**Q. Page 41 line 12 – Would 2004 test year employee future benefits costs be more or less than the costs currently forecast if Hydro had not adopted the accrual method of accounting for employee future benefits in 2002?**

A. If Hydro had not adopted the accrual method of accounting for employee future benefits in 2000 then the cash basis or "pay as you go" approach would continue to apply. It is our understanding that, on a cash basis, forecast 2004 costs for employee future benefits is approximately $1.25 million which is less than the 2004 forecast costs under the accrual method.

It should be noted that with retroactive adoption of the accrual method in 2000 Hydro recognized the full obligation for employee future benefits and reduced its equity by a corresponding amount. For forecast 2004, the obligation for employee future benefits represents 1.72% of the capital structure which has no assigned cost. If this component of the capital structure were still part of equity then the forecast weighted average cost of capital would increase by 17 basis points (1.72% x 9.75%).