

1 **Q. Newfoundland Power references in its response to CA-NP-075 and NLH-NP-005**
2 **that the cost of a modern Customer Service System has an expected service life of at**
3 **least fifteen years. Given the longer life of the existing customer service system, what**
4 **period does Newfoundland Power think would be appropriate to recover the costs of**
5 **its proposed Customer Service System Replacement Project?**
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7 A. In accordance with Newfoundland Power's depreciation methodology, the Company
8 would amortize the costs of the fully implemented Customer Information System ("CIS")
9 over its estimated service life.
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11 Newfoundland Power would follow U.S. GAAP in determining the estimated service life
12 of the CIS. U.S. GAAP outlines a number of factors to consider in making this
13 determination.¹ These factors include: (i) risk of obsolescence; (ii) vendor support risk;
14 and (iii) changes in market conditions, such as the development of new technologies.
15 Generally, current industry practice suggests an initial service life of 15 to 20 years for a
16 modern CIS would be appropriate.²
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18 During the service life of the CIS, Newfoundland Power would periodically assess if the
19 initial estimated service life remains appropriate.³ If, for example, a subsequent
20 assessment suggests that the CIS could remain in service longer than that initial estimated
21 service life, the amortization period would be extended to reflect the longer estimated
22 service life.⁴
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24 The Company's depreciation methodology, including estimated remaining service lives,
25 is subject to periodic review by the Company's external depreciation expert, Gannett
26 Fleming.⁵ If the CIS project is approved, Newfoundland Power would engage Gannett
27 Fleming to review its methodology for depreciating the CIS, including the initial
28 estimated service life.

¹ See *Accounting Standards Codification 350-40 Internal-Use Software*, subparagraph 35-5.

² For example, Oracle's Utilities Customer Care and Billing system released in 2007 continues to be supported. Further, TMG Consulting provides that utilities, on average, purchase a new CIS every 15 to 20 years. See TMG Consulting, *CIS Replacement Risk Mitigation*, April 2016, page 15.

³ This periodic assessment is also consistent with U.S. GAAP. A similar periodic assessment is currently completed for the Company's thermal generation units.

⁴ For example, service lives of thermal generation units have been extended in the past, typically to reflect refurbishment work completed on the units.

⁵ Depreciation studies are typically completed every 5 years. Newfoundland Power's next depreciation study will be filed with the Board as part of the Company's next general rate application, which is required to be filed by June 1, 2021.