Q. The responses to the following sets out certain increases in the 2013 Test Year Revenue Requirement:

1) PUB-NLH-062 - $5.1 million increase due to the 100 million equity contribution by the Government in 2009; and
2) PUB-NLH-056 - $20.9 million increase due to the Government direction to allow the same return on equity as allowed for Newfoundland Power and to include rural assets in the calculation of rate base.

What are the benefits and disadvantages to Hydro and to rate payers flowing from these increases in revenue requirement?

A. The $100 million equity contribution from Government improved Hydro's financial position by contributing significantly to the reduction in Hydro's regulated debt to total regulated capital ratio over the period from 2009 to 2012[1]. The Government direction on return on equity will improve Hydro's financial performance on a go-forward basis by improving the Company's earnings profile.

Hydro will benefit from an improved financial position and enhanced financial performance as it returns to the capital markets to finance capital improvements. On a go-forward basis, with lower leverage and an improved earnings/cash flow profile, Hydro will have more financial flexibility. This allows for a greater portion of the capital plan to be financed through debt. Assuming interest rates on long-term debt remain below 8.80% (Hydro's proposed return on equity), then ratepayers benefit through a lower weighted average cost of capital in future test years.

[1] The $100 million equity contribution was a key driver in decreasing debt to total capital from 81.5% at December 31, 2008 to 70.9% at December 31, 2012