Q. (page 2, Footnote 4 of Second Interim Rates Application Evidence)

The footnote references two Hydro applications for approval of: 1) a 100 MW combustion turbine, and 2) a new transmission line from Bay D'Espoir to Western Avalon. If the Board does not approve the Second Interim Rates Application, will Hydro be able to raise the capital needed to proceed with these projects? If not, please explain why not and provide supporting documentation.

A. Hydro is planning to issue $200 million in long-term debt in 2014, based largely on the need to fund the 120 MW combustion turbine and the 230 kV line from Churchill Falls to Labrador West. If the Board does not approve the Second Interim Rates Application, Hydro believes it will still be able to execute this $200 million long-term debt issue in 2014, provided that the new long-term debt is guaranteed by the Province.

However, Hydro's ability to borrow using the Provincial guarantee cannot continue to be viewed as a viable alternative to Hydro achieving and maintaining a strong stand-alone financial position. This is especially true in the context of Hydro's current five year capital plan, the funding of which will require an increase in net long-term debt of $700 million between now and 2018.

The impact of the 2014 results on Hydro's creditworthiness needs to be considered over the longer-term. Because the Province has unconditionally guaranteed Hydro's existing long-term debt, there is a direct linkage between Hydro's creditworthiness, which is influenced by Hydro's ability to achieve financial targets consistent with an investment-grade utility, and the credit rating of the Province. To the extent that credit rating agencies continue to view Hydro to be self-supporting, then the

Province's credit rating is not likely to be affected. A poor financial position for Hydro over the long-term could adversely impact the Province's credit rating and thereby, increase the borrowing costs of the Province, and hence Hydro's own borrowing costs.

The Government directive on Hydro's return on equity, along with the $100 million equity contribution in 2009 and the debt guarantee fee reduction that came into effect in 2011, would imply an expectation that Hydro should maintain a strong stand-alone financial position and performance.

If the Second Interim Rates Application is not approved, under existing rates Hydro is currently forecasting a net loss for 2014. Taking the 2013 performance into account, the trend with respect to financial performance is negative and inconsistent with the notion of a self-supporting entity.