

1 **Q. In reference to CA200 (Attachment A) and the first revision to Attachment A of**  
2 **CA200, the rate of return on regulated common equity has increased from 10.32%**  
3 **to 10.65%. Please detail the factors which have lead to this increase in the rate of**  
4 **return on equity.**

5  
6 A. The increase in the rate of return on regulated common equity for 2002 resulted from  
7 higher energy sales, lower operating expenses and reduced depreciation expense, offset  
8 partially by increased income tax expense.  
9

10 Energy sales for 2002 were higher than forecast due to increased growth in the number of  
11 customers and average use. This resulted in addition contribution (i.e., additional  
12 revenue net of additional purchased power cost) of \$0.9 million.  
13

14 Operating expenses for 2002 were lower than forecast by approximately \$0.7 million.  
15 Labour cost increases of \$0.5 million were offset by non-labour cost reductions totalling  
16 \$1.2 million. The larger non-labour cost reductions related to other company fees  
17 (\$511,000)<sup>1</sup>, vegetation management (\$165,000), tools and clothing allowances  
18 (\$158,000), inter-company charges (\$144,000), insurances (\$112,000), and computing  
19 equipment & software (\$100,000).  
20

21 Depreciation expense for 2002 was lower than forecast by approximately \$0.2 million  
22 due to an increase in the value of plant retirements. The increase in retirements reduced  
23 the value of plant in service at year-end, which, in turn, lowered depreciation expense.  
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25 Increased income attributable to the above resulted in an increase in income tax expense  
26 of approximately \$0.9 million.

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<sup>1</sup> Largely pertaining to regulatory hearing costs, environmental audit fees and associated costs, collection fees, and oil sampling fees.