

1 Q. On page 5 of the evidence Hydro states that dealing with the forecast net income
2 shortfall in advance of the general rate application completion will "enable Hydro to
3 forecast reasonable cost recovery in 2014 and provide more certainty to lenders and
4 other stakeholders that it will have an opportunity to earn a reasonable return in
5 2014". Given that the approval sought is on an interim basis with no guarantee of
6 recovery, please explain how this provides "more certainty" as stated.

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9 A. Because the Province has unconditionally guaranteed Hydro's existing long-term
10 debt, there is a direct linkage between Hydro's creditworthiness, which is
11 influenced by Hydro's ability to achieve financial targets consistent with an
12 investment-grade utility, and the credit rating of the Province. To the extent that
13 credit rating agencies continue to view Hydro to be self-supporting, then the
14 Province's credit rating is not likely to be affected. To that end, certainty over
15 Hydro's ability to recover its costs and earn a fair and reasonable return factor into
16 the assessment of whether the debt is self-supporting. A change in that assessment
17 could conceivably impact the Province's credit rating and thereby, increase the
18 borrowing costs of the Province, and hence Hydro's own borrowing costs.

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20 Pursuant to subparagraph 3(a)(iii) of the *Electrical Power Control Act, 1994*, the
21 Board is required to assure that utilities be provided with an opportunity to earn
22 sufficient revenues to maintain a sound credit rating:

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24 It is declared to be the policy of the province that

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26 (a) the rates to be charged, either generally or under specific
27 contracts, for the supply of power within the province...

1 (iii) should provide sufficient revenue to the producer or retailer
2 of the power to enable it to earn a just and reasonable return as
3 construed under the *Public Utilities Act* so that it is able to
4 achieve and maintain a sound credit rating in the financial
5 markets of the world ...