BOMA INTERROGATORY #34

INTERROGATORY

Ref: Tab 1, Schedule 1, p2

What is the unamortized financial cost and why is it deducted from debt? How is it accounted for in regulatory and commercial financial statements?

RESPONSE

Unamortized financing costs, as shown in Exhibit E2, Tab 1, Schedule 1, page 2, refers to the value of term debt issuance costs, which are amortized over the term of the associated debt, which remain unamortized at a point in time (or from a utility capital structure perspective reflects the average of monthly averages unamortized issuance cost balance). Debt issuance costs which are amortized over the term of the associated debt can include: commissions, legal fees, debt premiums or discounts, and interest rate hedge / swap unwind costs.

From a regulatory financial statement perspective, debt issuance costs are included in the calculation of the effective rate of each term debt issue, which is then used within the capital structure calculation to derive the LTD interest component of the cost of capital. As issuance costs are captured within the effective rate applied to LTD, the amortization of those costs for financial accounting purposes is eliminated in the determination of utility income. In the determination of the utility LTD capital structure component, unamortized issuance costs are deducted from the LTD principal balance to reflect the proceeds provided by the LTD debt issuances.

From a financial accounting perspective, debt issuance costs are recognized on the balance sheet at the time of issuance. The issuance costs are then amortized / expensed from the balance sheet to the income statement over the life of the associated debt.

Witness: R. Small