

**Q. Schedule 1 – What would Hydro’s regulated earnings, return on equity and return on rate base have been in 2002 had Hydro’s total other costs, net of allocations, for 2002 (\$91,083,000) been limited to those used by the Board in the 2002 test year for rate setting purposes (\$85,697,000)?**

**A.** Assuming Hydro’s 2002 total other costs, net of allocations, were \$85,697,000 (a reduction of \$5,386,000 as compared to the actual costs of \$91,083,000) the Company’s regulated earnings, assuming no other changes in revenues or expenses, would be as follows:

(000)'s	2002
Actual regulated net income	\$ 9,742
Decrease in total other costs	5,386
Revised regulated net income	\$ 15,128

Using this revised regulated net income, the impact on return on average regulated equity would be as follows:

(000)'s	Revised 2002	Actual 2002
Regulated net income	\$ 15,128	\$ 9,742
Average regulated equity	\$ 244,494	\$ 241,780
Return on average regulated equity	6.19%	4.03%

Finally, the rate of return on average rate base using this revised regulated net income would be as follows:

(000)'s	Revised 2002	Actual 2002
Regulated net income	\$ 15,128	\$ 9,742
Hydro interest expense	88,547	88,547
Return on rate base	\$ 103,675	\$ 98,289
Average rate base	\$ 1,356,173	\$ 1,356,173
Rate of return on average rate base	7.64%	7.25%