

1 Q. Further to response to Request for Information NP-NLH-027, Attachment 1  
2 (Revision 1, Nov 19-13), page 3 of 3:  
3 Please provide a detailed explanation of the \$3,082,000 increase in Loss on disposal  
4 in the 2013 forecast, including but not limited to, the portion of the increase related  
5 to (i) higher loss on disposal of assets and (ii) addition of removal costs. In the  
6 response, please indicate why it would not be appropriate for the Board to order  
7 amortization of such an amount as part of its Order on Hydro's 2013 General Rate  
8 Application.

11 A. The following table provides detail on the Loss on Disposal expense:

12 **Loss on Disposal Expense Category (\$ millions)**

| A                      | B                              | C                                      | D                     | E                                       | F                     |
|------------------------|--------------------------------|--|-----------------------|---|-----------------------|
|                        | 2013 Test<br>Year <sup>1</sup> | NP-NLH-027<br>Revised 2013<br>Forecast | Variance<br>D = C - B | 2013 Actual <sup>2</sup><br>(unaudited) | Variance<br>F = E - B |
| Loss on Disposal       | \$1.3                          | \$2.7                                  | \$1.4                 | \$2.6                                   | \$1.3                 |
| Removal Costs          | -                              | \$1.7                                  | \$1.7                 | \$1.0                                   | \$1.0                 |
| Total Loss on Disposal | \$1.3                          | \$4.4                                  | \$3.1                 | \$3.6                                   | \$2.3                 |

13 The \$3.1 million increase in the revised 2013 forecasted Loss on Disposal compared  
14 to the 2013 Test Year is primarily due to an increase in the loss on disposal of assets  
15 of approximately \$1.4 million and the addition of removal costs of \$1.7 million.  
16 The higher loss on disposal of assets mainly relates to the retirement of the  
17 Holyrood Gas Turbine of approximately \$0.8 million and the retirement of a  
18 terminal station of approximately \$0.4 million in Labrador City resulting from the  
19 terminal stations upgrading project. The costs of these retirements were identified

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<sup>1</sup> Original Filing.

<sup>2</sup> Amounts in this column are subject to change upon completion of the 2013 annual audit of the financial statements which is currently ongoing.

1 subsequent to the GRA filing. The \$1.7 million estimate for removal costs resulted  
2 from the initiative Hydro began in December 2012 to further identify and separately  
3 record removal costs.

4  
5 Hydro indicated in the response to IR-PUB-NLH-009 that the level of 2013 removal  
6 costs would be assessed early in 2014 to determine an appropriate level for the  
7 2013 Test Year. The 2013 Actual Loss on Disposal for 2013 is estimated to be \$3.6  
8 million<sup>3</sup>, an increase of \$2.3 million from the 2013 Test Year of \$1.3 million. This is  
9 comprised of a \$1.3 million loss on disposal of assets, explained above, as well as  
10 \$1.0 million of removal costs related to the initiative Hydro began in December  
11 2012 to further identify and separately record removal costs.

12  
13 Based on the Actual Loss on Disposal amount estimated to be \$3.6 million, Hydro  
14 believes that a total Loss on Disposal expense of \$3.0 million, rather than the \$1.3  
15 million expense which was filed in Hydro's Test Year, is a reasonable number to  
16 include as reflective of a 2013 Test Year expense. (Please see Hydro's response to  
17 PUB-NLH-307). It is expected that Loss on Disposal expense will be higher than in  
18 the past for the following two reasons. First, Hydro's initiative to further identify  
19 and separately record removal costs will continue into the future. Also, based on  
20 current accounting practice, it is mandatory to retire or "write out" a portion of an  
21 existing asset when making a capital addition.

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23 Hydro believes that it would be inappropriate to amortize these costs over future  
24 years as it is anticipated at this time that this level of expense will be incurred each  
25 year into the future. Additionally, Hydro's current practice of expensing gains and

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<sup>3</sup> Amounts in this column are subject to change upon completion of the 2013 annual audit of the financial statements which is currently ongoing.

1 losses was agreed upon by the Parties to Hydro's 2012 Depreciation proceeding and  
2 outlined in the Settlement Agreement included in Board Order No. P.U. 40(2012).  
3 Section 5. h states as follows:  
4

5 *Hydro's current practice and proposal to continue to book, to its income*  
6 *statement, gains and losses related to asset retirements is acceptable until*  
7 *varied by further Order of the Board.*