

1 **Q. At page 17 it is stated that, “[t]he financial results for 2003, assuming no changes in**  
2 **electrical rates and before any accounting changes proposed in this proceeding,**  
3 **indicate that the rate of return on rate base and the rate of return on equity will be**  
4 **8.91 percent and 7.59 percent, respectively.” What are the corresponding rate of**  
5 **return values with the proposed accounting changes, but assuming no change in**  
6 **electrical rates? Please provide this detailed calculation.**

7  
8 A. Pro-forma financial results for 2003 and 2004 based on existing electricity rates as per  
9 Exhibit BVP-7 and including the proposed accounting changes as presented in Table 20,  
10 Page 75 of the *Finance & Accounting Evidence*, are provided in the Company’s response  
11 to NLH-242, Attachment A. The calculation of the pro-forma rate of return on rate base  
12 is contained on page 8 of 10. The calculation of the pro-forma rate of return on regulated  
13 common equity is contained on page 5 of 10. The calculation of the pro-forma interest  
14 coverage is contained on page 9 of 10.

15  
16 The pro-forma rate of return on rate base, based on existing electricity rates as per Exhibit  
17 BVP-7 and including the proposed accounting changes as presented in Table 20, Page 75  
18 of the *Finance & Accounting Evidence*, is 10.20% for 2003 and 9.95% for 2004.

19  
20 The pro-forma rate of return on regulated common equity, based on existing electricity  
21 rates as per Exhibit BVP-7 and including the proposed accounting changes as presented  
22 in Table 20, Page 75 of the *Finance & Accounting Evidence*, is 10.20% for 2003 and  
23 9.65% for 2004.

24  
25 The pro-forma interest coverage, based on existing electricity rates as per Exhibit BVP-7  
26 and including the proposed accounting changes as presented in Table 20, Page 75 of the  
27 *Finance & Accounting Evidence*, is 2.43 times for 2003 and 2.36 times for 2004. These  
28 interest coverage ratios fall below the target range of 2.5 to 2.7 times identified in the  
29 Company’s 2003 General Rate Application as required to maintain the Company’s A  
30 bond rating.