Q. **Grant Thornton's Prefiled Evidence**

Page 36, lines 22-24 – What would be the impact on interest costs and debt guarantee fees for 2004 if dividends had not been paid in 2002 and are not paid in 2003?

A. 2002 regulated dividends were $65.7 million and forecast 2003 are $5.6 million. While 2004 interest and guarantee fees would be reduced if dividends had not been paid in 2002 or 2003 (estimate $5.5 million), the actual cost of debt in percentage terms would have remained unchanged. In addition, Hydro's capital structure would be altered to include less debt and greater equity. Applying the resultant weighted average cost of capital to the 2004 average rate base, would actually result in a small increase in revenue requirement as illustrated in the attached schedule.

WEIGHTED AVERAGE COST OF CAPITAL
AS REVISED AUGUST 12, 2003

	2003	2004	Average	Percent	Cost	Weighted Average
Total debt	1,453,249	1,424,143	1,438,696	86.14%	8.287%	7.138%
Employee Future Benefits	27,464	29,941	28,703	1.72%	0.000%	0.000%
Retained Earnings	200,419	205,265	202,842	12.14%	9.750%	1.184%
Total	1,681,132	1,659,349	1,670,241	100.00%		8.322%

RETURN ON RATE BASE
AS REVISED AUGUST 12, 2003

		Weighted Average Cost of Debt	Weighted Average Cost of Capital	Return on Rate Base
Rural Interconnected and Isolated Assets	213,758	7.138%		15,258
Other Rate Base Assets	1,271,692		8.322%	105,834
	1,485,450			121,088

WEIGHTED AVERAGE COST OF CAPITAL
AS REVISED AUGUST 12, 2003
ADJUSTED FOR NO 2002 OR 2003 DIVIDENDS

Total debt	1,381,949	1,352,843	1,367,396	81.87%	8.287%	6.784%
Employee Future Benefits	27,464	29,941	28,703	1.72%	0.000%	0.000%
Retained Earnings	271,719	276,565	274,142	16.41%	9.750%	1.600%
Total	1,681,132	1,659,349	1,670,241	100.00%		8.385%

INCREASE IN WEIGHTED AVERAGE COST OF CAPITAL 0.062%

RETURN ON RATE BASE
AS REVISED AUGUST 12, 2003
ADJUSTED FOR NO 2002 OR 2003 DIVIDENDS

		Weighted Average Cost of Debt	Weighted Average Cost of Capital	Return on Rate Base
Rural Interconnected and Isolated Assets	213,758	6.784%		14,502
Other Rate Base Assets	1,271,692		8.385%	106,628
	1,485,450			121,130

INCREASED REVENUE REQUIREMENT 42