Re: Page 17, Table 5.2

Q. Isn't the increase in the return on debt due to the fact that dividends were disallowed and thus debt and interest artificially reduced in the 2002 test year?

A. The disallowed dividends appear to be responsible for a part of the increase in return on debt. However, the increased costs for return on debt appear to also materially reflect a number of other factors:

- Hydro's average weighted cost of debt has risen since 2002, from 8.166% to 8.283% in 2004 (per IC-238). This is despite a decrease in the cost of Hydro's largest component of debt (Canadian bond interest) from 7.565% to 7.36%.
- Hydro's net debt balance has increased from $1,301,385,000 in 2002 to $1,438,662,000 in 2004 (per IC-238). $134.5 million of this appears to be due to Granite Canal, but the other $2.727 million is related to other factors.