Q. (Hydro Reply Evidence dated August 7, 2015) On page 32 (lines 5 to 8) Hydro states "*If the Board nevertheless determines any disallowances are required, Hydro has provided (or will provide in an ultimate compliance filing) the information required to ensure these amounts are accurately determined*". Please provide a table summarizing each cost item that Liberty has determined to be imprudent, the cost determined by Liberty to be imprudent, the amount of this cost that Hydro believes has been over-stated by Liberty (and the reasons; i.e., double counting, recovery not requested from ratepayers, etc.), and the revised cost and year charged to ratepayers assuming the Board determines that disallowances are required.

A. Please refer to PR-CA-NLH-014 Attachment 1. Hydro notes that it does not agree with the disallowances suggested by Liberty for the reasons set out in Hydro's Reply Evidence. However, in order to be responsive to the question, Hydro is providing PR-CA-NLH-014 Attachment 1. As the Consumer Advocate requested, Attachment 1 takes Liberty's proposed disallowances and adjusts them for issues such as betterment calculations, double counting, recovery not requested from ratepayers, etc. As Hydro does not agree with Liberty's proposed disallowances, this response should be taken solely as the information requested by the Consumer Advocate. This information may also have to be adjusted as part of any ultimate compliance filings for the 2014 and 2015 Test Years.

		Liberty 2014 & 2015 Total					Hydro 2014 & 2015 Total				
		Capital & Deferred Assets	**Accumulated Amortization**	**NBV of Capital & Deferred Assets**	**Operating Costs (excluding Amortization)**	**Total**	**Capital & Deferred Assets**	**Accumulated Amortization**	**NBV of Capital & Deferred Assets**	**Operating Costs (excluding Amortization)**	**Total**
1)	**Decision to defer maintenance**										
Note 1	Sunnyside	$ 4.3	$ 0.1	$ 4.2	$ 0.9	$ 5.2	$ 1.0	$ -	$ 1.0	$ -	$ 1.0
Note 2	Western Avalon Tap Changer	$ 1.0	$ 0.1	$ 0.9	$ -	$ 1.0	$ 0.3	$ -	$ 0.3	$ -	$ 0.3
Note 3	Sunnyside B1L03 Breaker	$ 0.2	$ -	$ 0.2	$ 0.2	$ 0.4	$ 0.2	$ -	$ 0.2	$ -	$ 0.2
Note 4	Extraordinary transformer & breaker repairs	$ 0.4	$ 0.1	$ 0.3	$ 0.9	$ 1.3	$ 0.4	$ 0.1	$ 0.3	$ 0.9	$ 1.3
Note 5	Overtime included in revenue deficiency	$ -	$ -	$ -	$ 3.6	$ 3.6	$ -	$ -	$ -	$ 0.5	$ 0.5
		$ 5.9	$ 0.3	$ 5.6	$ 5.6	$ 11.5	$ 1.9	$ 0.1	$ 1.8	$ 1.4	$ 3.3
2)	**Approach to vendor oversight and testing protocals**										
Note 6	Holyrood Unit #1	$ 5.5	$ 1.0	$ 4.5	$ 2.4	$ 7.9	$ 5.4	$ 1.6	$ 3.8	$ 0.5	$ 5.9
		$ 5.5	$ 1.0	$ 4.5	$ 2.4	$ 7.9	$ 5.4	$ 1.6	$ 3.8	$ 0.5	$ 5.9
3)	**Overview of appropriate blackstart**										
Note 7	Holyrood Blackstart Capital	$ 0.8	$ 0.1	$ 0.7	$ 0.1	$ 0.9	$ 0.2	$ -	$ 0.2	$ -	$ 0.2
Note 7	Holyrood Blackstart Deferred Lease	$ 5.2	$ 1.0	$ 4.2	$ 0.1	$ 5.3	$ 5.2	$ 1.0	$ 4.2	$ 0.1	$ 5.3
		$ 6.0	$ 1.1	$ 4.9	$ 0.2	$ 6.2	$ 5.4	$ 1.0	$ 4.4	$ 0.1	$ 5.5
4)	**Maintenance work procedures and resulting expenditures**										
Note 8	Holyrood B1L17 Breaker	$ 0.4	$ -	$ 0.4	$ -	$ 0.4	$ 0.4	$ -	$ 0.4	$ -	$ 0.4
Note 9	Supply related Costs	$ -	$ -	$ -	$ 2.2	$ 2.2	$ 2.2	$ 1.0	$ 1.2	$ -	$ 2.2
		$ 0.4	$ -	$ 0.4	$ 2.2	$ 2.6	$ 2.6	$ 1.0	$ 1.6	$ -	$ 2.6
5)	**Outage, Prudence Phase 1 and Phase 2**										
Note 10	Inter-company salary	$ -	$ -	$ -	$ 0.5	$ 0.5	$ -	$ -	$ -	$ 0.4	$ 0.4
Note 11	Professional Services and consulting fees	$ -	$ -	$ -	$ 2.5	$ 2.5	$ -	$ -	$ -	$ 1.7	$ 1.7
		$ -	$ -		$ 3.0	$ 3.0	$ -	$ -	$ -	$ 2.1	$ 2.1
	TOTAL	**$ 17.8**	**$ 2.4**	**$ 15.4**	**$ 13.4**	**$ 31.2**	**$ 15.3**	**$ 3.7**	**$ 11.6**	**$ 4.1**	**$ 19.4**

Assumption: Liberty's report included 2014 amortization of capital assets as "operating costs" and there was no corresponding reduction in Capital Assets. There was no amortization noted in Liberty's report for 2015. However, for purposes of this exercise, it is assumed that in 2015 the amortization (totalling $2.4M) would appropriately result in a reduction in Capital Assets from $17.8M to $15.4M.

Note 1: As per pg. 30 of the Liberty report, they have recommended to disallow $3.9M in capital in 2015 and $0.9M in operating in 2014. The capital is net of insurance proceeds and a betterment of T1 transformer circuit breaker mods. They also indicate on pg. 31 that a further reduction for betterment relating to increased life expectancy on the assets may be necessary. As per Hydro's Reply Evidenceon pg. 8-12, Hydro disagrees with the disallowance of Sunnyside capital as there is no link found between the deferred maintenance and the equipment failures. **In the event the Board disagrees with Hydro's analysis then Gannett Fleming and Hydro re-calculated the capital disallowance to be a total of $1.0M (updated in PR-PUB-NLH-203) which accounts for a betterment reduction relating to increased life expectancy**. In addition, as per pg. 15 of Hydro's Reply Evidence, there are no 2014 operating costs in the 2014 Test Year (Liberty was using 2014 Actuals).

Note 2: As per pg. 32-34 of Liberty's report, they have recommended to disallow the full $1.0M in 2014 Actuals capital relating to the Western Avalon Tap changer. As per pg. 15-16 of Hydro's Reply Evidence, Hydro disagrees with the disallowance of Western Avalon as there is no link found between the deferred maintenance and the equipment failures. **In the event the Board disagrees with Hydro's analysis then Gannett Fleming re-calculated the capital disallowance to be a total of $0.3M (pg. 7 of Gannett Flemming report) which accounts for a betterment reduction relating to increased life expectancy**.

Note 3: On pg. 35-37 of the Liberty report, they have recommended a disallowance of $0.2M in capital and $0.2M relating to loss on disposal. As per Hydro's Reply Evidence on pg. 16-17, Hydro disagrees with the disallowance of Sunnyside B1L03 capital as there is no link found between the deferred maintenance and the equipment failures. **Also, as noted on pg. 17 the $0.2M relating to operating costs occurred in 2014 Actuals and not Test Year and as a a result, there are no operating costs to disallow.**

Note 4: On page pg. 38-40 of Liberty's report, they recommend disallowing $0.9M of $1.5M maintenance which occurred in 2014 Actuals. On pg. 4-5 of Liberty's Executive Summary, they recommend disallowing $0.4M of the $1.2M extra-ordinary repair deferral in 2015. As per pg. 19-20 of Hydro's response, Hydro believes it is unwarranted to disallow costs to carry out deferred work specifically desired by all parties because it is outside of the general maintenance cycle.

Note 5: As per pg. 45-46 of Liberty's report, they have recommended disallowing $3.6M related to overtime. Liberty's numbers are based upon 2014 Actuals vs. 2011-2013 Average and also included capital OT of jobs that were not recommended for imprudence. As per pg. 23-24 of Hydro's Reply Evidence, if it is re-calculated using the same methodology using 2014 Test Year instead of Actuals and excluded capital OT then the revised calculation is $0.5.

Note 6: As per pg. 58-64 of Liberty's report, they have recommended to disallow $5.5M of capital costs, and $2.4M comprised of $1M in amortization, $0.9M in maintenance and $0.5M in supply vibration costs. **As per, pg. 29-31 of Hydro's Reply Evidence and pg. 14-20 of La Capra's expert report, the capital costs relating to Holyrood Unit #1 are not imprudent. In the event the Board disagrees with Hydro and La Capra's analysis: as per revisions to be filed to PR-PUB-NLH-129, the Holyrood Capital costs are $5.4M and the annual amortization is $0.8M rather than $1M. In addition, the operating costs for amortization Liberty listed as $1M, is double counting because they did not make a corresponding reduction to the capital asset, and the $0.9M in maintenance occurred in 2014 Actuals and were not included in the 2014 Test Year.**

Note 7: On pg. 48-56 of Liberty's report, they have recommended disallowance of the capital of $0.8M, deferred lease of $5.2M (although not noted on summary pg. 44) and operating costs of $0.2M (as per PR-PUB-NLH-007 it is comprised of depreciation of $77k, Fuel of $12k and operating costs of $72k) related to blackstart and the "used and useful" life of the diesel units. In Hydro's Reply Evidence on pg. 26-29, Hydro and Hydro's expert La Capra (pg. 2-13), disagreed with Liberty's recommended disallowances. **In the event the Board disagrees with Hydro and La Capra's analysis then it is also noted that at a maximum only $0.2M of the capital should be disallowed as $0.6M is capable of re-use for the Holyrood CT. In addition the amortization of $77k is double counting because they did not make a corresponding reduction to the capital asset, and the operating costs should be reduced by $20k because only $52k was included in the 2014 Test Year.**

Note 8: On pg.35-37 Liberty recommended that the $0.4M of capital relating to Holyrood B1L17 should be disallowed because of imprudent procedures. As per pg. 17-19 of Hydro's Reply Evidence, Hydro disagrees that there was imprudent processes and that Liberty reached that conclusion using perfect hindsight.

Note 9: As per pg. 17 of the Liberty report Liberty has suggested a disallowance of $2.2M which was derived using the supply costs from Jan 5-8 and then reduced for the costs from Jan 9-12. Hydro notes that if there is no disallowance found by the Board in the underlying assets in this Hearing then there would be no supply costs disallowance. However in the event that the Board disagrees with Hydro's position, then as per pg. 7 of Hydro's Reply Evidence, Hydro re-calculated using the supply costs of 5-8 and then reduced using the average of Jan 1-4 and Jan 9-12. This resulted in a re-calculation of $1.0M. This was then further reduced by $0.5M because there was double counting in Liberty's Holyrood CT disallowance. As a result, Hydro's revised estimate was $0.5M. It is also noted that in Liberty's report the supply related costs are referenced as an operating costs; whereas, they are included as a 'deferred asset' with corresponding amortization in Hydro's records.

Note 10: As per pg. 46 of Liberty's report, they have recommended $0.5M of disallowance related to salary transfers primarily comprised of Executive arguing that they would not have occurred in absense of the outage. Hydro notes that if there is no disallowance found by the Board in the underlying assets in this Hearing then there would be no salary transferred disallowed. As per pg. 24-25 of Hydro's Reply Evidence, Hydro noted that there were multiple projects and issues dealt with in this period and as a result it would not be reasonable to determine that the full balance was imprudent. Examples of the activities that the Executive would have been involved in were: Phase 2 of the Inquiry, the Integrated Action Plan, and a review of the colder than average January which led to rotating outages. **In the event the Board disagrees with Hydro then it is also noted that at a maximum only $0.4M of the costs should be disallowed because only $0.4M was included in the Test Year ($0.5M was in 2014 Actuals).**

Note 11: As per pg. 44-45 of Liberty's report, they recommended $2.5M ($0.9M legal outage, $1M PUB Outage, $0.2M Intervenor outage, $0.3M Sunnyside and $0.1M other) of professional services and consulting fees be disallowed as they were either "outage related" and/or related to underlying disallowances. Hydro notes that if there is no disallowance found by the Board in the underlying assets in this Hearing then there would be

Total Return Impact
Hydro Analysis

		Liberty			Hydro		
Capital Assets and Deferred Charges		**2014 NBV**	**2015 NBV**		**2014 NBV**	**2015 NBV**	
Western Avalon Tap Changer (net of betterment)		1.0	0.9		0.3	0.3	
Sunnyside Transformer (net of insurance and betterment)		3.1	4.2		1.0	1.0	
January 2013 Holyrood Repair (net of insurance)		5.5	4.5		4.6	3.8	
Holyrood Black Start Diesel - Capital & Lease		4.4	4.9		3.8	4.4	
Sunnyside B1L03 Breaker		0.2	0.2		0.2	0.2	
Holyrood B1L17 Breaker		0.4	0.4		0.4	0.4	
Supply related Costs		0.0	0.0		1.7	1.2	**Note 1**
Extra-Ordinary Repairs		0.0	0.3		-	0.3	
		14.6	15.4		12.0	11.6	
Average Rate Base		7.3	15.0		6.0	11.8	
Return on Rate Base Adjustments on Capital and Deferred		0.5	1.0		0.4	0.8	
Operating Costs and Amortization		**2014**	**2015**		**2014**	**2015**	
Amortization on Excluded Assets & Deferred Charges		-	2.4	**Note 2**	1.3	2.4	**Note 1**
Revenue Deficiency Adjustments:							
Sunnyside B1L03 Breaker		0.2	-				
Overtime		3.6	-		0.5	-	
Holyrood Unit 1		2.4	-		0.5	-	
Holyrood Black Start		0.2	-		0.1	-	
Supply Related Costs	**Note 1**	2.2	-		-	-	
Professional Services		2.5	-		1.7	-	
Intercompany Salary - Outage		0.5	-		0.4	-	
Sunnyside		0.9	-		-	-	
Catch-up Maintenance		0.9	-		0.9	-	
Operating cost Exclusions		13.4	2.4		5.4	2.4	
Iteration Process		(3.3)	(0.1)		(3.3)	(0.1)	
Reduction to total Revenue		**10.6**	**3.3**		**2.5**	**3.1**	

Note 1: In Liberty's report the supply related costs are referenced as an operating costs of $2.2M in 2014. Whereas, Hydro has reported supply related costs as a deferred asset with corresponding amortization. For example, the supply related costs for 2014 is a deferred asset of $1.7M with amortization of $0.5M (totalling $2.2M) and 2015 is a deferred asset of $1.2M with amortization of $1M (totalling $2.2M).

Note 2: Hydro's $1.3M amortization in 2014 is comprised of Holyrood Unit 1 for $0.8M and $0.5M related to the supply related costs.