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

What is the impact on the 2013 Test Year Revenue Requirement of the $100 million equity contribution by Government in 2009?

A. As outlined in the Government's June 17, 2009 press release on the matter, the $100 million equity contribution was to assist in retiring debt. In order to estimate the impact of the $100 million equity contribution on the 2013 Test Year Revenue Requirement, the following assumptions were made:

- All other things equal, without the benefit of the equity contribution from the Province, Hydro would have issued 30-year bonds totalling $100 million (the "New Issue") to assist in retiring existing debt [1];
- The New Issue would have been priced to yield ~4.45%. This represents a spread of 50 basis points over the average mid-market closing yield on the 30-year Government of Canada Benchmark issue in June of 2009, which was 3.95% (as assessed at www.bankofcanada.ca);
- Ignoring underwriters fees and the amortization of any discount or premium, the annual cost of the June 2009 issue would be $4.45 million (i.e. 4.45% coupon times outstanding principal of $100 million);
- As at December 31, 2012 and 2013, the total impact on retained earnings of the additional borrowing costs would be a reduction of $15.6 million and $20 million respectively; and
- 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.

Based on the above-noted assumptions, the accompanying schedule estimates an increase of approximately $5.1 million in the 2013 Test Year Revenue Requirement due to the $100 million equity contribution.

Newfoundland and Labrador Hydro

Estimated Impact of 2009 Equity Contribution on 2013 Revenue Requirement

1	**($000)**		**As Filed**		**Without NL equity contribution**
2		**Actual**	**Proposed**	**Actual**	**Proposed**
3		**2012**	**2013**	**2012**	**2013**
4	**Regulated capital structure**				
5	Net regulated debt	956,929	984,830	***1,056,929***	***1,084,830***
6	Asset retirement obligation	24,031	24,528	24,031	24,528
7	Less: unfunded portion	(19,685)	(17,320)	(19,685)	(17,320)
8	Employee future benefits	56,890	63,836	56,890	63,836
9	Contributed capital	100,000	100,000	-	-
10	Retained earnings cost of service exclusions	113	161	113	161
11	Retained earnings	231,174	264,531	***215,599***	***244,526***
12	**Total**	**1,349,452**	**1,420,566**	***1,333,877***	***1,400,561***
13					
14	**Regulated capital structure (%)**				
15	Debt	70.9%	69.3%	***79.2%***	***77.5%***
16	Asset retirement obligation	0.3%	0.5%	0.3%	0.5%
17	Employee future benefits	4.2%	4.5%	4.3%	4.6%
18	Equity	24.5%	25.7%	***16.2%***	***17.5%***
19	**Total**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
20					
21	**Regulated average capital structure (%)**				
22	Debt		70.1%		***78.3%***
23	Asset retirement obligation		0.4%		0.4%
24	Employee future benefits		4.4%		4.4%
25	Equity		25.1%		***16.8%***
26	**Total**		**100.0%**		**100.0%**
27					
28	**Return on rate base**				
29					
30	Average rate base		1,564,085		1,564,085
31					
32	Capital structure: percent debt		70.1%		***78.3%***
33	Embedded cost of debt		8.01%		***7.68%***
34	Weighted average return on debt		5.62%		***6.02%***
35					
36	Capital structure: percent equity		25.12%		***16.8%***
37	Return on equity		8.80%		8.80%
38	Weighted average return on equity		2.21%		***1.48%***
39					
40	Return on debt		87,824		***94,126***
41	Return on equity		34,576		***23,153***
	add cost of service exclusions		48		***48***
42	**Total return on rate base**		**122,448**		***117,327***
43					
44	**Net increase (decrease) in 2013 revenue requirement due to $100 million contribution from Nl**				**$ 5,121**