

1     Q.     Referring to page 3, lines 25-28 and page 4, lines 1-3: Please explain and  
2           illustrate why you agree that Hydro's approach to estimating interest expense  
3           explicitly accounts for the timing differences between the receipt of cash and  
4           payment of interest.

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7     A.     As Hydro demonstrated in Exhibit JCR-1, Volume III of the Application, its  
8           April 2003 submission to the PUB entitled, "Cash Working Capital Allowance  
9           – Analysis of Semi-Annual Long-Term Bond Interest Payments", its approach  
10          to cost of debt calculation is iterative in nature. As such, timing differences  
11          between the payment of semi-annual interest and the receipt of related  
12          revenues are automatically adjusted in the determination of interest expense  
13          to be included in the revenue requirement.