

1 Q. [Sinking Fund] - Please provide all support and justification for retaining the initial  
2 interest rate in the sinking fund calculation after 1996 when Hydro became subject  
3 to a rate of return calculation. The response should specifically address why it was  
4 both necessary and appropriate for Hydro to wait until its next rate case in 2001-  
5 2002. Finally, specifically note and support why Hydro could not have used a proxy  
6 rate of return and why it did not file for a rate case for more than 5 years.

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9 A. As outlined further in response to CA-NLH-252, at the time of the implementation  
10 of new rates in 2002, Hydro began using the approved weighted average cost of  
11 capital as the financing rate for such items as the Rate Stabilization Plan, Allowance  
12 for Funds Used During Construction, Intercompany transactions and the interest  
13 rate in the modified sinking fund calculation. Even though the legislative changes,  
14 which brought Hydro under a rate of return model were made in 1996, Hydro  
15 considered it to be improper to implement an updated rate of return, proxy or  
16 otherwise, without the prior approval of the Board.

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18 During the period from 1996 to 2001, there was no set requirement for Hydro to  
19 file rate cases. Historically, the intervening period between Hydro rate cases has  
20 varied widely.