

- 1 **Q. Outline the pros and cons of using:**
- 2 **a) The cost of the replacement debt;**
- 3 **b) The company's weighted average cost of capital;**
- 4 **c) The company's weighted average cost of capital minus the cost of any**
- 5 **specific debt issues already assigned to sinking fund assets; and**
- 6 **d) The rate recommended by Mr. Pous in response to NLH-CA-14 if different than**
- 7 **one of the methods in a) to c).**
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- 9 A. a. The cost of replacement debt should be employed in conjunction with interest
- 10 coverage regulation. Reliance on this approach maintains the required consistency
- 11 upon which the sinking fund approach is premised.
- 12 b. The Company's weighted average cost of capital should be used when governed by
- 13 rate of return regulation. Reliance on this approach maintains the required
- 14 consistency upon which the sinking fund approach is premised.
- 15 c. Mr. Pous has not analyzed this scenario in sufficient detail to have formed an
- 16 opinion.
- 17 d. See the response to NLH-CA-14.