Q. In reference to the Financial Consultant's 2003 Report, page 22 – Ratio of Average Invested Capital to Average Rate Base – forecasted ratio of average invested capital to average rate base has exceeded the actual ratio for 1999-2001. Is this difference attributable to an escalating rate base? Please explain all relevant factors that caused this difference?

A. The difference in the forecast versus actual ratio of average invested capital to average rate base would not be attributable to an escalating rate base. Essentially, an increase in rate base would normally result in a corresponding increase in total invested capital and the impact on the ratio from such changes would be minimal.

The primary factor causing changes in the ratio of invested capital to rate base is the changes in the Company deferred charges. As deferred charges increase they result in a corresponding increase in invested capital. However, because deferred charges are not included in the rate base, the ratio of invested capital to rate base changes when deferred charges increase. The largest item included in deferred charges is the Company's deferred pension costs.