

1 Q. RE: Pre-filed Evidence of Mr. Melvin Dean (June 4<sup>th</sup>, 2015), page 4: Mr. M. Dean  
2 indicates that the “prorating of O&M costs using plant in service without accounting  
3 for the time value of money has the potential to achieve inequitable results”. Is it Mr.  
4 M. Dean’s contention that prorating of O&M costs in a manner that accounts for the  
5 time value of money is automatically a complete solution to solve inequitable  
6 results? If not, does Mr. M. Dean agree that any such prorating approach (regardless  
7 as to its treatment of the time value of money) still has to pass a “reasonableness”  
8 test in light of Hydro’s expected expenses for the asset in question?

9 A. Hydro has prorated operating, maintenance and administrative (OMA) costs on the  
10 basis of original cost of plant in service. With the difference in the time value of  
11 money over approximately 45 years, indexing all the original costs to 2015 dollars  
12 goes a long way to produce equitable results. However, the method is not a direct  
13 cost, but rather an approximate method and therefore may not always produce  
14 equitable results.

15 Hydro acknowledges that the current method is not ideal in that “...*there is an*  
16 *inherent inverse relationship whereby older plant that cost less at the time of*  
17 *installation, generally requires more O&M than more expensive newer plant*”  
18 (reference: V-NLH-083 revision 1, page 1 of 6, lines 19-21). Thus accounting for the  
19 time value of money may not account for all inequities. Although, reasonableness is  
20 highly subjective, I would agree that the end result of rates should be reasonable.