Please provide an algorithm for calculating the return and other annual costs for a 1 Q. \$1 million "slice" of Hydro's distribution assets. 2 3 4 5 A. The annual revenue requirement for Hydro's distribution assets encompasses the 6 following components: 7 Return on rate base, which includes both return on equity as well the cost of financing capital assets;<sup>1</sup> 8 9 Depreciation expense; and 10 Operating and maintenance costs. 11 12 There is no singular algorithm that can be used to estimate total revenue 13 requirement, as not all of these variables have a direct relationship with a 'slice' of 14 value of rate base. In order to accurately identify these costs this analysis would need to be undertaken on an asset specific basis. 15 16 17 However in computing revenue requirement for rate setting purposes, there is a 18 direct relationship with return and depreciation on embedded assets included in 19 Hydro's rate base (including inventory carrying costs and working capital). Please 20 refer to PUB-Nalcor-198, Attachment 1 which provides an illustration for the return 21 and depreciation on rate base in excel format.

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<sup>&</sup>lt;sup>1</sup> In addition to existing rate base, Hydro makes ongoing capital investments as required to maintain reliable service to customers. Hydro's rate base also includes working capital requirements, including inventory carrying costs.

Newfoundland and Labrador Hydro Calculation of Return and Depreciation Expense Distribution Assets	
Average Useful Life - Distribution	36 Note 1
WACC	5.44% Note 2
Rate Base	1,000,000
Return	54,400
Depreciation	27,781
Revenue Requirement	82,181
Note 1	Based on the average depreciation expense as filed in the 2018 Test Year Cost of Service for distribution assets only.
Note 2	Forecast return on rate base based upon Hydro's 2018 Test Year, filed November 14, 2018.