Q. In P.U. 36 (1998-1999) the Board ordered (p. 60) that the amount of $1,908,000, which is the total of the after-tax earnings for 1992, be established as a component of common equity on which no return will be allowed for the period 1999-2003. In that calculation the Board used an estimate of 9.25% as the projected cost of common equity over the next five years. Please advise if the Board was correct in the use of this estimate and, if the Board's estimate was not correct, please advise as to what the accurate calculation, year over year to date, would be in reference to this issue. Based on actuals, please advise as to what the actual cost of equity was and, if those actuals had been used, what the variations in the amount owing would have been.

A. In P.U. 36 (1998-1999) the Board ordered the recovery of a total of $954,000 for the benefit of ratepayers. The mechanism used to recover this amount was to deny the company a return on $1,908,000 of common equity over a five year period from 1999 – 2003.

In each of the years 1999 to 2002, it is the cost of common equity as determined by the automatic adjustment formula which is used to calculate the reduction in return for the Company. This reduction in return is then reflected as a reduction in revenue requirement and rates for each particular year. The use of an estimate of 9.25% as the projected cost of common equity over the five year period does not affect the ultimate recovery of the $954,000 ordered.

In order to ensure the total of $954,000 was recovered, the Board stated in P.U. 36 (1998-1999) that "… a review will take place before the end of the year 2003 as to the disposition of any outstanding amount." The outstanding amount as at the end of 2002 is $238,882. The Board will have to decide whether the approach as proposed by the Company, for recovery of this remaining amount is appropriate.