Q. (Re: October 2014 Evidence submitted as part of Application, page 7, lines 2 to 7) Hydro states that it will incur a "*substantial net loss in 2014".* What is this financial loss expected to cost consumers, and what is the expected impact on rates with and without approval of this Application (i.e., increased short-term borrowing costs)?

A. Hydro has not specifically quantified the expected short-term impact on consumer rates if this application is not approved, whether in relation to potential increased short-term borrowing costs or otherwise. However, Hydro would emphasize that it is expected to operate on a self-sustaining basis to maintain the financial health of the organization, consistent with the legislative provisions in the *Electrical Power Control Act, 1994*, Chapter E-5.1 (the EPCA) and recent Government directives, such as OC2009-063. As noted in the application, Section 3(1)(a) of the EPCA declares it to be the policy of the province that "**the rates to be charged**, either generally or under specific contracts, for the supply of power within the province... (iii) **should provide sufficient revenue** to the producer or retailer of the power **to enable it to earn a just and reasonable return as** construed under the *Public Utilities Act* so that it is able to achieve and maintain a sound credit rating in the financial markets of the world..." (emphasis added)

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. 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, implies an expectation that Hydro should maintain a strong stand-alone financial position and performance.

Hydro submits that its application for the deferred recovery of the necessary capacity-related supply costs to serve customers is consistent with past Board treatment of other extraordinary non-capital expenses outside a test year, and that the recovery of these costs in consumer rates is appropriate.