

1 Q. Does NLH use the one-half year rule when calculating depreciation on capital
2 asset additions and, if not, please indicate the effect on revenue requirement
3 for 2004 and 2005 if it adopted this practice effective January 1, 2004?

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6 A. No. Hydro's depreciation calculations on capital asset additions start with the
7 in-service date of the project, with the exception of distribution assets which
8 are effective January 1st of the year following the in-service date. If the half-
9 year rule were made effective January 1, 2004 for asset additions, it is
10 estimated that depreciation expense for 2004 would increase by \$0.8 million.
11 This increase in depreciation expense would reduce the average rate base
12 for 2004 by \$0.4 million and consequently, the required return would decline
13 by approximately \$33,000. Therefore, the net impact on revenue
14 requirement in 2004 would be an increase of approximately \$767,000.
15 Detailed information for 2005 is not readily available.