

1 Q. Has Hydro investigated the options of borrowing (on its own with the debt
2 guarantee, or through a pass through of government borrowing) without a sinking
3 fund requirement? If so, please provide the options investigated and the cost and
4 benefit implications of such an approach.

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7 A. The decision on whether to establish a sinking fund is made in consultation with
8 Hydro's capital markets advisors prior to going to market, and considers a number
9 of quantitative and qualitative factors. These include prevailing market conditions,
10 Hydro's financial position, Hydro's long-term forecast, the proposed term of the
11 new issue and the current maturity profile of existing debt.

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13 In that regard, a decision was made to establish sinking funds for the Series X, V, Y,
14 AB and AD debentures, which were issued between 1989 and 2003. For each issue,
15 the requirement to establish and maintain a sinking fund was provided for in the
16 bond indentures¹. In each case, the use of a sinking fund was approved by the
17 Board of Commissioners of Public Utilities prior to going to market.

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19 The decision was made not to establish a sinking fund for the Series AE debentures
20 in 2006, nor has one been established since that time.

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22 With respect to the use of sinking funds going forward, Hydro will continue to
23 consult with its capital markets advisors giving consideration to prevailing market
24 conditions, Hydro's financial position, Hydro's long-term forecast, the proposed
25 term of the new issue and the current maturity profile of existing debt.

¹ See response to IC-NLH-38