

1 **Q. In reference to Exhibit BVP-1, page 3, please provide explanations for the**
2 **significant increase in both short-term borrowings and long-term debt between 1998**
3 **and forecasted 2004?**
4

5 A. The increase in debt over the period principally relates to the continued investment in the
6 Company's electrical system.
7

8 Capital requirements are initially financed with short-term debt until short-term debt
9 reaches a level that allows a long-term debt issue to be completed on an economic basis.
10

11 As shown in the *Finance & Accounting Evidence*, page 9, table 2, the average cost of
12 debt for the period from 1998 to 2004 is expected to decline from 8.93% to 8.19%. The
13 long-term reduction in the average cost of debt benefits consumers by reducing the
14 overall cost of providing electrical service.