Q. On page 39 of the Finance and Accounting Evidence by Barry Perry it states that deferred charges will increase by approximately $11.8 million dollars from December 31, 2002 through 2004 mainly due to the change in pension fund accounting. Does this mean the rate base will increase by this amount as well? If not, please explain why?

A. Deferred charges are calculated in accordance with generally accepted accounting principles ("GAAP") and Board Orders. These recoverable costs are financed by the company's invested capital. Deferred charges represent the primary difference between the amounts for invested capital and rate base.

Deferred charges are not included in rate base. Therefore, an increase in deferred charges will not result in a corresponding increase in rate base. However, as explained in the Company's response to PUB-259, the amount of invested capital does impact the calculation of the return on rate base. The calculation of return on rate base is made in accordance with the methodology approved by the Board in Order No. P.U. 36 (1998-99) and is described in Exhibit BVP-19, page 2 of 2.