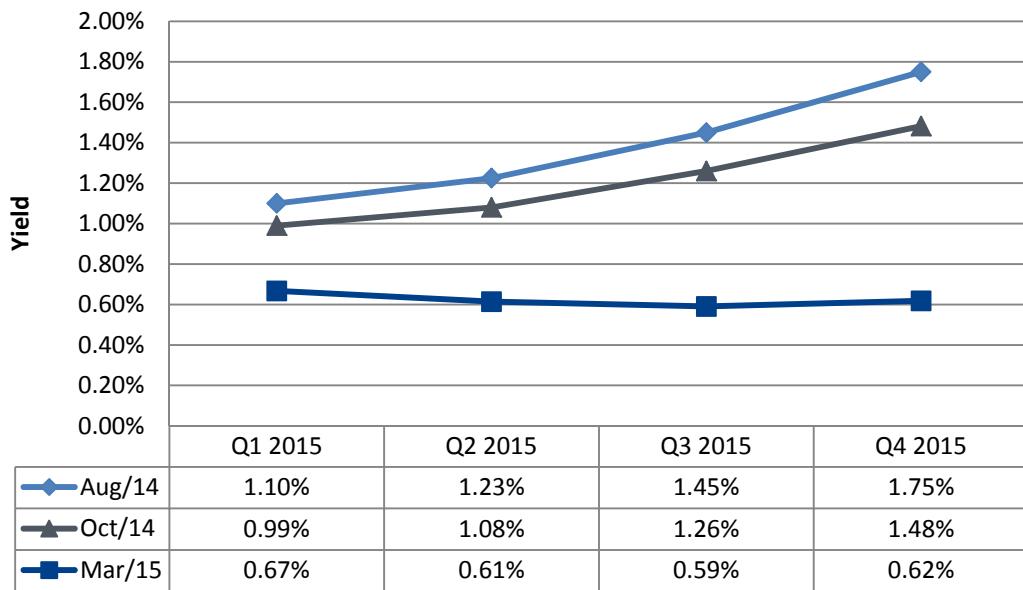


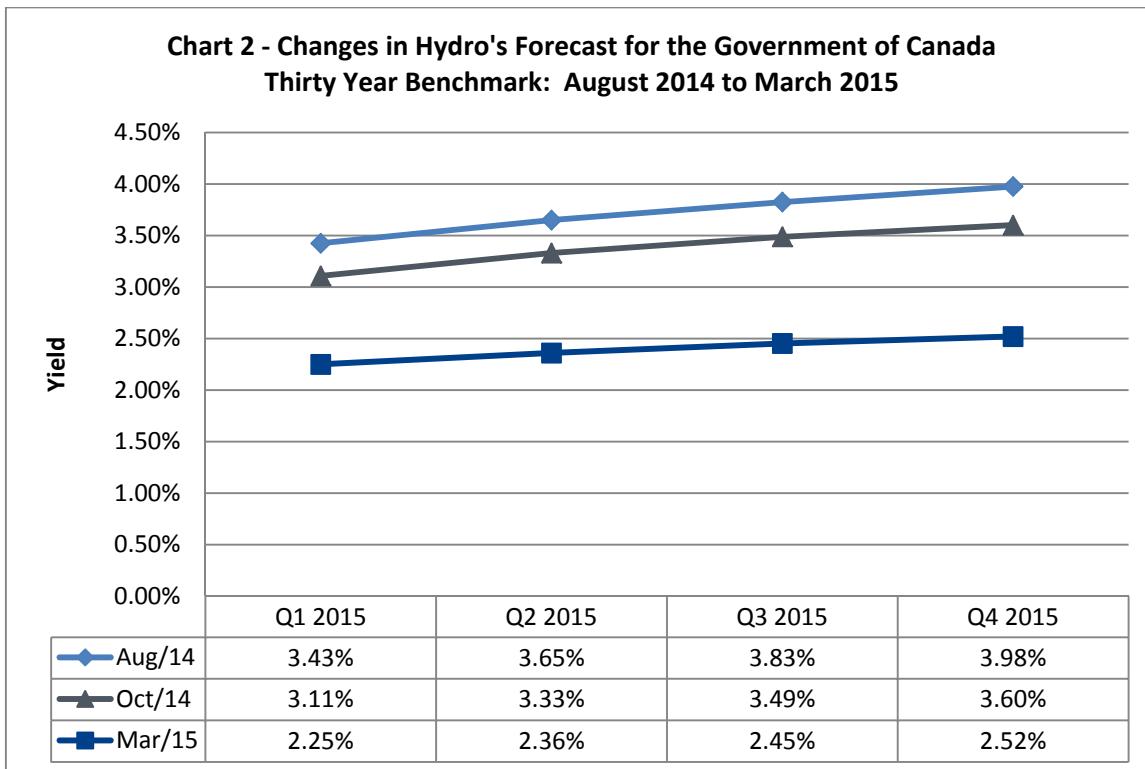
1 Q. 2013 Amended General Rate Application, November 10, 2014, pages 1.22-1.24:
2 Provide the most recent forecasts Hydro has for short-term and long-term interest
3 rates and state what impact the changes, if any, from those rates assumed by Hydro
4 in the Amended General Rate Application would have on the 2015 revenue
5 requirement.

6
7

8 A. Charts 1 and 2 below compare Hydro's March 2015 forecasts for short-term and
9 long-term interest rates to: 1) October 2014 forecasts for short-term and long-term
10 rates, which were presented on pages 1.22-1.24 of Hydro's Amended Application;
11 and 2) Hydro's August 2014 forecasts, which were used to determine short-term
12 interest expense (revenue) for the purposes of calculating test year embedded cost
13 of debt (see Hydro's Amended Application, Finance Schedule IV, line 24 – "Other
14 Interest").

**Chart 1 - Changes in Hydro's Forecast for the Government of Canada
Three Month Treasury Bills: August 2014 to March 2015**





1 The decrease in interest rates shown above will have no effect on Hydro's fixed rate
2 debt. Therefore, the interest expense shown in Hydro's 2015 Test Year revenue
3 requirement will not change because of this revised forecast. In contrast, the
4 decrease in rates will impact what Hydro earns on its short-term investments.
5 Lower forecast interest earned will increase Hydro's 2015 Test Year revenue
6 requirement.

7

8 Hydro estimates that the March 2015 short-term interest rate forecast in Chart 1
9 would increase the 2015 Test Year Embedded Cost of Debt from 6.67% (see Hydro's

1 Amended Application, Finance Schedule IV, line 29) to 6.72%¹. This would in turn
2 increase the Weighted Average Cost of Capital from 6.82% (see Hydro's Amended
3 Application, Finance Schedule III, Page 4 of 11, line 23) to 6.86%. Based on an
4 average rate base of \$1,802,024,000 for the 2015 Test Year (see Hydro's Amended
5 Application, Finance Schedule III, Page 1 of 2, line 39), this equates to an increase of
6 \$720,810 to the 2015 revenue requirement. The marginal increase in the 2015
7 Embedded Cost for Debt resulting from the use of revised rates is accounted by the
8 negative impact of lower short-term rates on interest income, which reduces the
9 magnitude of the offset to gross interest expense.

10
11 Hydro estimates that the March 2015 long-term interest rate forecast in Chart 2
12 would decrease the 2015 Test Year Embedded Cost of Debt from 6.67% (see
13 Hydro's Amended Application, Finance Schedule IV, line 29) to 6.61%. This would in
14 turn decrease the Weighted Average Cost of Capital from 6.82% (see Hydro's
15 Amended Application, Finance Schedule III, Page 4 of 11, line 23) to 6.77%. Based
16 on an average rate base of \$1,802,024,000 for the 2015 Test Year (see Hydro's
17 Amended Application, Finance Schedule III, Page 1 of 2, line 39), this equates to an
18 decrease of \$901,012 to the 2015 revenue requirement.

¹ The embedded cost of debt is calculated as gross interest expense less short-term interest revenue less long-term interest revenue. To the extent that a decrease in rates causes short-term interest earned to decrease, while gross interest expenses paid stays constant, the embedded cost of debt will increase