirement due to the \$100 million equity
4 contribution.

Newfoundland and Labrador Hydro

Estimated Impact of 2009 Equity Contribution on 2015 Revenue Requirement

	As Filed		Without NL equity contribution	
	Test Year	Test Year	Test Year	Test Year
	2014	2015	2014	2015
1 (\$000)				
4 Regulated capital structure				
5 Net regulated debt	1,199,954	1,433,578	1,299,954	1,533,578
6 Asset retirement obligation	24,792	25,526	24,792	25,526
7 Less: unfunded portion	(14,442)	(12,169)	(14,442)	(12,169)
8 Employee future benefits	66,213	72,454	66,213	72,454
9 Contributed capital	100,000	100,000	-	-
10 Retained earnings cost of service exclusions	977	1,300	977	1,300
11 Retained earnings	261,887	295,119	237,412	266,194
12 Total	1,639,381	1,915,808	1,614,906	1,886,883
			(24,475)	(28,925)
14 Regulated capital structure (%)				
15 Debt	73.2%	74.8%	80.5%	81.3%
16 Asset retirement obligation	0.6%	0.7%	0.6%	0.7%
17 Employee future benefits	4.0%	3.8%	4.1%	3.8%
18 Equity	22.1%	20.7%	14.8%	14.2%
19 Total	100.0%	100.0%	100.0%	100.0%
21 Regulated average capital structure (%)				
22 Debt		74.0%		80.9%
23 Asset retirement obligation		0.7%		0.7%
24 Employee future benefits		3.9%		4.0%
25 Equity		21.4%		14.5%
26 Total		100.0%		100.0%
28 Return on rate base				
29				
30 Average rate base for 2015		1,802,024		1,802,024
31				
32 Capital structure: percent debt		74.0%		80.9%
33 Embedded cost of debt		6.67%		6.4%
34 Weighted average return on debt		4.94%		5.20%
35				
36 Capital structure: percent equity		21.42%		14.5%
37 Return on equity		8.80%		8.80%
38 Weighted average return on equity		1.89%		1.27%
39				
40 Return on debt		89,255		93,705
41 Return on equity		33,232		22,945
add cost of service exclusions		323		323
42 Total return on rate base		122,810		116,973
44 Net increase (decrease) in 2015 revenue requirement due to \$100 million contribution from NL				\$ (5,837)