

2 Q. **Reference: Page 3.26.**

6 Please provide details on the \$7.9 million in “interest earned on the sinking funds  
7 compared to the 2006 GRA”. Indicate the interest forecast to be earned in the 2006  
8 GRA, and in each case indicate the content of the sinking funds and the earnings  
9 rate.

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10 A. The increase in interest earnings in the 2013 Test Year (\$19.3 million) vs. the 2007  
11 Test Year (\$11.4 million) is driven by an increase in the capital base of the fund.

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14 This is evidenced in the following table, which shows that book value of the fund  
15 has consistently increased since 2006 due to (a) earnings retained in the fund; and  
16 (b) the \$8.2 million in contributions made to the fund each year.

(\$ millions)		31-Dec-06	31-Dec-07	31-Dec-08	31-Dec-09	31-Dec-10	31-Dec-11	31-Dec-12	31-Dec-13
<b>Changes in book value</b>									
Book value of sinking funds	[a]	173.6	193.1	213.9	235.9	259.3	283.9	310.1	337.6
Year over year change in book value	[b]		19.5	20.8	22.0	23.4	24.6	26.2	27.5
Explained as follows:									
Earnings in the year	[c]		11.4	12.6	13.8	15.2	16.4	18.0	19.3
Additions to fund	[d]		8.1	8.2	8.2	8.2	8.2	8.2	8.2
	[e]		19.5	20.8	22.0	23.4	24.6	26.2	27.5
<b>Average annual earnings</b>									
Earnings	[f]		11.4	12.6	13.8	15.2	16.4	18.0	19.3
Average balance	[g]		193.1	203.5	224.9	247.6	271.6	297.0	323.9
Avg. yield for the year	[h]		5.90%	6.19%	6.14%	6.14%	6.04%	6.06%	5.96%

18 As illustrated in the table, despite an increase in the magnitude (i.e. dollar value) of  
19 the earnings since 2007, the earnings rate each year has remained relatively  
20 consistent, reinforcing the fact that the increase is driven by an increase in the  
21 capital base of the fund, and not by a change in the investment strategy (i.e., a

1           move toward higher yield investments). Hydro's approach to investing has  
2           remained conservative. Specifically, Hydro limits its investments to fixed-income  
3           securities guaranteed by the Government of Canada or any of the provinces.