

AVERAGE RATE OF THE PROSPECTIVE COST OF CAPITAL

1 In the D-2003-93 decision, the Régie accepts the methodology for the determination of
 2 the prospective cost of capital proposed by the Distributor in the phase 1. The update of
 3 the cost of prospective capital according to this method appears as Table 1 (below).

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5 The Distributor asks the Régie for the approval of an average rate of the prospective cost
 6 of capital of 7.061% for the assessment of its investments projects during the intended
 7 projected year 2004.

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TABLE 1

CALCULATION OF THE AVERAGE RATE FOR THE COST FOR FUTURE CAPITAL YEARS 2001 TO 2004						
	Requested	Approved	Phase 2			
	2002-2003	2002-2003	2001	2002	2003	2004
Structure of capital						
Capital Debt	61.50%	65.00%	65.00%	65.00%	65.00%	65.00%
Capital Equity	38.50%	35.00%	35.00%	35.00%	35.00%	35.00%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Structure of Capital Debt						
Fixed debt \$CA	75.00%	75.00%	74.20%	75.60%	75.00%	75.00%
Variable debt \$EU	16.00%	16.00%	16.80%	15.40%	16.00%	16.00%
Variable debt \$CA	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%
Total	100.00%	94.00%	100.00%	100.00%	100.00%	100.00%
Average rate of short term debt						
Bank acceptances 3 months	3.26%	3.26%	3.26%	3.26%	3.53%	4.48%
LIBOR 3 months	2.77%	2.77%	2.77%	2.77%	1.50%	2.22%
Average rate of long term debt						
Hydro Quebec obligations 30 yrs in \$CA	6.550%	6.550%	6.550%	6.550%	5.970%	6.474%
Return on stockholders' equity	10.600%	9.400%	9.405%	9.405%	8.712%	8.712%
Future cost of debt	6.209%	6.209%	6.179%	6.232%	5.594%	6.173%
Long term financing	4.913%	4.913%	4.860%	4.952%	4.477%	4.855%
Short term financing	0.737%	0.737%	0.759%	0.720%	0.557%	0.757%
Debt security expenses	0.500%	0.500%	0.500%	0.500%	0.500%	0.500%
Cost of issue	0.060%	0.060%	0.060%	0.060%	0.060%	0.060%
Rate for cost for future capital	7.900%	7.326%	7.308%	7.342%	6.685%	7.061%
Capital Debt	3.819%	4.036%	4.016%	4.051%	3.636%	4.012%
Capital Equity	4.081%	3.290%	3.292%	3.292%	3.049%	3.049%

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