

- 1 Q. [Grant Thornton Report, page 108]  
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3 Section 3.2.8 WBS Task 800 – Construction, page 3.9 of the *Holyrood Thermal*  
4 *Generating Station Decommissioning Study* states:  
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6 “Some construction will be required during demolition as a considerable portion  
7 of the existing powerhouse structure will be retained for future operations.  
8 Construction will include structural modifications and installation of cladding at  
9 the powerhouse and the pumphouse #1, as well relocation of electrical and  
10 mechanical systems and sub-surface water and sanitary connections.”  
11  
12 In Table 4.2.1 of the *Holyrood Thermal Generating Station Decommissioning*  
13 *Study*, these construction costs are indicated to total \$3.4 million. The  
14 calculation of the asset retirement obligation associated with the  
15 decommissioning of the Holyrood Thermal Generating Station, as provided in  
16 the response to Request for Information NP-NLH-091, includes these  
17 construction costs.  
18  
19 Does Grant Thornton believe that including construction costs as part of an  
20 asset retirement obligation is appropriate?  
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22  
23 A. Our Report (page 108, line 16) notes that Hydro has used CPA Handbook Section  
24 3110, *Asset Retirement Obligations*, as its basis for calculating its asset retirement  
25 obligation (“ARO”) with respect to the decommissioning of the Holyrood Thermal  
26 Generating Station (“HTGS”). That section of the CPA Handbook applies to  
27 “...legal obligations associated with the retirement of a tangible long-lived asset  
28 that result from its acquisition, construction, development or normal operations.”  
29 The recognition of the liability will therefore be governed by the specific  
30 decommissioning requirements established by the applicable regulatory authorities.  
31  
32 *The Holyrood Thermal Generating Station Decommissioning Study* included in the  
33 Evidence refers to “Regulatory Requirements of Decommissioning” in Section 2.3.  
34 It cites a number of guiding documents, legislative provisions and regulations that  
35 are expected to establish the legal obligations associated with decommissioning the  
36 HTGS.

1 Limited guidance is provided under CPA 3110 regarding costs to be included in the  
2 estimate of asset retirement obligations. With respect to measurement, CPA 3110  
3 states *"The amount recognized as an asset retirement obligation shall be the best*  
4 *estimate of the expenditure required to settle the present obligation at the balance*  
5 *sheet date."* Whether construction costs should be included in the costs would be  
6 determined by the specifics of the *"...law, statute, ordinance or written or oral*  
7 *contract or by legal construction of a contract under the doctrine of promissory*  
8 *estoppel"* which define the obligation.  
9

10 The example provided in this section which most closely aligns with the HTGS  
11 decommissioning is provided in Paragraph A16 of CPA 3110:  
12

13 *"An asset retirement obligation may exist for component parts of a*  
14 *larger system. In some circumstances, the retirement of the component*  
15 *parts may be required before the retirement of the larger system to which*  
16 *the component parts belong. For example, consider an aluminum smelter*  
17 *that owns and operates several kilns lined with a special type of brick.*  
18 *The kilns have a long useful life, but the bricks wear out after*  
19 *approximately five years of use and are replaced on a periodic basis to*  
20 *maintain optimal efficiency of the kilns. Because the bricks become*  
21 *contaminated with hazardous chemicals while in the kiln, a law requires*  
22 *that when the bricks are removed, they must be disposed of at a special*  
23 *hazardous waste site. The obligation to dispose of those bricks is within*  
24 *the scope of this Section. The cost of the replacement bricks and their*  
25 *installation are not part of that obligation"*  
26

27 Applying the guidance, by analogy, to the decommissioning of the HTGS would  
28 imply that only the decommissioning costs are part of the obligation and  
29 subsequent construction costs would be excluded.  
30

31 We do note that in Section 3.3.1 of the Holyrood Thermal Generating Station  
32 *Decommissioning Study* it states *"selectively demolishing and removing only the*  
33 *boilerhouse will result in additional demolition costs due to the care and attention*  
34 *required to remove only certain parts of the building and equipment without*  
35 *damaging the sections that are to remain occupied and operational"*. As a result  
36 we are not able to determine the total impact on estimated project costs if  
37 construction costs were not included.

1       The construction costs will result in an asset being acquired. The question, whose  
2       answer must be determined by the legal requirements surrounding the  
3       decommissioning, is whether these costs will be recognized at that time in the  
4       future the expenditure is made, or if an obligation currently exists which would  
5       result in the current recognition of an asset.