Q. Using the current rate of replacement of assets as evidenced in the company's proposed 2003 capital budget, when will the company have effectively completed the total replacement of the original distribution assets?

A. *General*

Approximately $28.4 million of the 2003 capital budget relates to plant replacement (see: Exhibit PGH-1).

Conceptually, depreciation expense represents that portion of fixed assets which are depleted in a given year. In 2001, Newfoundland Power's last completed financial year, depreciation expense was approximately $34 million. This represented approximately 3.7 per cent of historic investment in fixed assets. The composite depreciation rate of 3.7 per cent implies an average life of Newfoundland Power's fixed assets of approximately 27 years. On a conceptual level, this implies Newfoundland Power's assets should be replaced every 27 years. Reality does not fully conform to this with respect to the Company's assets generally or Distribution assets specifically.

Distribution Assets

Based on the 1996 depreciation study which set Newfoundland Power's current depreciation rates, the annual depreciation rate for Distribution assets is 3.6 per cent. This implies an average life of Newfoundland Power's Distribution assets of 28 years. This, in turn, implies that Newfoundland Power's Distribution assets will be replaced every 28 years.

In fact, Newfoundland Power's Distribution assets will not be replaced in this type of uniform manner. Some assets will exist for extraordinarily long periods (as long as 60 years) and others for very short periods (of less than one year). These variations of asset mortality are effectively averaged to arrive at the average service life of Distribution assets.

Conclusion

While on a conceptual level Newfoundland Power's Distribution assets should be totally replaced every 28 years, in fact total replacement of Distribution assets is practically impossible to forecast.