

1 Q. Further to CA-NLH-086 (Rev 1): During the review of Hydro's application for
2 approval of changes in depreciation methodology and asset service lives Hydro filed
3 a rate impact analysis showing that there would be minimal rate impacts for
4 Newfoundland Power, a decrease of approximately 12% for Rural Labrador
5 Interconnected customers, and an increase of approximately 2% for Industrial
6 customers. Please update the rate impact analysis associated solely with
7 depreciation methodology/rate changes for each customer group based on the
8 2015 Test Year, showing supporting details and calculations.

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11 A. During the review of Hydro's application for approval of changes in depreciation
12 methodology and asset service lives, Hydro's depreciation expert, Mr. Larry
13 Kennedy of the firm Gannett Fleming, filed evidence¹ which stated as follows:

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15 Under IFRS, the sinking fund method of depreciation, which is used by
16 Hydro, is no longer acceptable as a valid depreciation method. Under
17 Canadian Generally Accepted Accounting Principles, the sinking fund
18 method was accepted because it had regulatory approval. IFRS does not
19 recognize regulatory accounting, thus, for financial reporting purposes,
20 Hydro cannot use sinking fund depreciation. Group depreciation using
21 the average service life procedure is accepted under IFRS and therefore
22 its adoption will result in Hydro's depreciation methodology being IFRS
23 compliant on January 1, 2012 when the new standards become effective
24 for Hydro. Hydro recognizes that other accounting methods may be
25 used under regulatory reporting that may not align with IFRS. Use of
26 accounting that is not IFRS compliant however, would result in more
27 than one set of financial records, thus, Hydro recommends utilizing a
28 single method of depreciation for its 41,000 assets.

¹ Depreciation Study- Calculated Annual Depreciation Accrual Rates Applicable to Plant In Service as of December 31, 2009, page 11, lines 2 to 12.

1 The Board's Order No P.U. 40, resulting from the depreciation hearing, stated as
2 follows:

3 Hydro shall adopt the straight line method of depreciation for all its
4 assets, with group accounting methods using average service life
5 procedure and applied on a remaining life basis, as outlined in the
6 Gannett Fleming study filed with the Board on December 3, 2012 and
7 December 17, 2012.
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9 Subsequent to the implementation of the new depreciation methodology and
10 revised service lives approved by the Board, Hydro has not maintained a separate
11 database of its approximately 41,000 assets based on the previously approved
12 method and service lives. Maintaining such a database would be onerous and is no
13 longer necessary in order to meet Hydro's current financial reporting requirements.
14 Consequently, the requested information is not available nor can it be provided
15 within the timeframe for this proceeding.