Substations Appendix 4
Attachment A

Q. Why was the "weighted average *incremental* cost of capital" used to conduct an economic analysis instead of the weighted average cost of capital.

A. The "weighted average cost of capital' implies the use of embedded costs of capital, such as a weighted average cost of bonds that have been issued by the Company at different interest rates over a number of past years. This weighted average cost of bonds would not reflect bond rates that are issued today or in the future to finance proposed capital projects.

Economic decision-making to select the most cost effective alternative requires the use of incremental costs. Such incremental costs for capital are the current or projected costs of capital. To form the incremental cost of capital, the incremental costs of debt and equity would be brought together to form a "weighted average incremental cost of capital".