Q: Re: Page 2, lines 34 – 37 and Exhibit MGB-1, Table 1, Page 3.

(a) Is it Dr. Cannon's proposal that the cost rate applied to debt would be adjusted annually during the term of the Automated Adjustment Mechanism?

(b) If the answer to (a) above is yes, on what basis would that rate be adjusted?

(c) If the answer to (a) above is no, is Dr. Cannon then suggesting that the cost rate applied to debt would be preset in year one for each year of the four-year term?

A: (a) Yes, it would be adjusted annually to be equal to that embedded cost of debt (ECD) value, established during the current hearing, for that particular year during the operation of the Automatic Adjustment Mechanism (AAM). As the ECD rate would be preset or pre-established during the current hearing, there would be no need for new evidence about the ECD to be submitted to, reviewed by, or acted upon by the Board during the term of the AAM.

(b) See answer to (a).

(c) Yes, Dr. Cannon is recommending that the ECD rate for each prospective year during the term of the AAM be preset at this hearing.